

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL  
STATEMENTS ORIGINALLY ISSUED IN TURKISH

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS

PREPARED IN ACCORDANCE WITH  
CAPITAL MARKETS BOARD STANDARDS  
FOR THE PERIOD ENDED 30 JUNE 2006

TOGETHER WITH  
INDEPENDENT AUDITORS' REVIEW REPORT

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL STATEMENTS  
ORIGINALY ISSUED IN TURKISH

To the Board of Directors of  
Türk Hava Yolları Anonim Ortaklığı

1. We have reviewed the accompanying consolidated interim balance sheet of Türk Hava Yolları Anonim Ortaklığı ("the Company") as at 30 June 2006, and the related statements of income, shareholders' equity and cash flows for the six-month period then ended. We conducted our review in accordance with Capital Markets 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.

2. The Company's interim financial statements were consolidated a full basis as of 30 June 2006 due to its % 100 participation to Türk Hava Yolları Teknik A.Ş. which is the subsidiary of the Company and established in 23 May 2006. The financial statements of THY Teknik A.Ş. were audited by another audit company.

3. As of 30.06.2006, the Company compared the indexed YTL book values of aircrafts, simulators and engines with the fair values of these assets to test any impairment. The differences resulting from this comparison were recognized as impairment in the value of the assets. However, in the prior accounting policy application, the Company firstly used to decrease the indexed net book values of the assets into the net book values based on US Dollar acquisition costs. Then, the Company used to control whether the net book values based on US Dollar acquisition costs exceeded the fair values of these assets. If net book values based on US Dollar acquisition costs had exceeded the fair values of these assets, the Company used to recognize these differences as impairment in the value of these assets into the interim financial statements. The change in this accounting policy has resulted YTL 126.448.273 increase in the previous years' profits and YTL 5.359.107 increase in the net profit for the period. This change has also resulted YTL 188.296.257 increase in tangible fixed assets and YTL 56.488.877 increase in deferred tax liabilities of the Company.

4. Based on our limited scope review, we are noting the effects of the matters stated above. Nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view in accordance with accounting principles issued by Capital Markets Board.

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

İsmail USLU  
Partner

08 September 2006, İstanbul, Turkey

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 JUNE 2006 AND 31 DECEMBER 2005**

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

<b>ASSETS</b>	<b>Note</b>	<b>Reviewed 30 June 2006</b>	<b>Audited 31 December 2005</b>
<b>Current Assets</b>		<b>946.808.649</b>	<b>825.922.684</b>
Cash and Cash Equivalents	4	443.098.874	482.910.555
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	312.787.577	191.596.806
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	3.386.245	970.701
Other Receivables (net)	10	9.174.979	6.567.690
Biological Assets (net)	11	-	-
Inventories (net)	12	110.923.324	84.255.279
Receivables from Construction Contracts in Progress (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	67.437.650	59.621.653
<b>Non-Current Assets</b>		<b>3.420.130.853</b>	<b>2.688.869.983</b>
Accounts Receivable (net)	7	-	-
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	-	-
Other Receivables (net)	10	2.310.639	1.901.488
Financial Assets (net)	16	20.521.558	37.406.378
Positive/Negative Goodwill (net)	17	-	-
Investment Property	18	-	-
Tangible Fixed Assets (net)	19	3.373.396.272	2.631.113.979
Intangible Fixed Assets (net)	20	5.253.104	6.154.133
Deferred Tax Assets	14	-	-
Other Non-current Assets	15	18.649.280	12.294.005
<b>Total Assets</b>		<b>4.366.939.502</b>	<b>3.514.792.667</b>

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

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 JUNE 2006 AND 31 DECEMBER 2005**

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

	Note	Reviewed 30 June 2006	Audited 31 December 2005
<b>LIABILITIES</b>			
<b>Short Term Liabilities</b>		<b>1.375.970.567</b>	<b>1.198.903.059</b>
Bank Borrowings (net)	6	241.277.958	362.903.225
Short-term Portion of Long-term Bank Borrowings (net)	6	-	-
Financial Lease Obligations (net)	8	197.993.152	179.092.821
Other Financial Liabilities (net)	10	383.322	332.636
Accounts Payable (net)	7	362.192.947	255.994.916
Due to Related Parties (net)	9	13.938.703	8.022.859
Advances Received	21	23.325.245	52.397.414
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	25.767.676	27.543.644
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	10	511.091.564	312.615.544
<b>Long Term Liabilities</b>		<b>1.536.158.008</b>	<b>1.067.548.015</b>
Bank Borrowings (net)	6	-	-
Financial Lease Obligations (net)	8	1.204.115.770	856.730.859
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	11.131.624	7.124.267
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	109.100.692	113.641.242
Deferred Tax Liabilities	14	211.809.922	90.051.647
Other Liabilities (net)	10	-	-
<b>MINORITY INTERESTS</b>	24	-	-
<b>SHAREHOLDERS' EQUITY</b>		<b>1.454.810.927</b>	<b>1.248.341.593</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 of Cancelled Shares		-	-
- Revaluation Surplus on Tangible Fixed Assets		-	-
- Revaluation Increments on Financial Assets		-	-
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
<b>Profit Reserves</b>	26-27-28	<b>56.118.476</b>	<b>8.223.909</b>
- Legal Reserves		417.011	417.011
- Statutory Reserves		-	-
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		47.894.576	9
- Associate Shares and Gain on Sale of Investment		-	-
Property to be added to Capital		-	-
- Foreign Currency Translation Differences		-	-
<b>Net Profit for the Year</b>		<b>32.126.494</b>	<b>138.227.837</b>
<b>Accumulated Profits/(Losses)</b>	26-27-28	<b>(681.272.417)</b>	<b>(945.948.527)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>4.366.939.502</b>	<b>3.514.792.667</b>

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

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED 30 JUNE 2006 AND 2005**  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

	Reviewed 01 January 2006- 30 June 2006	Reviewed 01 April 2006- 30 June 2006	Reviewed 01 January 2005- 30 June 2005	Reviewed 01 April 2005- 30 June 2005
<b>Not</b>				
<b>e</b>				
<b>MAIN OPERATING REVENUES</b>				
Sales Revenues (net)	36 1.536.005.391	919.669.278	1.328.424.164	738.492.862
Cost of Sales (-)	36 (1.445.875.460)	(794.537.611)	(1.101.942.924)	(583.236.964)
Service Revenues (net)	-	-	-	-
Other Revenues from Main Operations /Interest +Dividend+Rent (net)	36 92.376.577	54.914.095	76.763.842	41.969.678
<b>GROSS OPERATING PROFIT</b>	<b>182.506.508</b>	<b>180.045.762</b>	<b>303.245.082</b>	<b>197.225.576</b>
Operating Expenses (-)	37 (324.082.527)	(160.488.837)	(308.274.360)	(164.124.067)
<b>NET OPERATING PROFIT / (LOSS)</b>	<b>(141.576.019)</b>	<b>19.556.925</b>	<b>(5.029.278)</b>	<b>33.101.509</b>
Income from Other Operations	38 752.595.445	671.149.422	223.734.198	85.039.116
Losses from Other Operations (-)	38 (445.028.335)	(382.788.488)	(164.172.186)	(75.622.368)
Financial Expenses (-)	39 (71.921.261)	(54.516.392)	(27.026.267)	(15.830.847)
<b>OPERATING PROFIT</b>	<b>94.069.830</b>	<b>253.401.467</b>	<b>27.506.467</b>	<b>26.687.410</b>
<b>MINORITY INTEREST</b>	24 -	-	-	-
<b>PROFIT BEFORE TAXATION</b>	<b>94.069.830</b>	<b>253.401.467</b>	<b>27.506.467</b>	<b>26.687.410</b>
Taxes	40 (61.943.336)	(59.209.334)	(14.194.690)	(8.924.669)
<b>NET PROFIT</b>	<b>32.126.494</b>	<b>194.192.133</b>	<b>13.311.777</b>	<b>17.762.741</b>
<b>EARNINGS PER SHARE (YKr)</b>	41 <b>0,018</b>	<b>0,111</b>	<b>0,008</b>	<b>0,010</b>

