

CONVENIENCE TRANSLATION OF
REPORT AND FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

**TÜRK HAVA YOLLARI
ANONİM ORTAKLIĞI AND
ITS SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE INTERIM PERIOD ENDED 30 JUNE 2010

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Türk Hava Yolları A.O.

Introduction

We have reviewed the accompanying consolidated balance sheet of Türk Hava Yolları A.O. (the “Company”) and its subsidiary (together the “Group”) as at 30 June 2010 and the related consolidated statement of comprehensive income, consolidated statement of changes in shareholders’ equity and consolidated cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The management is responsible for preparation and fair presentation of these financial statements in accordance with accounting standards published by Capital Markets Board. Our responsibility is to express a result on these financial statements based on our review.

Scope of Review

Financial statements of Sun Express Havacılık A.Ş., THY DO&CO İkram Hizmetleri A.Ş and TGS Yer Hizmetleri A.Ş. which are the associates of the Company have been reviewed by other independent audit firms. 1 % of total assets in the accompanying financial statements as at 30 June 2010 are contributed by these companies. Those statements were reviewed by other auditors whose reports have been furnished to us and our review, insofar as it relates to the amounts included for these entities is solely based on reports of the other auditors.

We conducted our review in accordance with the independent auditing standards issued by the Capital Markets Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards published by Capital Markets Board and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our and other audit firms' review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the Group as of 30 June 2010 and its financial performance and cash flows for the six months period then ended in accordance with the financial reporting standards issued by the Capital Markets Board (Note 2).

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



Berkman Özata
Partner

İstanbul, 23 August 2010

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEET
AS OF 30 JUNE 2010

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

ASSETS	Notes	(Reviewed) 30 June 2010	(Audited) 31 December 2009
Current Assets		3.660.618.119	2.799.855.184
Cash and cash equivalents	6	630.781.823	1.096.111.869
Financial assets	7	43.428.671	222.298.370
Trade receivables	10	617.323.059	445.381.881
Other receivables	11	2.088.616.479	743.393.375
Inventories	13	155.245.391	148.995.932
Other current assets	26	125.222.696	143.673.757
Non-current Assets		5.609.971.261	5.772.234.243
Other receivables	11	355.728.727	664.360.128
Financial assets	7	1.750.943	1.750.943
Investments accounted for using the equity	16	169.991.612	152.052.556
Investment property	17	48.810.000	48.810.000
Tangible assets	18	4.780.491.330	4.811.019.050
Intangible assets	19	29.077.872	10.669.612
Other non-current assets	26	224.120.777	83.571.954
TOTAL ASSETS		9.270.589.380	8.572.089.427

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEET
AS OF 30 JUNE 2010

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

LIABILITIES	Notes	(Reviewed) 30 June 2010	(Audited) 31 December 2009
Current Liabilities		2.663.129.086	1.949.243.312
Financial debt	8	383.083.206	412.266.841
Other financial liabilities	9	107.122.025	46.078.943
Trade payables	10	615.144.643	560.801.478
Other payables	11	160.113.913	156.633.381
Current tax liabilities	35	36.283.390	2.419.544
Provisions	22	8.458.458	7.287.354
Employee benefit obligations	24	161.559.394	54.734.480
Passenger flight liabilities	26	983.088.746	586.525.279
Other current liabilities	26	208.275.311	122.496.012
Non- current Liabilities		2.911.449.530	3.177.965.889
Financial debt	8	2.281.491.460	2.575.899.283
Other payables	11	8.923.549	8.941.613
Provision for retirement pay liability	24	162.618.411	151.875.562
Deferred tax liability	35	388.030.570	362.243.105
Other non- current liabilities	26	70.385.540	79.006.326
SHAREHOLDERS' EQUITY			
Equity Attributable to Shareholders of Parent		3.696.010.764	3.444.880.226
Share capital	27	1.000.000.000	875.000.000
Inflation difference on shareholders' equity	27	1.123.808.032	1.123.808.032
Restricted profit reserves	27	39.326.341	22.686.727
Differences from currency translation	27	(385.131)	4.641.339
Cash flow hedge fund (-)	27	(23.858.850)	(1.751.329)
Retained earnings	27	1.278.855.843	861.419.177
Net profit/(loss) for the period	27	278.264.529	559.076.280
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9.270.589.380	8.572.089.427

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated .)

	Notes	(Reviewed) 1 January-30 June 2010	(Not Reviewed) 1 April-30 June 2010	(Reviewed) 1 January-30 June 2009	(Not Reviewed) 1 April-30 June 2009
Sales revenue	28	3.743.404.536	2.088.331.502	3.010.994.776	1.732.358.717
Cost of sales (-)	28	(3.016.898.634)	(1.605.010.219)	(2.324.545.121)	(1.243.000.078)
GROSS PROFIT / (LOSS)		726.505.902	483.321.283	686.449.655	489.358.639
Marketing, sales and distribution expenses (-)	29	(455.420.705)	(239.584.857)	(374.752.825)	(206.178.310)
Administrative expenses (-)	29	(156.067.990)	(81.372.697)	(132.516.646)	(70.850.348)
Other operating income	31	84.245.417	9.068.956	56.838.138	2.431.006
Other operating expenses (-)	31	(161.355.572)	(206.721.116)	(135.353.685)	(171.872.164)
OPERATING PROFIT / (LOSS)		37.907.052	(35.288.431)	100.664.637	42.888.823
Share of investments' profit/ (loss) accounted for using the equity method	16	(31.551.395)	(7.026.644)	(2.831.406)	8.476.879
Financial income	32	426.785.861	276.146.275	193.495.494	(292.833.710)
Financial expenses (-)	33	(77.804.586)	(34.854.139)	(83.282.890)	175.918.675
PROFIT / (LOSS) BEFORE TAX		355.336.932	198.977.061	208.045.835	(65.549.333)
Tax (expense) / income		(77.072.403)	(40.320.487)	(106.083.864)	12.362.252
Current tax expense (-)	35	(45.758.058)	(41.244.924)	(49.747.052)	(12.559.511)
Deferred tax (expense) / income	35	(31.314.345)	924.437	(56.336.812)	24.921.763
PROFIT / (LOSS) FOR THE YEAR		278.264.529	158.656.574	101.961.971	(53.187.081)
OTHER COMPREHENSIVE INCOME / (EXPENSE)					
Differences from currency translation		(5.026.470)	(3.855.918)	34.549	4.493.955
Cash flow hedge fund		(27.634.401)	(25.348.575)	(2.149.303)	(2.149.303)
Tax income on items in other comprehensive income		5.526.880	5.069.717	429.861	(429.861)
OTHER COMPREHENSIVE INCOME/		(27.133.991)	(24.134.776)	(1.684.893)	1.914.791
TOTAL COMPREHENSIVE INCOME/		251.130.538	134.521.798	100.277.078	(51.272.290)
Earnings/(Loss) per share (Kr)	36	0,28	0,16	0,10	(0,05)

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated .)