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

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006 AND 2005**  
*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)*

	<u>Share Capital</u>	<u>Restatement Effect on Shareholders' Equity</u>	<u>Share Premium</u>	<u>Legal Reserves</u>	<u>Extraordinary Reserves</u>	<u>Special Funds</u>	<u>Net Profit / (Loss) For The Period</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balances at 31 December 2004	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	107.058.441	(1.053.006.968)	1.110.113.756
Transfer of Previous Years' Profit to Accumulated Losses	-	-	-	-	-	-	(107.058.441)	107.058.411	-
Net Profit for the Period	-	-	-	-	-	-	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>
Balances at 31 December 2005	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	138.227.837	(945.948.527)	1.248.341.593
Accounting policy change- effect of IFRS 36	-	-	-	-	-	-	-	126.448.273	126.448.273
Balances at 31 December 2005 As restated	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	138.227.837	(819.500.254)	1.374.789.866
Transfer of Previous Years' Profit to Accumulated Losses	-	-	-	-	-	-	(138.227.837)	138.227.837	-
Revaluation Surplus on Tangible Fixed Assets	-	-	-	-	-	47.894.567	-	-	47.894.567
Net Profit for the Period	-	-	-	-	-	-	32.126.494	-	32.126.494
Balances at 30 June 2006	<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>47.894.576</u>	<u>32.126.494</u>	<u>(681.272.417)</u>	<u>1.454.810.927</u>

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 30 June 2006, the shareholders and their respective shareholdings in the Company were as follows:

Republic of Turkey Prime Ministry Privatization Administration	48,99 %
Others	<u>51,01 %</u>
Total	<u>100,00 %</u>

The total number of employees working for Türk Havayolları A.O. and its subsidiary and its associate ("the Group") as of 30 June 2006 is 11.722 (30 June 2005: 11.095). The average number of employees working for the Group in 30 June 2006 and 2005 is 12.278 and 11.131, respectively. Financial assets of the Group are stated at note 16.

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

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

### 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

#### 2.1 Accounting Standards Applied:

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

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

By the decision made on 17 March 2005, Capital Markets Board declared that for companies which operate in Turkey and prepare financial statements in accordance with accounting principles of Capital Markets Board it is not required to apply inflation accounting effective after 1 January 2005. Accordingly, the Company did not apply Part 15 of CMB Communiqué Serial XI No:25. "Financial Reporting in Hyperinflationary Economies" (IFRS 29) issued by CMB of Turkey in its financial statements for the accounting periods starting from 1 January 2005. Consolidated financial statements and footnotes are presented in the compulsory formats by an announcement of CMB dated 20 December 2004.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 2.2 Preparation of Financial Statements in Hyperinflationary Periods

Depending on the CMB's decision dated on 17 March 2005 which stated that for the companies preparing the financial statements in accordance with CMB Accounting Standards it is not required to apply inflation accounting effective after 1 January 2005, the Company have not applied inflation accounting after 1 January 2005. Changes in YTL's current purchasing power and corrections of inflation effects are included to the Company's financial statements prepared before 1 January 2005.

Inflation indices stated on and after 31 December 2004 and three-year cumulative inflation rates are stated as follows for reference:

<u>Dates</u>	<u>Index</u>	<u>Three-year cumulative inflation rates (%)</u>
30 June 2006	9.811,35	35,8
31 December 2005	8.785,74	35,6
30 June 2005	8.667,10	55,7
31 December 2004	8.403,80	69,7

#### 2.3 Basis of Consolidation

a) The consolidated interim financial statements include the accounts of the parent company, Türk Hava Yolları A.O., its Subsidiary, and its Associate (collectively referred to as "the Group") on the basis set out in sections (b), (c) and (d) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated interim financial statements and have been prepared in accordance with accounting and reporting principles promulgated by Capital Markets Board applying uniform accounting policies and presentation which are stated in Note 2.1. The results of subsidiary and associate are included or excluded from their effective dates of acquisition or disposal respectively.

b) Subsidiary is the entity in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the financial and operating policies for the benefit of the Group.

The table below sets out consolidated Subsidiary and indicates the proportion of ownership interest and effective interest of the Group in this subsidiary at 30 June 2006.

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation</u>	<u>Indirect Participation</u>	<u>Country of Registration</u>
Türk Hava Yolları Teknik A.Ş.	Technical Maintenance	100%	-	Turkey

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



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

c) THY has one associate. The participation rate of THY is 50%, and the associate is not controlled by the Group. The entity is valued by equity method.

The table below sets out consolidated associate and indicates the proportion of ownership interest and effective interest of the Group in this associate at 30 June 2006:

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

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

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

#### 2.4 Comparative Information and Corrections on Previous Periods' Financial Statements

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

#### 2.5 Offsetting

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

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Revenue Recognition and Commission Expenses

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

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

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

#### 3.2 Inventory Valuation

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

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

#### 3.3 Tangible Fixed Assets

Tangible fixed assets are measured at net book value calculated as acquisition cost at 30 June 2006 less accumulated depreciation. Tangible fixed assets are depreciated on a periodical basis for all categories.

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

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

#### 3.4 Intangible Fixed Assets

Intangible fixed assets, include leasehold improvements, rights, information systems and software. Intangible fixed assets are reflected at cost as of 30 June 2006, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years, on a periodical basis.

#### 3.5 Impairment on Assets

As of 30 June 2006, an examination is made of whether net book values of aircrafts, spare engines and simulators may exceed their recoverable amount. Recoverable amount is determined as, higher of the present value of cash flows expected from the use of an asset and its net selling price. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations.

The Company appraises its lands by appraisal reports and determines their net selling prices. The differences between the values in appraisal reports and book values are shown directly under the shareholders' equity accounts. The Company has appraised its lands in 2006 for the first time.

#### 3.6 Borrowing Costs

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 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 financially leased assets and amortizes them over the related asset's remaining economic life. Manufacturers' credits related to operational leases are recorded as deferred revenue and amortized over the lease term.

#### 3.8 Financial Instruments and Financial Risk Management

##### a) Classification and Accounting

The Group classifies and accounts for financial instruments as follows:

##### *Securities Held for Trading:*

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

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

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

##### *Investments Available for Sale:*

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

##### *Investments At Equity:*

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

##### b) Measurement

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

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

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 Group could realize in a current market exchange.

Balances with banks, receivables, contingent liabilities such as letters of guarantee and letters of credit are important financial instruments which would have negative effects on the financial situation of the Group 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 Group's principal financial assets are cash and cash equivalents, accounts and other receivable, due from related parties and available for sale financial assets.

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

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

Financial assets, other than Güneş Ekspres Havacılık A.Ş., Uçak Servisi A.Ş. and France Telecom are stated at their cost since their fair values can not be measured reliably.