	Issued capital	Inflation difference on shareholders' equity	Restricted profit reserves	Differences from currency translation	Cash flow hedge fund	Net profit/loss for the period	Retained earnings	Total shareholders' equity
As of 31 December 2008	175.000.000	1.672.901.479	-	4.459.406	-	1.134.226.211	-	2.986.587.096
Transfer of previous years' profit to retained earnings	-	-	-	-	-	(1.134.226.211)	1.134.226.211	-
Transfer of previous years' profit to capital reserves	-	-	22.686.727	-	-	-	(22.686.727)	-
Payment of dividends	-	-	-	-	-	-	(99.213.754)	(99.213.754)
Capital increase	700.000.000	(549.093.447)	-	-	-	-	(150.906.553)	-
Total comprehensive income for the period	-	-	-	34.549	(1.719.442)	101.961.971	-	100.277.078
As of 30 June 2009	875.000.000	1.123.808.032	22.686.727	4.493.955	(1.719.442)	101.961.971	861.419.177	2.987.650.420
As of 31 December 2009	875.000.000	1.123.808.032	22.686.727	4.641.339	(1.751.329)	559.076.280	861.419.177	3.444.880.226
Capital increase	125.000.000	-	-	-	-	(125.000.000)	-	-
Transfer of previous years' profit to capital reserves	-	-	16.639.614	-	-	(16.639.614)	-	-
Transfer of previous years' profit to retained earnings	-	-	-	-	-	(417.436.666)	417.436.666	-
Total comprehensive income for the period	-	-	-	(5.026.470)	(22.107.521)	278.264.529	-	251.130.538
As of 30 June 2010	1.000.000.000	1.123.808.032	39.326.341	(385.131)	(23.858.850)	278.264.529	1.278.855.843	3.696.010.764

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated .)

	Notes	1 January- 30 June 2010	1 January- 30 June 2009
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before taxes		355.336.932	208.045.835
Adjustments to obtain net cash flow generated from operating activities:			
Depreciation and amortization	18-19	183.871.267	173.798.143
Provision for retirement pay liability	24	16.914.760	12.429.846
Interest income	32	(26.903.389)	(91.865.000)
(Gain)/Loss on sales of fixed assets	31	(37.444.958)	(3.073.699)
(Decrease)/Increase in provision for impairment	18	(101.984.346)	44.230.084
Loss/(profit) on equity investments accounted for using the equity method	16	31.551.395	2.831.406
Interest expense	33	65.387.666	57.193.768
Change in manufacturers' credit	26	(491.329)	(7.776.366)
Unrealized foreign exchange loss/(gain) on finance leases	32-33	(137.993.041)	(12.881.675)
Increase/(decrease) in provision for doubtful receivables	10	16.413.426	(6.606.062)
Change in fair value of derivative instruments	32-33	1.488.405	(23.061.932)
Operating profit before working capital changes		366.146.788	353.264.348
(Increase)/Decrease in trade receivables	10	(188.354.604)	(158.777.111)
Decrease/(increase) in other short and long term receivables	11	(2.068.230)	44.243.847
Decrease/(increase) in inventories	13	(6.249.459)	(30.721.246)
Decrease/(increase) in other current assets	26	18.451.061	(30.870.402)
Decrease/(increase) in other non-current assets	26	(140.548.823)	62.528.365
Increase/(decrease) in trade payables	10	54.343.165	72.266.057
(Decrease)/Increase in other payables	11	3.462.468	44.761.747
Increase/(decrease) in provision for short term liabilities	22	1.171.104	215.219
Increase in other short and long term liabilities	26	77.649.843	28.261.423
Increase in employee benefits	24	106.824.914	8.047.801
Increase in passenger flight liabilities	26	396.563.467	347.499.326
Cash flow from operating activities		687.391.694	740.719.374
Payment of retirement pay liability	24	(6.171.911)	(8.870.572)
Interest paid		(69.625.698)	(57.075.955)
Corporate tax adjustment for 2008	35	-	(33.121.718)
Tax payments	26-35	(11.894.212)	(18.740.648)
Net cash flow from operating activities		599.699.873	622.910.481
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible and intangible fixed assets	18-19	61.568.249	124.122.255
Interest received		35.288.486	99.496.303
Dividends received	16	2.500.000	-
Purchase of tangible and intangible fixed assets (net of increase in finance lease liabilities) (*)	18-19	(93.890.747)	(122.371.687)
Prepayments for the purchase of aircrafts	11	(1.034.523.473)	(291.945.887)
(Increase)/decrease in short term financial investments	7	168.996.190	482.147.316
Cash outflow resulting from purchase of joint ventures	16	(57.016.921)	(30.885.163)
Net cash used in investing activities		(917.078.216)	260.563.137
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal in finance lease liabilities		(185.040.976)	(190.886.131)
(Decrease)/increase in financial borrowings		3.680.592	(2.403.217)
Increase/(decrease) in other financial liabilities	9	33.408.681	(432.606)
Dividends paid		-	(99.213.754)
Net cash used in financing activities		(147.951.703)	(292.935.708)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(465.330.046)	590.537.910
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1.096.111.869	504.905.721
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		630.781.823	1.095.443.631

(*) There is no tangible and intangible assets purchases which was financed through finance leases for the six month interim period ended 30 June 2010. (30 June 2009: TL 128.740.924 portion of tangible and intangible assets purchases in total of 251.112.611 was financed through finance leases).

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Consolidated Financial Statements
For the Six-Month Interim Period Ended 30 June 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

1. COMPANY ORGANIZATION AND ITS 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 2010 and 31 December 2009, the shareholders and their respective shareholdings in the Company are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Republic of Turkey Prime Ministry		
Privatization Administration	49,12 %	49,12 %
Other (publicly held)	50,88 %	50,88 %
Total	<u>100,00 %</u>	<u>100,00 %</u>

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary (“the Group”) as of 30 June 2010 is 15.937. (31 June 2009: 14.672). The average number of employees working for the Group as of 30 June 2010 and 2009 is 15.487 and 14.281, respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

Approval of Financial Statements

Board of Directors has approved the financial statements as of 30 June 2010 and delegated authority for publishing it on 23 August 2010. General shareholders' meeting has the authority to modify the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Preparation for Financial Statements and Significant Accounting Policies

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Consolidated Financial Statements
For the Six-Month Interim Period Ended 30 June 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

The accompanying consolidated financial statements have been prepared in accordance with IFRS and comply with CMB's decree announce on 17 April 2008 and 9 January 2009 regarding the format of the financial statements and footnotes since at the date of the issuance of these financial statements the differences of IAS/ IFRS accepted by the European Union are not declared by the TASB. Accordingly, some reclassifications are made in the prior year financial statements.

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

Currency Used In Financial Statements

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira ("TRY"), which is the functional currency of the Company, and the reporting currency for the consolidated financial statements.

Adjustment of Financial Statements in Hyperinflationary Periods

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

Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary.

Basis of the Consolidation

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Consolidated Financial Statements
For the Six-Month Interim Period Ended 30 June 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

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

2.1 Basis of Presentation (cont'd)

Basis of Consolidation (cont'd)

The table below sets out the consolidated Subsidiary and participation rate of the Group in this subsidiary at 30 January 2010:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Participation Rate</u>		<u>Country of Registration</u>
		<u>30 June 2010</u>	<u>31 December 2009</u>	
THY Teknik A.Ş.	Aircraft Maintenance Services	100%	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 Group and its Subsidiary were eliminated against the related shareholders' equity. Intercompany transactions and balances between the Group and its Subsidiary were eliminated during consolidation process.

c) The Group has six joint ventures. These joint ventures are economical activities that decisions about strategic finance and operating policy are jointly controlled by the consensus of the Group and other participants. The affiliates to which the participation rates of the Group are 50% and 49 % are controlled by the Group jointly, and are valued by equity method.