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

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

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

#### *Credit Risk*

The Group'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 Group's management based on prior experience and the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

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

##### *Price Risk*

- Currency Risk

The Group 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 Group's ticket income is in Euro and US Dollar or linked to these currencies and the major part of its expenses is denominated in US Dollar and New Turkish Lira.

- Interest Risk

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

- Market Risk

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

- Liquidity Risk

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

#### 3.9 Foreign Currency Transactions

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

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

	<u>Closing Rate</u>	<u>Average Rate</u>
30 June 2006	1,6029	1,3865
31 December 2005	1,3418	1,3405
30 June 2005	1,3427	1,3253

#### 3.10 Earnings Per Share

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

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

#### 3.11 Events Subsequent to the Balance Sheet Date

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
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### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.12 Provisions, Contingent Liabilities and Contingent Assets

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

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

#### 3.13 Leases

The Group leases aircraft, engines, simulators, computer equipments and vehicles by financial leases or operational leases. Financial leases are reflected in the Group's balance sheet by recording leased assets and lease liabilities equal to the present value of lease payments. The finance leased assets are depreciated over their economic 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 Group, 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 Taxation and Deferred Taxes

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is recognized as income or expense 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 3.16 Employee Retirement and Termination Indemnities

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

#### 3.17 Use of Estimates

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

#### 3.18 Maintenance and Repair Costs

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

#### 3.19 Frequent Flyer Program

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

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

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Cash	660.725	195.489
Cheques received	19.027	138.532
Banks	434.771.711	477.065.690
Other liquid assets	7.647.411	5.510.844
	<u>443.098.874</u>	<u>482.910.555</u>

Foreign currency bank balances are YTL 413.147.870 at 30 June 2006 (31 December 2005: YTL 295.610.051).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
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### 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 2006</u>
19.704.035	YTL	01.06.2006 – 30.06.2006	03.07.2006	19.704.035
69.830.000	Euro	26.06.2006 – 30.06.2006	03.07.2006 – 26.07.2006	140.323.385
114.000.000	US Dollar	26.06.2006 – 30.06.2006	03.07.2006 – 31.07.2006	182.730.600
				<u>342.758.020</u>

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

### 5. MARKETABLE SECURITIES (NET)

None (31 December 2005: None).

### 6. BANK BORROWINGS (NET)

Bank Borrowings comprised the following short-term bank credit at 30 June 2006:

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
Yapı Kredi & Koçbank	04.08.2006	150.000.000 US Dollar	525.895 US Dollar	241.277.958

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

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

### 7. ACCOUNTS RECEIVABLE AND PAYABLE (NET)

i) Short-term accounts receivable comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Trade receivables	334.985.515	210.448.412
Discount on receivables	(3.771.445)	(2.334.886)
Provision for doubtful receivables	(18.426.493)	(16.516.720)
	<u>312.787.577</u>	<u>191.596.806</u>

ii) Short-term accounts payable comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Trade payables	361.474.063	254.984.188
Discount on payables	(5.287.514)	(2.705.808)
Deposits and guarantees received	6.006.398	3.715.141
Other	-	1.395
	<u>362.192.947</u>	<u>255.994.916</u>



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
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### 7 ACCOUNTS RECEIVABLE AND PAYABLE (NET) (cont'd)

iii) Long-term accounts payable comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Deposits and guarantees received	11.131.624	7.124.267

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

i) Financial lease receivables : None (31 December 2005: None).

ii) Financial lease obligations:

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Not later than one year	267.876.598	221.054.754
Between 1 - 4 years	752.281.379	540.757.739
Over 4 years	716.299.105	458.520.976
	<u>1.736.457.082</u>	<u>1.220.333.469</u>
Less: Future interest expense	<u>(334.348.160)</u>	<u>(184.509.789)</u>
Principal value of future rentals shown in the balance sheets	<u>1.402.108.922</u>	<u>1.035.823.680</u>
Represented by :		
Current liabilities	197.993.152	179.092.821
Long term liabilities	<u>1.204.115.770</u>	<u>856.730.859</u>
	<u>1.402.108.922</u>	<u>1.035.823.680</u>
Interest range:		
Floating rate obligations	1.402.108.922	982.205.221
Fixed rate obligations	-	53.618.459
	<u>1.402.108.922</u>	<u>1.035.823.680</u>

As of 30 June 2006, the US Dollar denominated lease obligations' interest rates between LIBOR minus %0,056 and LIBOR plus %3,0.

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Not later than one year	193.325.690	118.983.335
Between 1 - 4 years	374.766.942	176.568.422
Over 4 years	566.067.956	124.747.806
	<u>1.134.160.588</u>	<u>420.299.563</u>

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

i) Due to and from related parties as of 30 June 2006 and 31 December 2005 comprised the following:

Due from related parties comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	3.386.245	970.701
	<u>3.386.245</u>	<u>970.701</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 June 2006  
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**9 DUE TO AND FROM RELATED PARTIES (NET) (cont'd)**

Due to related parties comprised the following:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	4.194.473	459.029
Uçak Servisi A.Ş. (USAŞ)	9.744.230	7.563.830
	<u>13.938.703</u>	<u>8.022.859</u>

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

	<b>30 June 2006</b>	<b>30 June 2005</b>
Services rendered to Sun Express	3.933.006	1.351.404
Services rendered to USAŞ	83.304	160.297
	<u>4.016.310</u>	<u>1.511.701</u>

	<b>30 June 2006</b>	<b>30 June 2005</b>
Services received from Sun Express	3.495.040	352.693
Services received from USAŞ	23.083.263	36.505.081
	<u>26.578.303</u>	<u>36.857.774</u>

Dividends received from Related Parties:

	<b>30 June 2006</b>	<b>30 June 2005</b>
Sun Express	2.351.000	80.800
Uçak Servisi A.Ş. (USAŞ)	409.135	1.113.723
France Telecom	342.662	157.325
	<u>3.102.797</u>	<u>1.351.848</u>

**10 OTHER RECEIVABLES AND LIABILITIES (NET)**

i) Other short-term receivables comprised the following:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Due from insurance firms	3.688.278	3.192.141
Foreign receivables from technical suppliers	2.588.447	1.557.088
Business advances	1.071.478	95.989
Receivables relating to RJ aircrafts modifications	669.586	560.516
Personnel salary advances	563.036	375.337
Due from personnel	326.549	278.853
Receivable from SITA deposit certificates	177.334	155.882
Other receivables	90.271	351.884
	<u>9.174.979</u>	<u>6.567.690</u>

ii) Other long-term receivables comprised the following:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Receivable from SITA deposit certificates	1.165.557	804.107
Due from personnel	1.145.082	1.006.711
Other receivables	-	90.670
	<u>2.310.639</u>	<u>1.901.488</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
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### 10 OTHER RECEIVABLES AND LIABILITIES (NET) (cont'd)

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Debt to banks (*)	383.322	332.636

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

iv) Other short-term liabilities comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Flight liability resulting from ticket sales	334.329.847	154.979.724
Flight liability resulting from mileage sales	55.632.249	51.770.242
Frequent flyer program liability	35.746.337	30.577.262
Accruals for maintenance costs	18.233.983	12.585.613
Taxes and funds payable	16.949.996	16.204.908
Social security premiums payable	16.085.881	14.840.062
Expense accruals for insurance premiums	10.518.999	10.468.387
Gross manufacturers' credits	8.197.987	19.690.997
Accumulated amortization on manufacturers' credits	(264.831)	(16.199.785)
Accruals for sales incentive premiums	7.170.420	6.684.627
Deferred income from USAŞ shares transfer	3.983.180	5.016.608
Other liabilities	622.676	1.373.121
Deferred technical income	553.066	-
Debt to personnel	365.988	276.417
Accruals for other expenses	2.965.786	4.347.361
	<u>511.091.564</u>	<u>312.615.544</u>

### 11 BIOLOGICAL ASSETS (NET)

None (31 December 2005: None).