The table below sets out consolidated affiliates and indicates the proportion of ownership interest of the Company in these affiliates at 30 June 2010:

<u>Company name</u>	<u>Principal Activity</u>	<u>Participation share</u>		<u>Country of Registration</u>
		<u>30 June 2010</u>	<u>31 December 2009</u>	
Güneş Ekspres Havacılık A.Ş.	Air Transportation	50%	50%	Turkey
THY DO&CO İkrâm Hizmetleri A.Ş.	Catering Services	50%	50%	Turkey
P&W T.T. Uçak Bakım Merkezi Ltd. Şti.	Maintenance	49%	49%	Turkey
Bosnia Herzegovina Airlines	Air Transportation	49%	49%	Bosnia Herzegovina
TGS Yer Hizmetleri A.Ş.	Ground Services	50%	100%	Turkey
THY Opet Havacılık Yakıtları A.Ş.	Fuel Sales	50%	50%	Turkey

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Consolidated Financial Statements
For the Six-Month Interim Period Ended 30 June 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

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

2.2 Changes in Accounting Policies

Changes in accounting policies are applied retroactively and the financial statements of the previous period are adjusted.

2.3 Offsetting

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

2.4 New and Revised International Financial Reporting Standards

- a) There's no change in the current Standards which are related to the Group operations and are effective as of 30 June 2010.
- b) Standards, amendments and interpretations to existing standards effective as of 30 June 2010 but not relevant to the Group

IFRS 3 (revised), "Business Combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any business combinations.

IFRIC 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

IFRIC 18, "Transfers of assets from customers", effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

"Additional exemptions for first-time adopters" (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.

IFRS 2, "Share-based Payments – Group Cash-settled Share Payment Arrangements" is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as the Group does not have share-based payment plans.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The improvements cover 12 main standards/interpretations as follows:

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Consolidated Financial Statements
For the Six-Month Interim Period Ended 30 June 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

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

2.4 New and Revised International Financial Reporting Standards (cont'd)

b) Standards, amendments and interpretations to existing standards effective as of 30 June 2010 but not relevant to the Group (cont'd)

IFRS 2 *Share-based Payments*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 8 *Operating Segments*, IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows*, IAS 17 *Leases*, IAS 18 *Revenue*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 16 *Hedges of Net Investment in a Foreign Operation*. The effective dates vary standard by standard but most are effective 1 January 2010.

c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

IFRS 1 (amendments) *First-time Adoption of IFRS – Additional Exemptions*

Amendments to IFRS 1 which are effective for annual periods on or after 1 July 2010 provide limited exemption for first time adopters to present comparative IFRS 7 fair value disclosures.

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or at fair value. The new standard is mandatory for annual periods beginning on or after 1 January 2013. The Group has not had an opportunity to consider the potential impact of the adoption of this standard.

IAS 24(Revised 2009) *Related Party Disclosures*

In November 2009, IAS 24 *Related Party Disclosures* was revised. The revision to the standard provides government-related entities with a partial exemption from the disclosure requirements of IAS 24. The revised standard is mandatory for annual periods beginning on or after 1 January 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

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

2.4 New and Revised International Financial Reporting Standards (cont'd)

IAS 32(Amendments) *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements*

The amendments to IAS 32 and IAS 1 are effective for annual periods beginning on or after 1 February 2010. The amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

IFRIC 14 (Amendments) *Pre-payment of a Minimum Funding Requirement*

Amendments to IFRIC 14 are effective for annual periods beginning on or after 1 January 2011. The amendments affect entities that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions. The amendment requires an asset to be recognized for any surplus arising from voluntary pre-payments made. The Group does not expect any impact of the adoption of this amendment on the financial statements.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or part, a financial liability. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

Annual Improvements May 2010

Further to the above amendments and revised standards, the IASB has issued Annual Improvements to IFRSs in May 2010 that cover 7 main standards/intepretations as follow: IFRS 1 *First-time Adoption of International Financial Reporting Standards*; IFRS 3 *Business Combinations*; IFRS 7 *Financial Instruments: Disclosures*; IAS 1 *Presentation of Financial Statements*; IAS 27 *Consolidated and Separate Financial Statements*; IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes*. With the exception of amendments to IFRS 3 and IAS 27 which are effective on or after 1 July 2010, all other amendments are effective on or after 1 January 2011. Early adoption of these amendments are allowed. The Group has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

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

2.5 Summary of Significant Accounting Policies

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

2.5.1 Revenue

Rendering of services:

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

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

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

Dividend and interest income:

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

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

2.5.2 Inventories

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

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

2.5.3 Tangible Assets

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.3 Tangible Assets (cont'd)

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25-50	-
- Aircrafts	15-20	10-30%
- Cargo Aircraft	30	10%
- Engines	15-20	10-30%
- Components	7	-
- Repairable Spare Parts	3-7	-
- Simulators	10-20	0-10%
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-
- Special Costs	Lease period	-

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

2.5.4 Leasing Transactions

Leasing - the Group as the lessee

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

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

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

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.5 Intangible Assets

Intangible assets include leasehold improvements, rights, information systems and software. Intangible assets are carried at the beginning cost including the restatement to the equivalent purchasing power for those accounted on or before 31 December 2004 less accumulated depreciation. Leasehold improvements are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis.

2.5.6 Impairment on Assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted at the consolidated income statement.

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

Group determined aircrafts, spare engines and simulators together ("Aircrafts") as lower-line cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively.

In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used for determination of recoverable amounts. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Price guides are revised for two times in a year, changes in price guides are reflected to the consolidated financial statements prepared at June and December.

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Borrowing Costs

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

2.5.8 Financial Instruments

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

a) Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

Effective interest method

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

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.8 Financial Instruments (cont'd)

a) Financial assets (cont'd)

Loans and receivables

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

Impairment of financial assets

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

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.8 Financial Instruments (cont'd)

a) Financial Assets (cont'd)

Cash and cash equivalents

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

b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below. Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.8 Financial Instruments (cont'd)

b) Financial liabilities (cont'd)

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The major source of interest rate risk is finance lease liabilities. The Group's policy is to convert some financial liabilities with fixed interest rates into financial liabilities with variable interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in USD. The derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments are directly accounted in the income statement. In 2009, Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments. Also, Group began to obtain derivative financial instruments to hedge against jet fuel price risks beginning from 2009. Group accounts for those transactions as hedging against cash flow risks arising from jet fuel prices. Use of derivative financial instruments is managed according to Group policy which is written principles approved by Board of Directors and compliant with risk management strategy.

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

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

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

2.5.9 Foreign Currency Transactions

Transactions in foreign currencies are translated into 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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.9 Foreign Currency Transactions (cont'd)

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

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

	<u>Closing Rate</u>	<u>Average Rate</u>
Period ended 30 June 2010	1,5747	1,5163
Year ended 31 December 2009	1,5057	1,5457
Period ended 30 June 2009	1,5301	1,6056
Year ended 31 December 2008	1,5123	1,2976

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

	<u>Closing Rate</u>	<u>Average Rate</u>
Period ended 30 June 2010	1,9217	2,0158
Year ended 31 December 2009	2,1603	2,1508
Period ended 30 June 2009	2,1469	2,1400
Year ended 31 December 2008	2,1408	1,8969

2.5.10 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.

2.5.11 Events Subsequent to the Balance Sheet Date

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

2.5.12 Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.9 Provisions, Contingent Liabilities, Contingent Assets (cont'd)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

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

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

Onerous Contracts

Present liabilities arising from onerous contracts are calculated and accounted for as provision. It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract..