### 12 INVENTORIES (NET)

	<u>30 June 2006</u>	<u>31 December 2005</u>
Spare parts, flight equipments	95.737.553	69.659.366
Other inventories	15.185.771	14.595.913
	<u>110.923.324</u>	<u>84.255.279</u>

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

None (31 December 2005: None).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
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### 14 DEFERRED TAX ASSETS AND LIABILITIES

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements compliant to Capital Markets Board's accounting standards and its financial statements prepared for tax purposes. These differences generally result from the recognition of revenue and expenses in different reporting periods considering CMB and tax standards and calculated for the items such as fixed assets, financial lease, retirement pay, allowance for doubtful receivables. The deferred tax rate is 30%.  
Temporary differences: Deferred Tax Assets / (Liabilities)

	<u>30 June 2006</u>	<u>31 December 2005</u>
Allowance for unrecoverable bank accounts	296	246
Allowance for doubtful receivables	993.427	230.607
Restatements on inventory	483.793	520.391
Diminution/(appreciation) in value of investments	1.530.021	(666.579)
Short term lease obligations	36.477.624	36.369.506
Deferred income and expenses	367.049	456.107
Expense accruals	19.027.256	17.283.762
Provision for advance ticket sales	(23.492.811)	(21.609.699)
Deferred income	1.194.950	1.504.979
Fixed assets	(488.600.853)	(365.532.429)
Long term lease obligations	191.560.908	185.266.465
Retirement pay liability	32.623.463	34.092.373
Manufacturers' credit	2.789.417	1.392.681
Discount on receivables	975.845	772.994
Discount on payables	(1.586.254)	(811.742)
Unused investment incentives	13.211.070	20.048.657
Unused tax losses	634.877	630.034
Deferred tax liability	<u>(211.809.922)</u>	<u>(90.051.647)</u>

Movement in deferred tax liability is as follows:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Net deferred tax charge related to temporary Differences	(61.943.336)	43.566.905
Net change in deferred tax	<u>(61.943.336)</u>	<u>43.566.905</u>

Movement in deferred tax liability is as follows at 30 June 2006:

	<u>30 June 2006</u>
31 December 2005 opening value of deferred tax liability	90.051.647
As a result of accountancy policy change, the effect on previous years deferred taxes	54.192.117
Deferred tax liability derived from Teknik A.Ş.	1.739.479
Deferred tax liability	145.983.243
Current period deferred tax expense	61.943.336
Deferred taxes netted off from special reserves	3.883.343
Current period deferred tax liability	<u>211.809.922</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 June 2006  
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**15 OTHER CURRENT/NON-CURRENT ASSETS AND SHORT-TERM/LONG-TERM LIABILITIES**

i) Other current assets comprised the following:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Prepaid sales commissions	24.642.112	11.149.101
Prepaid operating lease expenses	11.659.164	5.314.180
Interline passenger income accruals	8.579.472	3.843.430
Maintenance service income accruals	7.385.736	10.127.094
Tax to be refunded	4.365.238	2.965.389
Prepaid taxes and funds	3.030.489	13.363.884
VAT deductible	1.565.023	437.170
Income accruals relating to financial leasing	1.105.616	-
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Prepaid rent expenses	742.298	574.125
Deferred insurance expenses	501.514	6.787.420
Prepaid aircraft financing expense	463.762	487.846
Receivables from tax office	159.983	13.194
Prepaid financial expense of bank borrowing	-	740.124
Other prepaid expenses	2.144.835	2.726.288
	<b>67.437.650</b>	<b>59.621.653</b>

ii) Other non-current assets comprised the following:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Prepaid Eximbank USA guarantee and exposure fee	5.343.169	5.889.372
Advances given for operating leases	4.865.602	2.637.672
Prepaid operating lease expenses	4.391.223	374.744
Deposits given	2.102.079	1.325.066
Prepaid aircraft financing expense	1.853.140	2.067.151
Other	94.067	-
	<b>18.649.280</b>	<b>12.294.005</b>

**16 FINANCIAL ASSETS (NET)**

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

	<b>30 June 2006</b>	<b>31 December 2005</b>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	7.902.359	17.490.282

ii) Financial assets available for sale are as follows:

	<b>30 June 2006</b>	<b>31 December 2005</b>
France Telecom shares	20.214.336	20.214.336
Diminution in value of France Telecom shares	(13.366.002)	(13.458.870)
Uçak Servisi A.Ş. (USAŞ)	8.110.722	8.085.622
Appreciation/(diminution) in value of USAŞ shares	(4.047.761)	3.367.104
Sita Inc.	1.679.619	1.679.619
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
Other financial assets	1.426	1.426
	<b>12.619.199</b>	<b>19.916.096</b>
	<b>20.521.558</b>	<b>37.406.378</b>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006  
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### 16 FINANCIAL ASSETS (NET) (cont'd)

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

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

Sun Express's total assets and equity are YTL 80.026.328 and YTL 15.804.717 respectively at 30 June 2006. (31 December 2005: YTL 69.634.100 and YTL 33.535.938).

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

<u>Name of the Company</u>	<u>Place of Incorporation and Operation</u>	<u>Ownership Rate</u>	<u>Voting Power Rate</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	3%	3%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

### 17 POSITIVE/NEGATIVE GOODWILL (NET)

None (31 December 2005: None).

### 18 INVESTMENT PROPERTY (NET)

None (31 December 2005: None).

### 19 TANGIBLE FIXED ASSETS (NET)

	<u>30 June 2006</u>	<u>31 December 2005</u>
Tangible fixed assets (net)	2.829.643.617	2.051.105.815
Advances given for aircraft purchases	532.569.934	570.531.933
Advances given for other tangible fixed assets	11.182.721	9.476.231
	<u>3.373.396.272</u>	<u>2.631.113.979</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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