2.5.13 Segmental Information

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

2.5.14 Investment Property

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

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

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

2.5.15 Taxation and Deferred Tax

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

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.15 Taxation and Deferred Tax (cont'd)

Current tax

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

Deferred Tax

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.15 Taxation and Deferred Tax (cont'd)

Deferred Tax (cont'd)

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

Current and deferred tax for the period

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

2.5.16 Employee benefits / Retirement pay provision

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

2.5.17 Statement of cash flow

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

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

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.18 Share Capital and Dividends

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

2.5.19 Manufacturers' Credits

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

2.5.20 Maintenance and Repair Costs

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

2.5.21 Frequent Flyer Program

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

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

2.6 Important Accounting Estimates and Assumptions

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations. Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period were given below:

The Determination of Impairment on Long Term Assets

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Disclosure 2.5.6.

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

2.6 Important Accounting Estimates and Assumptions (cont'd)

Calculation of the Liability for "Frequent Flyer Program"

As explained in Note 2.5.21, Group has programs called "Miles and Smiles" and "Shop & Miles" which are applied for its members. In the calculations of the liability related with concerned programs, the rate of use and mile values which are determined by using statistical methods over the historical data were used.

Useful Lives and Salvage Values of Tangible Assets:

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

3. BUSINESS COMBINATIONS

None.

4. JOINT VENTURES

See note 16.

5. SEGMENTAL REPORTING

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

5.1 Total Assets and Liabilities

Total Assets	30 June 2010	31 December 2009
Aviation	9.232.376.683	8.542.807.991
Technic	637.649.112	534.901.509
Total	9.870.025.795	9.077.709.500
Less: Eliminations due to consolidation	(599.436.415)	(505.620.073)
Total assets in consolidated financial statements	9.270.589.380	8.572.089.427
Total Liabilities	30 June 2010	31 December 2009
Aviation	5.540.332.440	5.097.625.058
Technic	118.449.064	100.305.913
Total	5.658.781.504	5.197.930.971
Less: Eliminations due to consolidation	(84.202.888)	(70.721.770)
Total liabilities in consolidated financial statements	5.574.578.616	5.127.209.201

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5. SEGMENTAL REPORTING (cont'd)

5.2 Net Operating Profit / (Loss) (cont'd)

Segment Results:

1 January 2010-30 June 2010	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	3.659.581.407	83.823.129	-	3.743.404.536
Inter-segment sales	21.564.849	243.280.964	(264.845.813)	-
Segment revenue	3.681.146.256	327.104.093	(264.845.813)	3.743.404.536
Cost of sales	(3.019.065.751)	(260.965.828)	263.132.945	(3.016.898.634)
Gross profit / (loss)	662.080.505	66.138.265	(1.712.868)	726.505.902
Marketing, sales and distribution expenses	(452.537.595)	(3.057.771)	174.661	(455.420.705)
Administrative expenses	(133.528.257)	(24.503.990)	1.964.257	(156.067.990)
Other operating income	66.077.932	19.268.511	(1.101.026)	84.245.417
Other operating expense	(138.702.666)	(23.327.882)	674.976	(161.355.572)
Operating profit / (loss)	3.389.919	34.517.133	-	37.907.052

1 January 2009-30 June 2009	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	2.914.590.111	96.404.665	-	3.010.994.776
Inter-segment sales	17.341.738	250.794.148	(268.135.886)	-
Segment revenue	2.931.931.849	347.198.813	(268.135.886)	3.010.994.776
Cost of sales	(2.308.862.800)	(283.494.098)	267.811.777	(2.324.545.121)
Gross profit / (loss)	623.069.049	63.704.715	(324.109)	686.449.655
Marketing, sales and distribution expenses	(372.585.627)	(2.328.683)	161.485	(374.752.825)
Administrative expenses	(114.941.441)	(23.237.267)	5.662.062	(132.516.646)
Other operating income	46.450.792	12.531.653	(2.144.307)	56.838.138
Other operating expense	(131.552.907)	(445.647)	(3.355.131)	(135.353.685)
Operating profit / (loss)	50.439.866	50.224.771	-	100.664.637

Income statement items related to impairment of tangible fixed assets

1 January 2010-30 June 2010	Aviation	Technic	Inter-segment elimination	Total
Real decrease on tangible fixed asset impairment provision (Loss from other operations)	(80.603.863)	-	-	(80.603.863)
Decrease on tangible fixed asset impairment provision due to exchange rate changes (Financial expense)	182.588.209	-	-	182.588.209

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5. SEGMENTAL REPORTING (cont'd)

5.2 Net Operating Profit / (Loss) (cont'd)

1 January 2009-30 June 2009	Aviation	Technic	Inter-segment elimination	Total
Real decrease on tangible fixed asset impairment provision (Loss from other operations)	(118.578.314)	-	-	(118.578.314)
Decrease on tangible fixed asset impairment provision due to exchange rate changes (Financial expense)	74.348.230	-	-	74.348.230

Income statement items related to investments accounted for equity method

1 January 2010-30 June 2010	Aviation	Technic	Inter-segment elimination	Total
Share of investmen profit/ (loss) accounted for using the equity method	(23.793.011)	(7.758.384)	-	(31.551.395)

1 January 2009-30 June 2009	Aviation	Technic	Inter-segment elimination	Total
Share of investmen profit/ (loss) accounted for using the equity method	(1.518.578)	(1.312.828)	-	(2.831.406)

5.3 Investment Operations

1 January 2010-30 June 2010	Aviation	Technic	Inter-segment elimination	Total
Purchase of of tangible and intangible fixed assets	65.228.732	8.654.565	-	73.883.297
Current period amortization and depreciation	154.193.747	29.677.520	-	183.871.267
Investmensts accounted for using the equity method	114.764.779	55.226.833	-	169.991.612

1 January 2009-30 June 2009	Aviation	Technic	Inter-segment elimination	Total
Purchase of of tangible and intangible fixed assets	172.975.169	78.137.442	-	251.112.611
Current period amortization and depreciation	152.710.902	21.087.241	-	173.798.143
Investmensts accounted for using the equity method	47.918.069	23.808.162	-	71.726.231

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6. CASH AND CASH EQUIVALENTS

	<u>30 June 2010</u>	<u>31 December 2009</u>
Cash	1.032.553	540.180
Cheques Receivable	8.503	769
Banks – Time deposits	440.689.467	974.329.053
Banks – Demand deposits	171.149.750	100.193.848
Other liquid assets	17.901.550	21.048.019
	<u>630.781.823</u>	<u>1.096.111.869</u>

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 June 2010</u>
			01.07.2010	
234.499.500	TL	10,63%-12,50%	20.07.2010	234.499.500
			01.07.2010	
49.000.000	EUR	2,89%-4,00%	08.07.2010	94.356.474
71.379.396	USD	0,5%-3,6%	01.07.2010	111.833.493
				<u>440.689.467</u>
<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2009</u>
			04.01.2010	
238.174.400	TL	%5,85-%13,7	22.02.2010	238.174.400
			18.01.2010	
87.427.313	EUR	%1,75-%4,50	20.01.2010	188.869.224
			04.01.2010	
363.475.745	USD	%2,00-%7,50	25.02.2010	547.285.429
				<u>974.329.053</u>

7. FINANCIAL ASSETS

Short-term financial assets are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Time deposits with maturity more than 3 months	-	175.000.000
Derivative instruments at fair values (Note 39)	43.428.671	47.298.370
	<u>43.428.671</u>	<u>222.298.370</u>

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7. FINANCIAL ASSETS (cont'd)

Time deposits with maturity of more than 3 months:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2009</u>
175.000.000	TL	11,55%	20.07.2010	175.000.000
				<u>175.000.000</u>

Long-term financial assets are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Sita Inc.	1.679.619	1.679.619
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
Star Alliance GMBH	44.465	44.465
	<u>1.750.943</u>	<u>1.750.943</u>

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

Details of the long-term financial assets of the Group at 30 June 2010 are as follows:

<u>Company name</u>	<u>Country of registration and operation</u>	<u>Ownership Share</u>	<u>Voting Right</u>	<u>Principle Activity</u>
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Netherlands	Less than 0,1%	Less than 0,1%	Information & Telecommunication Services
Star Alliance GMBH	Germany	5,55%	5,55%	Coordination Between Star Alliance Member Airlines

8. FINANCIAL BORROWINGS

Short-term financial borrowings are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Bank loans	15.026.723	14.439.256
Finance lease obligations	368.056.483	397.827.585
	<u>383.083.206</u>	<u>412.266.841</u>

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8. FINANCIAL BORROWINGS (cont'd)

The details of short-term part of long-term bank loans as of 30 June 2010 and 31 December 2009 are as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TL</u>
17.10.2011	Libor+%3,50	USD	9.422.728	119.867	15.026.723
<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TL</u>
17.10.2011	Libor+%3,50	USD	9.422.728	167.002	14.439.256

Long-term financial borrowings are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Bank loans	7.418.980	14.187.801
Finance lease obligations	2.274.072.480	2.561.711.482
	<u>2.281.491.460</u>	<u>2.575.899.283</u>

The details of long-term bank loans as of 30 June 2010 and 31 December 2009 are as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>TL</u>
17.10.2011	Libor + %3,50	USD	4.711.364	7.418.980
<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>TL</u>
17.10.2011	Libor + %3,50	USD	9.422.728	14.187.801

Financial lease obligations are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Less than 1 year	436.994.658	469.617.973
Between 1 – 5 years	1.303.693.073	1.438.363.567
Over 5 years	1.352.245.857	1.548.610.096
	<u>3.092.933.588</u>	<u>3.456.591.636</u>
Less: Future interest expenses	(450.804.625)	(497.052.569)
Principal value of future rentals stated in financial statements	<u>2.642.128.963</u>	<u>2.959.539.067</u>
Interest Range:		
Floating rate obligations	984.785.820	1.133.986.718
Fixed rate obligations	1.657.343.143	1.825.552.349
	<u>2.642.128.963</u>	<u>2.959.539.067</u>

As of 30 June 2010, the US Dollars and Euro denominated lease obligations' weighted average interest rates for the fixed rate obligations are 4,92% (31 December 2009: 4,91 %) and for the floating rate obligations are 0,65% (31 December 2009: 0,78%).

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9. OTHER FINANCIAL LIABILITIES

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

	30 June 2010	31 December 2009
Fair value of derivative instruments (Note 39)	87.878.749	45.232.172
Borrowings to banks	19.243.276	846.771
	<u>107.122.025</u>	<u>46.078.943</u>

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

10. ACCOUNTS RECEIVABLE AND PAYABLE

Short-term trade receivables are as follows:

	30 June 2010	31 December 2009
Trade receivables	652.601.822	455.045.487
Due from related parties (Note 37)	22.926.555	32.128.286
Allowance for doubtful receivables	(58.205.318)	(41.791.892)
	<u>617.323.059</u>	<u>445.381.881</u>

The Group provided provision for the receivables carried to legal proceedings and for the others by making historical statistical calculations. Movement of the doubtful receivables for the period ended 30 June 2010 and 2009 are as follows:

	1 January - 30 June 2010	1 January - 30 June 2009
Opening Balance	41.791.892	37.042.788
Charge for the period	20.515.502	6.877.323
Collections during the period	(3.803.729)	(11.127.538)
FX Loss	(263.407)	-
Receivables written-off	(34.940)	(2.355.847)
Closing Balance	<u>58.205.318</u>	<u>30.436.726</u>

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

Short-term trade payables are as follows:

	30 June 2010	31 December 2009
Trade receivables	582.067.879	536.177.325
Due from related parties (Note 37)	32.047.164	22.663.149
Other	1.029.600	1.961.004
	<u>615.144.643</u>	<u>560.801.478</u>

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11. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables are as follows:

	30 June 2010	31 December 2009
Prepayments made for aircrafts, to be received back in cash (net)	2.081.505.035	724.055.005
Deposits and guarantess given	1.537.348	1.153.878
Receivables from purchasing transactions abroad	1.371.600	938.235
Receivables from employees	1.103.396	1.165.585
Non-trade receivables from related parties (Note37)	712.024	12.581.316
Receivables from tax office	617.718	1.933.804
Receivables from foreign technical suppliers	610.446	265.974
Other receivables	1.158.912	1.299.578
	<u>2.088.616.479</u>	<u>743.393.375</u>

Long-term other receivables are as follows:

	30 June 2010	31 December 2009
Prepayments made for aircrafts, to be received back in cash (net)	314.456.955	637.383.512
Interest swap agreement deposits	21.226.489	7.663.566
Advance payments for operating leases	7.641.991	7.211.446
Receivables from employees	5.630.216	6.045.185
Deposits and guarantess given	5.525.202	4.863.237
Receivables from Sita deposit certificates	1.247.874	1.193.182
	<u>355.728.727</u>	<u>664.360.128</u>

Short-term other payables are as follows:

	30 June 2010	31 December 2009
Miscellaneous charge order advances	78.329.212	69.550.656
Taxes and funds payable	30.894.823	31.244.933
Social security premiums payable	28.026.340	25.835.403
Deposits and guarantees received	13.279.414	9.665.768
E-Pos ticket advances	3.877.875	936.185
Charter advances	3.000.812	895.143
Other advances received	668.651	1.150.351
Other liabilities	2.036.786	2.522.747
Payables to insurance companies	-	14.832.195
	<u>160.113.913</u>	<u>156.633.381</u>

Long-term other payables are as follows:

	30 June 2010	31 December 2009
Deposits and guarantees received	<u>8.923.549</u>	<u>8.941.613</u>

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12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS

None (31 December 2009: None).

13. INVENTORIES

	30 June 2010	31 December 2009
Spare parts	142.306.943	133.739.727
Other inventories	27.307.095	29.624.852
	169.614.038	163.364.579
Provision for impairment (-)	(14.368.647)	(14.368.647)
	<u>155.245.391</u>	<u>148.995.932</u>

Movement in change of diminution in value of inventories as of 30 June 2010 and 2009 are as follows:

	1 January - 30 June 2010	1 January - 30 June 2009
Provision at the beginning of the period	14.368.647	14.724.718
Cancellation of provisions recognized	-	(1.440.669)
Provision at the end of the period	<u>14.368.647</u>	<u>13.284.049</u>

14. BIOLOGICAL ASSETS

None (31 December 2009: None).

15. ASSETS FROM CONSTRUCTION CONTRACTS IN PROGRESS

None (31 December 2009: None).