	Land, Land Improvements & Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Software	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Other Leased Fixed Assets & Simulator s	Total Leased Assets	Total
<b>Cost</b>											
Opening balance 1 January 2006	164.394.003	295.103.154	200.528.580	2.027.132.388	309.650.653	1.670.455	2.998.479.233	2.901.409.819	17.796.598	2.919.206.417	5.917.685.650
Transfers from finance leased aircraft	-	-	-	509.167.791	-	-	509.167.791	(509.167.791)	-	(509.167.791)	-
Additions	-	984.316	3.683.562	22.723.844	52.211.725	-	79.603.447	298.232.985	-	298.232.985	377.836.432
Disposals	(223.282)	(17.331.177)	(16.418.380)	-	(48.809.086)	(78.611)	(82.860.536)	-	-	-	(82.860.536)
Revaluation (*)	51.777.910	-	-	-	-	-	51.777.910	-	-	-	51.777.910
Closing balance 30 June 2006	215.948.631	278.756.293	187.793.762	2.559.024.023	313.053.292	1.591.844	3.556.167.845	2.690.475.013	17.796.598	2.708.271.611	6.264.439.456
<b>Accumulated depreciation</b>											
Opening balance 1 January 2006	48.373.526	262.683.227	184.566.172	1.050.923.392	146.892.242	-	1.693.438.559	847.858.584	6.646.682	854.505.266	2.547.943.825
Transfers from finance leased aircraft	-	-	-	237.780.050	-	-	237.780.050	(237.780.050)	-	(237.780.050)	-
Depreciation for the period	1.368.278	4.479.744	3.694.801	42.729.585	46.628.410	-	98.900.818	57.507.982	545.131	58.053.113	156.953.931
Disposals	-	(17.219.510)	(16.389.045)	-	(48.809.086)	-	(82.417.641)	-	-	-	(82.417.641)
Closing balance 30 June 2006	49.741.804	249.943.462	171.871.929	1.331.433.027	144.711.566	-	1.947.701.786	667.586.516	7.191.813	674.778.329	2.622.480.115
Accumulated impairment	-	3.229.398	-	563.934.903	-	-	567.164.301	242.027.117	3.124.306	245.151.423	812.315.724
<b>30 June 2006 net book value</b>	<b>166.206.827</b>	<b>25.583.432</b>	<b>15.921.834</b>	<b>663.656.093</b>	<b>168.341.726</b>	<b>1.591.844</b>	<b>1.041.301.758</b>	<b>1.780.861.380</b>	<b>7.480.479</b>	<b>1.788.341.859</b>	<b>2.829.643.617</b>
<b>31 December 2005 net book value</b>	<b>116.020.477</b>	<b>26.709.444</b>	<b>15.962.408</b>	<b>442.349.451</b>	<b>162.758.411</b>	<b>1.670.455</b>	<b>765.470.646</b>	<b>1.278.899.340</b>	<b>6.735.829</b>	<b>1.285.635.169</b>	<b>2.051.105.815</b>

(\*) If the Company has not appraised its lands then the net book value of the lands would be YTL 197.090 instead of YTL 51.975.000.

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**20 INTANGIBLE FIXED ASSETS (NET)**

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Cost</u></b>			
Opening balance 1 January 2006	61.631.745	19.233.061	80.864.806
Additions	430.450	272.512	702.962
Disposals	(2.109)	-	(2.109)
Closing balance 30 June 2006	<u>62.060.086</u>	<u>19.505.573</u>	<u>81.565.659</u>
<b><u>Accumulated depreciation</u></b>			
Opening balance 1 January 2006	56.095.307	18.615.366	74.710.673
Amortization charge for the period	1.389.356	214.635	1.603.991
Disposals	(2.109)	-	(2.109)
Closing balance 30 June 2006	<u>57.482.554</u>	<u>18.830.001</u>	<u>76.312.555</u>
Accumulated impairment	-	-	-
<b>30 June 2006 net book value</b>	<u>4.577.532</u>	<u>675.572</u>	<u>5.253.104</u>
<b>31 December 2005 net book value</b>	<u>5.536.438</u>	<u>617.695</u>	<u>6.154.133</u>

**21 ADVANCES RECEIVED**

i) Short-term advances received comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
MCO advances	18.426.958	15.962.740
Charter advances	1.701.808	3.413.900
Advances received for financial leases	1.375.043	1.151.059
Advances received for mileage credit sales	793.664	21.649.478
E-pos ticket advances	568.387	9.675.611
Other advances received	459.385	544.626
	<u>23.325.245</u>	<u>52.397.414</u>

**22 RETIREMENT PLANS**

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

**23 PROVISIONS FOR LIABILITIES**

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Accrued salaries	19.794.271	17.993.508
Provisions for legal claims	5.905.880	9.202.870
Other provisions	67.525	347.266
	<u>25.767.676</u>	<u>27.543.644</u>

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Provision for retirement pay liability	<u>109.100.692</u>	<u>113.641.242</u>



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

Provision for Retirement Pay Liability is recognized as explained below:

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), or are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to an upper limit of YTL 1.771 as at 30 June 2006 (31 December 2005: YTL 1.727). The number of service years required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described here can be named as an unfunded defined benefit system. The total provision recognised in the financial statements represents the estimated present value of the vested benefit obligation.

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Current service cost	5.749.321	15.156.287
Interest cost	3.615.858	5.594.993
	<u>9.365.179</u>	<u>20.751.280</u>

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Provision at 1 January	113.641.242	99.777.377
Charge for the period	9.365.179	20.751.280
Payments during the period	(13.905.729)	(6.887.415)
Provision at 30 June	<u>109.100.692</u>	<u>113.641.242</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 6,36% (31 December 2005: 5,61 %) per annum considering the effect of increase in eligible pay and its limit.

### 24 MINORITY INTERESTS

None (31 December 2005: None).

### 25 SHARE CAPITAL/RECIPROCAL ASSOCIATE CAPITAL ADJUSTMENT

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

	<u>Group</u>	<u>%</u>	<u>30 June 2006</u>	<u>%</u>	<u>31 December 2005</u>
Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	48,99(**)	85.734.021	75,18	131.565.696
Others	A	51,01(**)	89.265.979	24,82	43.434.304
Share capital (historic)			175.000.000		175.000.000
Restatement effect			1.739.005.871		1.739.005.871
Restated share capital			<u>1.914.005.871</u>		<u>1.914.005.871</u>

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

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

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

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

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

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

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

- a) As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- b) Suggesting change in the Articles of Association at General Assembly,
- c) Increasing share capital,
- d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- e) Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),
- f) Making decisions relating to merges and liquidation,
- g) Making decisions to cancel flight routes or significantly decrease number of flights except for the ones that cannot recover even its operational expenses subject to the market conditions,

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

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

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

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Share Capital	175.000.000	175.000.000
Share Premium	181.185	181.185
Legal Reserves	417.011	417.011
Extraordinary Reserves	7.806.889	7.806.889
Special funds	47.894.576	9
Shareholders' Equity Inflation Adjustment Differences (*)	1.872.657.189	1.872.657.189
Net Profit for the Year	32.126.494	138.227.837
Accumulated Losses	<u>(681.272.417)</u>	<u>(945.948.527)</u>
	<u>1.454.810.927</u>	<u>1.248.341.593</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
Special funds	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 for the following legal provision related to legal reserves. According to Turkish Commercial Code, legal reserves can be categorized as order I legal reserves and order II legal reserves. Order I legal reserves are apportioned as 5% of statutory net profit to the extent that they reach to 20% of the company's paid-in capital. Order II legal reserves equal to 10% of distributable profit exceeding 5% of paid-in capital. According to Turkish Commercial Code, legal reserves can only be used to set off losses as long as they do not exceed 50% of paid-in capital. Publicly held companies distribute dividends in the following way that Capital Market Board requires.

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

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**29 FOREIGN CURRENCY POSITION**

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Group has a foreign currency risk because of the foreign currency denominated debts. As of 30 June 2006, the Group 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 Group.