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	30 June 2010	31 December 2009
Güneş Ekspres Havacılık A.Ş. (Sun Express)	-	26.698.068
THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO)	37.468.400	34.054.590
P&W T.T. Uçak Bakım Merkezi Ltd. Şti.	55.226.833	22.421.794
Bosnia-Herzegovina Airlines	4.873.528	2.936.441
TGS Yer Hizmetleri A.Ş. (TGS)	58.858.494	63.482.168
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)	13.564.357	2.459.495
	<u>169.991.612</u>	<u>152.052.556</u>

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

Financial information for Sun Express as of 30 June 2010 and 31 December 2009 are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total assets	363.904.642	232.316.502
Total liabilities	381.513.179	178.920.367
Shareholders'equity	(17.608.537)	53.396.135
Group's share in associate's shareholders' equity	-	26.698.068

	<u>1 January - 30 June 2010</u>	<u>1 April - 30 June 2010</u>	<u>1 January - 30 June 2009</u>	<u>1 April - 30 June 2009</u>
Revenue	373.634.902	234.207.723	384.976.417	225.691.492
Profit/ (loss) for the period	(44.113.456)	542.507	(2.993.902)	15.710.029
Group's share in profit/ (loss) for the period	(22.056.728)	271.254	(1.496.951)	7.855.015

Due to periodic and last year's loss Sun Express has negative equity which is evaluated per investments accounted for using the equity method as of 30 June 2010. Since the company does not have any pledgery against Sun Express' liability and obligations, in the enclosed financial statements "investments accounted for using the equity method" part is zero, whereas "share of investments' profit/(loss) accounted for using the equity method" part is 22,056,728 TL.

Financial information for THY DO&CO Catering Services as of 30 June 2010 and 31 December 2009 are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total assets	141.805.609	122.594.934
Total liabilities	65.343.020	52.485.754
Shareholders'equity	74.936.800	68.109.180
Group's share in associate's shareholders' equity	37.468.400	34.054.590

	<u>1 January - 30 June 2010</u>	<u>1 April - 30 June 2010</u>	<u>1 January - 30 June 2009</u>	<u>1 April - 30 June 2009</u>
Revenue	150.221.801	78.597.801	112.121.604	61.577.605
Profit/ (loss) for the period	11.827.620	8.170.434	4.344.619	2.346.010
Group's share in profit/ (loss) for the period	5.913.810	4.085.217	2.172.309	1.173.006

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

Financial information for P&W T.T Uçak Bakım Merkezi Ltd. Şti as of 30 June 2010 and 31 December 2009 are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total assets	154.723.405	104.846.886
Total liabilities	42.015.577	59.088.122
Shareholders'equity	112.707.828	45.758.764
Group's share in associate's shareholders' equity	55.226.833	22.421.794

	<u>1 January - 30 June 2010</u>	<u>1 April - 30 June 2010</u>	<u>1 January - 30 June 2009</u>	<u>1 April - 30 June 2009</u>
Revenue	8.780.392	8.740.329	-	-
Profit/ (loss) for the period	(15.833.436)	(9.588.862)	(2.679.240)	(2.890.540)
Group's share in profit/ (loss) for the period	(7.758.384)	(4.698.543)	(1.312.828)	(1.416.365)

Financial information for Bosnia and Herzegovina Airlines as of 30 June 2010 and 31 December 2009 are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total assets	52.985.379	49.653.830
Total liabilities	48.039.404	43.661.093
Shareholders'equity	9.945.975	5.992.737
Group's share in associate's shareholders' equity	4.873.528	2.936.441

	<u>1 January - 30 June 2010</u>	<u>1 April - 30 June 2010</u>	<u>1 January - 30 June 2009</u>	<u>1 April - 30 June 2009</u>
Revenue	16.425.089	11.552.517	8.011.295	5.831.137
Profit/ (loss) for the period	(3.329.167)	(779.189)	(4.477.543)	1.765.640
Group's share in profit/ (loss) for the period	(1.631.293)	(381.803)	(2.193.936)	865.223

Financial information for TGS as of 30 June 2010 and 31 December 2009 are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total assets	151.689.005	142.871.824
Total liabilities	33.972.018	15.907.488
Shareholders'equity	117.716.987	126.964.336
Group's share in associate's shareholders' equity	58.858.494	63.482.168

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Revenue	58.511.241	32.515.937	-	-
Profit/ (loss) for the period	(9.247.350)	(10.651.876)	-	-
Group's share in profit/ (loss) for the period	(4.623.675)	(5.325.938)	-	-

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

Financial information for THY Opet Havacılık Yakıtları A.Ş. as of 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010	31 December 2009
Total assets	64.105.237	5.745.326
Total liabilities	36.976.522	826.333
Shareholders'equity	27.128.715	4.918.993
Group's share in associate's shareholders' equity	13.564.357	2.459.495

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Revenue	-	-	-	-
Profit/ (loss) for the period	(2.790.250)	(1.953.662)	-	-
Group's share in profit/ (loss) for the period	(1.395.125)	(976.831)	-	-

Details of investments accounted for using the equity method as of 30 June 2010 are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Sun Ekspress	(22.056.728)	271.254	(1.496.951)	7.855.015
Turkish DO&CO	5.913.810	4.085.217	2.172.309	1.173.006
P&W T.T. Uçak Bakım Merkezi Ltd. Şti.	(7.758.384)	(4.698.543)	(1.312.828)	(1.416.365)
Bosnia and Herzegovina Airlines	(1.631.293)	(381.803)	(2.193.936)	865.223
TGS	(4.623.675)	(5.325.938)	-	-
THY Opet	(1.395.125)	(976.831)	-	-
Total	(31.551.395)	(7.026.644)	(2.831.406)	8.476.879

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

Details of investments accounted for using the equity method as of 30 June 2010 are as follows:

Company name	Country of registration and operation	Ownership Share	Voting power	Principle Activity
Sun Express	Türkiye	50%	50%	Air transportation
Turkish DO&CO	Türkiye	50%	50%	Catering services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti	Türkiye	49%	49%	Maintanance services
Bosnia Herzegovina Airlines	Bosna Hersek Federasyonu	49%	49%	Air transportation
TGS	Türkiye	50%	50%	Ground services
THY Opet	Türkiye	50%	50%	Aviation fuel

17. INVESTMENT PROPERTY

	1 January - 30 June 2010	1 January - 30 June 2009
Opening balance, 1 January	48.810.000	48.130.000
Purchases	-	-
Loss due to the change in fair value	-	-
Closing balance, 30 June	48.810.000	48.130.000

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

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18. TANGIBLE ASSETS

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircraft and spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Aircrafts acquired by leasing	Total
<u>Cost</u>									
Opening balance at 1 January 2010	164.645.538	320.921.611	172.635.436	2.540.985.371	319.829.494	47.421.962	17.713.152	4.999.425.302	8.583.577.866
Additions	-	12.747.446	10.910.684	1.893.793	39.757.441	2.868.898	5.011.114	-	73.189.376
Disposals	-	(88.646.390)	(3.177.859)	(670.273)	(24.218.772)	(131.481)	-	-	(116.844.775)
Transfers	2.056.982	-	-	346.302	-	269.775	(2.673.059)	-	-
Closing balance at 30 June 2010	166.702.520	245.022.667	180.368.261	2.542.555.193	335.368.163	50.429.154	20.051.207	4.999.425.302	8.539.922.467
<u>Accumulated depreciation</u>									
Opening balance at 1 January 2010	58.398.566	253.105.940	135.673.684	1.916.801.769	147.045.447	26.183.316	-	1.235.350.094	3.772.558.816
Depreciation charge for the period	1.372.164	7.832.394	6.651.989	22.362.362	24.351.965	4.045.169	-	114.962.108	181.578.151
Disposals	-	(71.664.708)	(2.986.876)	(294.144)	(17.733.935)	(41.821)	-	-	(92.721.484)
Real increase/(decrease) at impairment	-	(260.645)	-	18.908.019	-	-	-	61.956.489	80.603.863
Impairment, increase/(decrease) due to exchange rate changes	-	(695.437)	-	(66.152.805)	-	-	-	(115.739.967)	(182.588.209)
Closing balance 30 June 2010	59.770.730	188.317.544	139.338.797	1.891.625.201	153.663.477	30.186.664	-	1.296.528.724	3.759.431.137
Net book value 30 June 2010	106.931.790	56.705.123	41.029.464	650.929.992	181.704.686	20.242.490	20.051.207	3.702.896.578	4.780.491.330
Net book value 31 December 2009	106.246.972	67.815.671	36.961.752	624.183.602	172.784.047	21.238.646	17.713.152	3.764.075.208	4.811.019.050

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18. TANGIBLE ASSETS (cont'd)

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircraft and spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Aircrafts acquired by leasing	Total
Cost									
Opening balance at 1 January 2009	164.645.538	311.294.139	166.561.736	2.755.313.950	366.092.558	29.093.614	62.709.927	4.855.582.307	8.711.293.769
Additions	-	5.730.184	5.264.062	10.016.044	63.859.026	354.569	14.443.589	150.781.470	250.448.944
Disposals	-	(7.536.205)	(12.801.472)	(282.752.086)	(111.472.038)	-	-	(84.407.359)	(498.969.160)
Transfers	-	-	-	27.587.567	-	974.548	(59.880.628)	31.318.513	-
Closing balance at 30 June 2009	164.645.538	309.488.118	159.024.326	2.510.165.475	318.479.546	30.422.731	17.272.888	4.953.274.931	8.462.773.553
Accumulated depreciation									
Opening balance at 1 January 2009	55.667.061	248.016.427	139.815.066	2.023.627.036	185.009.980	22.559.087	-	980.614.975	3.655.309.632
Depreciation charge for the period	1.368.737	7.901.936	4.718.038	16.553.099	17.777.534	1.397.942	-	121.821.369	171.538.655
Disposals	-	(7.536.205)	(12.732.857)	(256.438.066)	(74.042.347)	-	-	(27.171.129)	(377.920.604)
Real increase/(decrease) at impairment	-	(259.456)	-	52.120.145	-	-	-	66.717.625	118.578.314
Impairment, increase/(decrease) due to exchange rate changes	-	(189.769)	-	(29.758.163)	-	-	-	(44.400.298)	(74.348.230)
Closing balance 30 June 2009	57.035.798	247.932.933	131.800.247	1.806.104.051	128.745.167	23.957.029	-	1.097.582.542	3.493.157.767
Net book value 30 June 2009	107.609.740	61.555.185	27.224.079	704.061.424	189.734.379	6.465.702	17.272.888	3.855.692.389	4.969.615.786
Net book value 31 December 2008	108.978.477	63.277.712	26.746.670	731.686.914	181.082.578	6.534.527	62.709.927	3.874.967.332	5.055.984.137

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18. TANGIBLE ASSETS (cont'd)

As explained in Note 2.5.6., since it is higher than 'value in use', the Group uses net US Dollar sales prices after cost of sales as the recoverable value in calculation of impairment in its property, plant and equipment (i.e. aircrafts, spare engines and simulators - "Aircrafts"). The Group has TL 182.588.209 of decrease in impairment loss arising from exchange rate changes due to the decrease of net TL sales prices of aircrafts as a result of the appreciation of US Dollar against the TRY and has 80.603.863 TL of increase in impairment loss as a result of increase in the US Dollar prices of aircrafts in the period ended 30 June 2010 (Note 2.5.9). Total decrease in impairment loss amounts to TL 101.984.346.

19. INTANGIBLE ASSETS

	<u>Slot Rights</u>	<u>Other Rights</u>	<u>Total</u>
<u>Cost</u>			
Opening balance at 1 January 2010	-	80.264.961	80.264.961
Additions	20.007.450	693.921	20.701.371
Disposals	-	(648)	(648)
Closing balance at 30 June 2010	20.007.450	80.958.234	100.965.684
<u>Amortization</u>			
Opening balance at 1 January 2010	-	69.595.344	69.595.344
Amortization charge for the period	-	2.293.116	2.293.116
Disposals	-	(648)	(648)
Closing balance at 30 June 2010	-	71.887.812	71.887.812
Net book value 30 June 2010	20.007.450	9.070.422	29.077.872
Net book value 31 December 2009	-	10.669.612	10.669.612
<u>Slot Rights</u>			
<u>Cost</u>			
Opening balance at 1 January 2009	-	76.958.343	76.958.343
Additions	-	663.667	663.667
Disposals	-	(2.333)	(2.333)
Closing balance at 30 June 2009	-	77.619.677	77.619.677
<u>Amortization</u>			
Opening balance at 1 January 2009	-	65.795.741	65.795.741
Amortization charge for the period	-	2.259.488	2.259.488
Disposals	-	(2.333)	(2.333)
Closing balance at 30 June 2009	-	68.052.896	68.052.896
Net book value 30 June 2009	-	9.566.781	9.566.781
Net book value 31 December 2008	-	11.162.602	11.162.602

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

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20 GOODWILL

None (31 December 2009: None).

21 GOVERNMENT GRANTS AND INCENTIVES

None (31 December 2009: None).

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions for short-term liabilities are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Provisions for legal claims	<u>8.458.458</u>	<u>7.287.354</u>

Changes in the provisions for legal claims at 30 June 2010 and 2009 periods set out below:

	<u>1 January - 30 June 2010</u>	<u>1 January - 30 June 2009</u>
Provision at the beginning of the period	7.287.354	7.460.396
Charge for the period	1.931.177	530.868
Provisions released	(760.073)	(315.649)
Provision at the end of the period	<u>8.458.458</u>	<u>7.675.615</u>

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

a) Guarantees/Pledge/Mortgage (“GPM”) given by the group: Amount of letter of guarantees given is TL 105.979.730 (31 December 2009: TL 92.014.638).

	<u>30 June 2010</u>	<u>31 December 2009</u>
A. Total amounts of GPM given on the behalf of its own legal entity	105.979.730	92.014.638
behalf of subsidiaries that are included in full consolidation	-	-
C. Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-
D. Total amounts of other GPM given	-	-
	<u>105.979.730</u>	<u>92.014.638</u>

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22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

b) At the beginning of 2006, US Ministry of Justice Antitrust Unit and Europe Antitrust Authorities synchronously initiated an investigation in Europe and the United States about the fix of the air cargo prices that covers the leading airline companies. Within the context of this investigation, information and documents that the Company holds are requested to be presented by USA Columbia (Washington) Regional Court through official notification in April 6, 2006. Similar notifications are sent to the other concerning airline companies. Within the context of this investigation, the Company's inviolation of the agreement is declared to Anti-trust department of US Ministry of Justice, negotiations are continued by the American lawyers on behalf of the Company. As of the report date, the Company management thinks that the results of this investigation initiated by the US Ministry of Justice cannot be reliably measured. For this reason, no provision is provided for this issue in the accompanying financial statements. But, there is a possibility of financial liability to the Group as the result of this issue.

c) The Group's discounted retirement pay provision is TL 162.618.411. The Group's liability for retirement pay would be approximately TL 315.723.714 as of 30 June 2010, if all employees were dismissed on that date.