The foreign currency position of the Group as of 30 June 2006 and 31 December 2005 in terms of YTL is as follows:

<b>30 June 2006</b>	<b>US Dollar</b>	<b>Euro</b>	<b>Sterling</b>	<b>Other</b>	<b>Total</b>
<b><i>Foreign currency denominated assets</i></b>					
Cash and cash equivalents	195.860.301	163.282.820	1.990.515	59.662.104	420.795.740
Accounts receivable (net)	49.786.90	78.017.731	11.214.564	91.892.900	186.103.885
Due from related parties (net)	366.008	2.865.603	-	-	3.231.611
Other receivables (short term) (net)	5.085.959	586.263	102.129	402.323	6.176.674
Inventory-advances	869.849	144.817	47.872	69.258	1.131.796
Other current assets	30.630.376	4.617.556	156.471	2.362.627	37.767.030
Other receivables (long term) (net)	2.310.639	-	-	-	2.310.639
Tangibles fixed assets (advances)	541.108.232	-	2.644.425	-	543.752.657
Other non-current assets	17.332.360	692.920	90.250	581.174	18.696.704
	<u>798.542.414</u>	<u>250.207.710</u>	<u>16.246.226</u>	<u>154.970.386</u>	<u>1.219.966.736</u>
<b><i>Foreign currency denominated liabilities</i></b>					
Bank borrowings (net)	241.277.958	-	-	-	241.277.958
Financial lease obligations (short term)	197.993.152	-	-	-	197.993.152
Accounts payable (short term) (net)	103.520.386	97.138.232	6.331.571	48.645.224	255.635.413
Due to related parties (net)	294.459	3.921.078	2.667	-	4.218.204
Deposits and advances received	2.628.092	235.602	-	1.126.099	3.989.793
Other accrued liabilities (short term)	158.763	24.619	-	-	183.382
Other liabilities (net)	104.749.586	130.790.602	21.715.048	80.634.594	337.889.830
Financial lease obligations (long term) (net)	1.204.115.770	-	-	-	1.204.115.770
Accounts payable (long-term) (net)	599.643	8.565.372	158.672	1.807.938	11.131.625
	<u>1.855.337.809</u>	<u>240.675.505</u>	<u>28.207.958</u>	<u>132.213.855</u>	<u>2.256.435.127</u>
<b><i>Net foreign currency position (*)</i></b>	<u>(1.056.795.395)</u>	<u>9.532.205</u>	<u>(11.961.732)</u>	<u>22.756.531</u>	<u>(1.036.468.391)</u>

(\*) Whereas, the Group seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Group values its aircraft, spare engines and simulators according to their US Dollar selling prices. In this respect, the Group's management is of the opinion that the Group's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Group's assets and liabilities against the changes in foreign exchange rates. As of 30 June 2006, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices is YTL 2.460.060.152 (31 December 2005: YTL 1.916.522.751).

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

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

**30 GOVERNMENT GRANTS**

The Group has investment incentive certificates; dated 23 May 2003 covering the period of 22.04.2003 – 22.10.2007 at amount of YTL 2.826.746.000 and dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2007 at amount of YTL 163.612.642. The investment incentive certificates provide benefits for the exemption of Value Added Tax regarding domestic and international purchases of goods and exemption of customs duty for investment goods imported from countries other than European Union members.

In addition, of investment spending by 30 June 2006, YTL 40.743.678 is subject to 100% investment allowance and YTL 30.184.049 is subject to 40% investment allowance.

Investment allowances are deducted from current or future taxable income (30%).

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### 31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is YTL 53.152.576 as of 30 June 2006 (31 December 2005: YTL 38.040.225).

b) Purchase Commitments:

The Company has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered on 2005 and 11 of these aircrafts are delivered during first 6 months of 2006. Total value of these aircrafts is approximately US Dollar 4,7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Company paid a deposit of US Dollar 331 million as of 30 June 2006 related to these aircrafts.

c) Letters of comfort:

	<u>30 June 2006</u>	<u>31 December 2005</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 Group's discounted retirement pay provision is YTL 109.100.692 The Group's undiscounted liability for retirement pay would be approximately YTL 184.457.830 as of 30 June 2006, if all employees were dismissed on that date.

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

### 32 BUSINESS COMBINATIONS

None (31 December 2005: None).

### 33 SEGMENTAL REPORTING

#### *Business Segments*

The Group predominantly operates in one industry segment as of 30 June 2006, the primary businesses are air transportation of passengers and cargo within, to or from Turkey and to supply maintenance service for aircrafts.

The Group started to consolidate all financial statements as of 30 June 2006 with THY Teknik A.Ş. which was established in 23 May 2006.

#### *Geographical Segments*

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

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**33 SEGMENTAL REPORTING (cont'd)**

**33.1. Total Assets and Shareholders' Equity**

	<b>30 June 2006</b>	<b>31 December 2005</b>
<b>Total Assets</b>		
Aviation	4.397.182.896	3.514.792.667
Technical service	337.049.909	-
<b>Total</b>	4.734.232.805	3.514.792.667
Less: Eliminations of consolidation	(367.293.303)	-
<b>Total assets according to consolidated financial statements</b>	4.366.939.502	3.514.792.667
<b>Shareholders' Equity</b>	<b>30 June 2006</b>	<b>31 December 2005</b>
Aviation	1.460.799.514	1.248.341.593
Technical service	269.012.542	-
<b>Total</b>	1.729.812.056	1.248.341.593
Less: Eliminations of consolidation	(275.001.129)	-
<b>Total shareholders' equity according to consolidated financial statements</b>	1.454.810.927	1.248.341.593

**33.2. Main Sales Revenues**

	<b>01 January 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>
Aviation	1.540.750.452	924.414.339
Technical service	38.764.363	38.764.363
<b>Total</b>	1.579.514.815	963.178.702
Less: Eliminations of consolidation	(43.509.424)	(43.509.424)
<b>Total main sales revenues according to consolidated financial statements</b>	1.536.005.391	919.669.278

**33.3. Main Operating Profit / (Loss)**

	<b>01 January 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>
Aviation	(123.393.908)	37.739.036
Technical service	(12.452.494)	(12.452.494)
<b>Total</b>	(135.846.402)	25.286.542
Less: Eliminations of consolidation	(5.729.617)	(5.729.617)
<b>Total main operating profit / (loss) according to consolidated financial statements</b>	(141.576.019)	19.556.925

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

<b>01 January 2006-30 June 2006</b>	<b>Aviation</b>	<b>Technical service</b>	<b>Eliminations between segments</b>	<b>Total</b>
Revenues	1.540.750.452	38.764.363	(43.509.424)	1.536.005.391
Other income from main operations	92.376.577	-	-	92.376.577
Cost of sales	(1.433.887.007)	(49.768.260)	37.779.807	(1.445.875.460)
Gross profit	199.240.022	(11.003.897)	(5.729.617)	182.506.508
Operating expenses	(322.633.930)	(1.448.597)	-	(324.082.527)
Main operating loss	(123.393.908)	(12.452.494)	(5.729.617)	(141.576.019)

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Notes to the consolidated financial statements as at 30 June 2006  
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### 33 SEGMENTAL REPORTING (cont'd)

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

01 April 2006- 30 June 2006	Aviation	Technical service	Eliminations between segments	Total
Revenues	924.414.339	38.764.363	(43.509.424)	919.669.278
Other income from main operations	54.914.095	-	-	54.914.095
Cost of sales	(782.549.158)	(49.768.260)	37.779.807	(794.537.611)
Gross profit / (loss)	196.779.276	(11.003.897)	(5.729.617)	180.045.762
Operating expenses	(159.040.240)	(1.448.597)	-	(160.488.837)
Main operating profit / (loss)	37.739.036	(12.452.494)	(5.729.617)	19.556.925

### 34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) The Company sold all France Telecom shares, which is one of its associates, for Euro 3.297.209 in Paris Stock Exchange.

b) Market price of 1.026.000.000 USAŞ shares, which are traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of 06 September 2006, has increased from YTL 3,96 at 30 June 2006 to YTL 4,96 at 06 September 2006. Hence, the total market value of these shares increased by YTL 1.026.000 compared to balance sheet date.

c) The Company has taken the delivery of 8 aircrafts on July 2006 and August 2006 of which the purchase deal were done.

d) The Company has decided to start negotiations to join Star Alliance by Board Decision dated 04 August 2006.

### 35 DISCONTINUED OPERATIONS

None (31 December 2005: None).

### 36 MAIN OPERATING REVENUES

Main operating revenues comprised the following:

	01 Jan 2006- 30 June 2006	01 April 2006- 30 June 2006	01 Jan 2005- 30 June 2005	01 April 2005- 30 June 2005
Scheduled flights				
- Passenger	1.390.650.025	838.973.222	1.206.532.099	676.163.934
- Cargo and mail	145.355.366	80.696.056	121.892.065	62.328.928
Non-scheduled flights	16.400.788	9.168.973	19.206.598	12.729.570
Other revenues	75.982.412	45.748.566	57.562.786	29.243.314
<b>Total revenues</b>	<b>1.628.388.591</b>	<b>974.586.817</b>	<b>1.405.193.548</b>	<b>780.465.746</b>
Less: Discounts and sales returns	(6.623)	(3.444)	(5.542)	(3.206)
<b>Net Sales</b>	<b>1.628.381.968</b>	<b>974.583.373</b>	<b>1.405.188.006</b>	<b>780.462.540</b>
Cost of Sales (-)	(1.445.875.460)	(794.537.611)	(1.101.942.924)	(583.236.964)
<b>Gross Operating Profit</b>	<b>182.506.508</b>	<b>180.045.762</b>	<b>303.245.082</b>	<b>197.225.576</b>



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**36 MAIN OPERATING REVENUES (cont'd)**

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

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
- Europe	625.738.435	385.413.582	548.512.647	315.022.455
- Middle East	150.031.532	75.936.081	142.795.633	62.648.866
- North Africa	40.744.730	25.027.550	39.719.660	25.335.699
- North America	77.294.576	46.139.122	69.831.733	39.959.352
- Far East	275.130.602	164.943.921	215.794.708	112.075.104
- Middle Africa	1.421.832	1.421.832	-	-
	<u>1.170.361.707</u>	<u>698.882.088</u>	<u>1.016.654.381</u>	<u>555.041.476</u>
Domestic	<u>365.643.684</u>	<u>220.787.190</u>	<u>311.769.783</u>	<u>183.451.386</u>
Total revenue from the Scheduled flights	<u>1.536.005.391</u>	<u>919.669.278</u>	<u>1.328.424.164</u>	<u>738.492.862</u>

Cost of sales consists of the following:

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
Fuel expenses	472.075.807	279.301.950	305.803.704	172.430.049
Staff expenses	279.236.128	146.402.599	222.460.455	115.780.767
Depreciation expenses	152.326.673	69.372.460	142.007.820	72.214.120
Landing and overflight expenses	143.485.003	85.856.814	110.703.011	58.276.417
Maintenance expenses	102.168.031	63.408.049	66.861.938	34.028.358
Handling expenses	88.767.378	47.209.845	81.995.020	41.837.425
Passenger service and catering expenses	74.653.152	42.966.951	68.242.024	37.151.067
Operating lease expenses	73.108.245	40.635.485	44.465.183	24.829.105
Insurance expenses	20.543.601	10.221.974	30.404.828	15.268.578
Aircraft wet-lease expenses	9.751.738	2.021.719	6.630.865	267.749
Other renting expenses	5.942.471	2.358.720	7.233.700	3.830.307
Service expenses	4.688.812	2.357.827	3.567.573	1.602.562
Communication expenses	4.628.413	2.637.625	3.379.455	1.950.123
Other taxes	3.021.186	1.105.984	1.969.391	864.592
Lighting, heating, energy and water expenses	2.248.454	909.489	1.882.441	829.035
Transportation expenses	1.594.269	841.707	1.026.165	527.034
Diminution in the value of fixed assets	-	(7.196.734)	-	-
Cost of other sales	<u>7.636.099</u>	<u>4.125.147</u>	<u>3.309.351</u>	<u>1.549.676</u>
	<u>1.445.875.460</u>	<u>794.537.611</u>	<u>1.101.942.924</u>	<u>583.236.964</u>

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**37. OPERATING EXPENSES (-)**

Operating expenses comprised the following:

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
<b>Sales and marketing expenses (-)</b>				
Commission and promotion expenses	106.773.260	61.913.872	94.668.246	54.005.806
Staff expenses	71.823.599	37.545.450	57.023.278	28.460.758
Reservation system expenses	36.448.738	22.208.305	31.070.267	17.149.038
Advertisement expenses	9.435.703	6.542.778	3.447.408	2.396.001
Other renting expenses	7.880.609	3.794.985	6.083.955	3.397.972
Communication expenses	7.323.163	3.919.356	6.810.674	3.400.744
Code share expenses	4.523.660	3.960.695	900.143	547.467
Service expenses	4.468.151	2.774.699	3.811.361	1.951.613
Other taxes	2.360.049	829.488	1.418.033	590.523
Passenger service and catering expenses	2.271.609	1.352.926	2.008.540	1.189.213
Transportation expenses	2.059.110	921.812	2.042.521	967.989
Lighting, heating, energy and water expenses	895.391	465.595	666.876	394.844
Maintenance expenses	548.823	311.665	624.642	331.195
Software and computer equipment expenses	392.165	291.564	368.653	159.817
Fuel expenses	282.894	148.125	249.045	123.286
Insurance expenses	233.637	76.280	159.133	60.802
Depreciation expenses	73.855	25.299	-	-
Other sales and marketing expenses	<u>6.957.817</u>	<u>4.036.616</u>	<u>7.470.349</u>	<u>5.166.265</u>
	<u>264.752.233</u>	<u>151.119.510</u>	<u>218.823.124</u>	<u>120.293.333</u>

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**37 OPERATING EXPENSES (-)(cont'd)**

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
<b>General administrative expenses (-)</b>				
Staff expenses	38.025.086	(1.272.417)	70.363.188	37.030.329
Depreciation expenses	6.157.394	2.879.511	5.484.578	2.322.955
Other taxes	2.210.649	1.205.360	1.850.138	(1.181.649)
Software and computer equipment expenses	2.138.571	1.282.772	1.754.519	881.615
Other renting expenses	2.014.344	1.237.258	653.056	328.145
Maintenance expenses	1.833.207	1.100.318	1.773.257	844.723
Communication expenses	1.223.210	471.913	1.616.772	557.848
Commission and promotion expenses	1.176.266	711.329	1.054.637	604.654
Service expenses	996.266	496.816	706.398	420.204
Lighting, heating, energy and water expenses	867.330	476.416	778.444	312.091
Insurance expenses	242.258	(81.561)	186.132	64.331
Fuel expenses	110.372	57.453	113.562	68.174
Other general administrative Expenses	2.335.341	804.159	3.116.555	1.577.314
	<u>59.330.294</u>	<u>9.369.327</u>	<u>89.451.236</u>	<u>43.830.734</u>
Total operating expenses	<u>324.082.527</u>	<u>160.488.837</u>	<u>308.274.360</u>	<u>164.124.067</u>

**38 INCOME/LOSSES FROM OTHER OPERATIONS**

Income from other operations consists of the following:

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
Foreign exchange gains	341.971.449	304.351.017	125.818.576	65.393.502
Change in provision for diminution in value of fixed assets	325.679.896	325.679.896	59.761.603	(3.930.393)
Discounts received from spare parts suppliers	21.984.448	16.284.046	5.798.284	2.488.107
Reversal of unnecessary provision	18.851.898	5.784.293	6.368.906	4.671.554
Interest income	13.299.989	3.816.903	14.159.175	7.603.318
Profit on sale of marketable securities	3.950.091	-	-	-
Cost free materials income	3.544.394	700.553	3.190.886	1.643.851
Compensation received	3.355.273	307.586	1.602.292	1.375.052
Dividend income	3.102.797	3.102.797	1.351.849	1.351.849
Yapı Kredi protocol income	1.534.482	707.431	769.918	426.289
Income from manufacturers' credit	1.163.779	698.733	847.299	414.395
Discount income	572.874	(2.930.314)	1.046.350	1.046.350
Profit on sale of fixed assets	9.065	3.965	386.298	153.361
Income from financial investment accounted per equity method	-	-	1.767.223	1.767.223
Other	13.575.010	12.642.516	865.539	634.658
	<u>752.595.445</u>	<u>671.149.422</u>	<u>223.734.198</u>	<u>85.039.116</u>

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**38 INCOME/LOSSES FROM OTHER OPERATIONS (cont'd)**

Loss from other operations consists of the following:

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
Foreign exchange losses	405.521.554	368.141.719	152.212.282	75.287.881
Provision expenses	14.573.898	3.464.430	7.618.079	(304.213)
Loss from financial investment accounted per equity method	11.938.923	1.040.844	-	(1.438.531)
Indemnity and penalty expenses	6.587.050	6.363.019	-	-
Retirement pay interest cost	3.615.858	2.022.756	4.084.534	2.723.933
Expenses incurred for passengers with no visas	398.510	282.799	192.888	89.312
Loss on sale of fixed assets	199.787	-	-	-
Discount expense	-	-	-	(772.996)
Other expenses	2.192.755	1.472.921	64.403	36.982
	<u>445.028.335</u>	<u>382.788.488</u>	<u>164.172.186</u>	<u>75.622.368</u>

**39 FINANCIAL EXPENSES**

Financial expenses consist of the following:

	<b>01 Jan 2006- 30 June 2006</b>	<b>01 April 2006- 30 June 2006</b>	<b>01 Jan 2005- 30 June 2005</b>	<b>01 April 2005- 30 June 2005</b>
Foreign exchange loss on bank loans	35.397.000	35.397.000	-	-
Finance lease interest expenses	27.882.546	15.899.754	22.808.585	11.613.165
Interest expense on bank loans	7.901.563	3.462.610	3.477.558	3.477.558
Other financial expenses	740.152	(242.972)	740.124	740.124
	<u>71.921.261</u>	<u>54.516.392</u>	<u>27.026.267</u>	<u>15.830.847</u>

**40 TAX**

Corporate tax payable is as follows:

	<b>30 June 2006</b>	<b>31 December 2005</b>
Provision for corporate tax payable	-	-
Prepaid taxes and funds	-	(13.363.884)
	<u>-</u>	<u>(13.363.884)</u>

Tax expense is as follows:

	<b>30 June 2006</b>	<b>30 June 2005</b>
Current period tax expense	-	-
Deferred tax expense	(61.943.336)	14.194.690
Tax expense	<u>(61.943.336)</u>	<u>14.194.690</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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### 40 TAX (cont'd)

#### *Corporate tax:*

The Group is subject to Turkish corporate taxes. Necessary provisions were recognized in the accompanying consolidated financial statements for the estimated tax liabilities depending on the results for the period.

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

The effective tax rates are as follows:

- In 2005: 30%
- In 2006: 20% (30 % those for benefiting from investment allowances.)

In Turkey, prepaid corporate taxes are calculated and accrued on a quarterly basis. The prepaid corporate tax rate was 30% in 2005. As of 30 June 2006, the prepaid corporate tax rate is 20 %. However, The Company foresees to take advantage of investment allowances for 2006. Thus tax rate is taken as 30% into accounts for calculations as of 30 June 2006.

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 25 April following the close of the accounting period to which they relate. The tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

#### *Income withholding tax:*

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Income tax stoppage rate is changed into 15% starting from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

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**41 EARNINGS PER SHARE**

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

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

	<b>30 June 2006</b>	<b>30 June 2005</b>
Number of shares outstanding on 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding on 30 June (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the period (in full)	175.000.000.000	175.000.000.000
Net profit for the period	32.126.494	13.311.777
Basic earnings per share (YKr)	<b>0,018</b>	<b>0,008</b>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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42 STATEMENTS OF CASH FLOWS

	<b>Revised 30 June 2006</b>	<b>Revised 30 June 2005</b>
<b>Cash flows from operating activities</b>		
Profit before taxation	94.069.830	27.506.467
<b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b>		
Depreciation	158.557.922	147.492.398
Provision for retirement pay liability	9.365.179	11.191.082
Interest income	(13.299.989)	(14.159.175)
Loss/ (profit) on sale of fixed asset	190.722	(386.298)
Change in provision for diminution in value of fixed assets	(323.940.417)	(59.761.603)
Loss/ (gain) from financial investment accounted per equity method	9.587.923	(1.767.223)
Interest expense	35.784.109	26.286.143
Movement in manufacturers' credit	4.441.944	(848.725)
Foreign exchange gain on financial leases	168.019.807	(492.063)
Provision for diminution in value of financial assets	7.296.897	4.813.713
Amortization of deferred income from USAŞ shares transfer	(1.033.428)	(2.796.565)
Increase/(Decrease) in provision for doubtful receivables	1.909.773	1.396.046
<b>Operating profit before working capital change</b>	<b>150.950.272</b>	<b>138.474.197</b>
Increase in accounts receivable	(123.100.544)	(70.667.601)
(Increase)/ decrease in due from related parties (short term)	(2.415.544)	599.704
Increase in other short and long term receivables	(3.016.440)	(4.667.378)
Increase in inventories	(26.668.045)	(4.211.130)
(Increase)/ decrease in other current assets	(7.815.997)	37.072.692
Increase in other non-current assets	(6.355.275)	(609.784)
Increase in accounts payable	110.205.388	33.879.916
Increase in due to related parties	5.915.844	4.043.154
Decrease in advances received	(29.072.169)	(11.360.711)
Increase/(decrease) in provision for short term liabilities	(1.775.968)	23.052.572
Increase in other short and long term liabilities	195.067.504	92.916.564
Retirement benefits paid	(13.905.729)	(2.297.291)
Interest paid	(27.813.393)	(26.355.294)
<b>Cash generated from operations</b>	<b>220.199.904</b>	<b>209.869.610</b>
<b>Cash flows from investing activities</b>		
Cash outflow from purchase of tangible and intangible fixed assets	252.173	-
Cash inflow from sale of tangible and intangible fixed assets	-	422.752
Interest received	13.299.989	14.159.175
Acquisition of tangible and intangible fixed assets	(378.539.394)	(100.500.372)
Advances given for aircrafts and other tangible assets	36.255.509	(201.861.867)
<b>Net cash used in investing activities</b>	<b>(328.731.723)</b>	<b>(287.780.312)</b>
<b>Cash flows from financing activities</b>		
Principal payment of financial leases	(131.763.920)	(95.517.767)
Change in financial lease obligations	322.058.639	-
Change in bank borrowings	(121.625.267)	362.192.647
Increase in other financial liabilities	50.686	40.456
<b>Net cash provided by/(used in) financing activities</b>	<b>68.720.138</b>	<b>266.715.336</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(39.811.861)</b>	<b>188.804.634</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>482.910.555</b>	<b>365.637.483</b>
<b>Cash and cash equivalents at the end of period</b>	<b>443.098.874</b>	<b>554.442.117</b>

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 June 2006

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

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

None (31 December 2005: None).