23. COMMITMENTS

The Group's not accrued operational leasing debts details are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Less than 1 year	397.008.168	312.850.973
Between 1 – 5 years	978.279.714	853.516.736
More than 5 years	407.505.477	422.992.569
	<u>1.782.793.359</u>	<u>1.589.360.278</u>

To be delivered between the years 2010-2014, the Group signed a contract for 89 aircrafts with a total value of 11.8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. The Group has made an advance payment of 1.532 Million US Dollars relevant to these purchases as of 30 June 2010.

24. EMPLOYEE BENEFITS

Short-term employee benefits are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Salary accruals	46.447.983	38.827.130
Labor union agreement accrual	94.129.148	-
Due to personnel	552.392	1.437.729
Provisions for unused vacation	20.429.871	14.469.621
	<u>161.559.394</u>	<u>54.734.480</u>

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24. EMPLOYEE BENEFITS (cont'd)

Provision for long-term retirement pay liability are comprised of the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Provisions for retirement pay liability	<u>162.618.411</u>	<u>151.875.562</u>

Provision for retirement pay liability is recorded according to following explanations:

Under labor laws effective in Turkey, it is a liability to make legal retirement pay to employees whose employment is terminated in such way to receive retirement pay. In addition, according to Article 60 of Social Security Law numbered 506 which was changed by the laws numbered 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is also a liability to make legal retirement pay to those who entitled to leave their work by receiving retirement pay. Some transfer provisions related to service conditions prior to retirement are removed from the Law by the changed made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly TL 2.517 as of 1 July 2010 (1 July 2009: TL 2.365).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 ("Employee Benefits") stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying financial statements as of 30 June 2010 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 4,80% annual inflation rate (31 December 2009: 4,80%) and 11% discount rate. (31 December 2009: 11%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 1,90% (2009: 2,05%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 2.517 which is in effect since 1 July 2010 is used in the calculation of Group's provision for retirement pay liability.

Movement in the provision for retirement pay liability is as follows:

	<u>1 January - 30 June 2010</u>	<u>1 January - 30 June 2009</u>
Provisions at the beginning of the period	151.875.562	142.459.082
Charge for the period	12.452.093	8.025.880
Interest charges	4.462.667	4.403.966
Payments	(6.171.911)	(8.870.572)
Provisions at the end of the period	<u>162.618.411</u>	<u>146.018.356</u>

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25. RETIREMENT BENEFITS

None (31 December 2009: None).

26. OTHER ASSETS AND LIABILITIES

Details of other current assets are as follows:

	30 June 2010	31 December 2009
Credit note accruals for received aircrafts	30.102.843	34.479.378
Technical maintenance income accruals	22.088.555	18.049.297
Prepaid operating lease expenses	18.126.037	19.410.997
Prepaid sales commissions	15.539.894	9.418.953
Other prepaid expenses	12.465.876	3.543.305
VAT to be refunded	10.083.280	9.825.050
Prepaid insurance expenses	7.101.180	5.197.278
Prepaid taxes and funds	-	33.751.118
Advances given for orders	4.192.745	3.788.745
Interline passenger income accruals	1.671.669	3.409.593
Advances for business purposes	1.487.737	903.082
Other current assets	2.362.880	1.896.961
	125.222.696	143.673.757

Other non-current assets are as follows:

	30 June 2010	31 December 2009
Advances given for fixed asset purchases	186.925.806	45.347.530
Maintenance reserves for engines	26.503.385	26.581.865
Prepaid aircraft financing expenses	7.067.781	7.543.182
Prepaid operating lease expenses	2.702.526	2.776.711
Prepaid Eximbank guarantee and exposure fee	782.435	1.183.491
Prepaid expenses	138.844	139.175
	224.120.777	83.571.954

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26. OTHER ASSETS AND LIABILITIES (cont'd)

Other short-term liabilities are as follows:

	30 June 2010	31 December 2009
Accruals for maintenance expense	131.539.940	98.389.811
Incentive premium accruals	40.576.740	5.049.461
Credit note for received aircrafts	16.999.560	-
Unearned revenue from share transfer of TGS (Note 16)	11.300.000	11.300.000
Unearned revenue accruals	5.653.101	5.534.473
Accruals for other expenses	2.091.508	2.142.564
Other liabilities	114.462	79.703
	208.275.311	122.496.012

Other long-term liabilities are as follows:

	30 June 2010	31 December 2009
Unearned revenue from share transfer of TGS (Note 16)	39.550.000	45.200.000
Unearned revenue accruals	3.424.654	5.904.110
Gross manufacturer's credits	41.226.070	39.419.630
Accumulated depreciations of manufacturer's credit	(13.815.184)	(11.517.414)
	70.385.540	79.006.326

Passenger flight liabilities are as follows:

	30 June 2010	31 December 2009
Frequent flyer program liability	120.996.126	124.222.967
Flight liability generating from ticket sales	677.814.232	282.983.563
Flight liability generating from mileage sales	184.278.388	179.318.749
	983.088.746	586.525.279

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27. SHAREHOLDERS' EQUITY

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

	Type	%	30 June 2010	%	31 December 2009
Republic of Turkey Prime					
Ministry Privatization Adm(*)	A, C	49,12	491.218.308	49,12	429.818.308
Other (Publicly held)	A	50,88	508.781.692	50,88	445.181.692
Paid-in capital			1.000.000.000		875.000.000
Restatement difference			1.123.808.032		1.123.808.032
Restated capital			2.123.808.032		1.998.808.032

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

As of 30 June 2010 , the Group's issued and paid-in share capital consists of 99.999.999.999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

- As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- 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%),
- Making decisions relating to merges and liquidation,
- 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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27. SHAREHOLDERS' EQUITY (cont'd)

Restricted Reserves Assorted from Profit

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Foreign Currency Translation Differences

Foreign currency translation differences are the changes due to foreign exchange rate changes in the shareholders' equity Sun Express which is a subsidiary accounted for equity method.

Distribution of Dividends

Companies whose shares are traded at Istanbul Stock Exchange (ISE) are subject to the following dividend rules determined by Capital Markets Board:

According to the Serial:XI No:29 communiqué of Capital Markets Board, depending on the decision made in shareholders' meeting, the profit distribution can be made either by giving bonus shares to shareholders which are issued either in cash or by adding dividend to capital or giving some amount of cash and some amount of bonus shares to shareholders. If the primary dividend amount determined is less than 5% of the paid-in capital, the decision gives the option of not to distribute the related amount as to keep within the equity. However, for companies that have not made any dividend distributions in the prior period and therefore has classified their shares as "old shares" and "new shares" and those that will distribute dividends from the profit for the year obtained from their activities, primary dividend amount shall be distributed in cash.

According to the CMB's decision on 9 January 2009, in calculation of distributable profit, the companies are required to prepare consolidated financial statements, those companies enabled to calculate distributable profit by taking into consideration the profit in the financial statements prepared and announced to the public in accordance with Serial:XI No:29. Regarding the same decision, retained earnings of the companies in legitimate records, profit for the period and total amount of the assets generating profit are to be stated in the accompanying notes of financial statements in accordance with Serial:XI No:29 communiqué.

In accordance with the Capital Markets Board's (the "Board") Decree issued as of 27 January 2010, in relation to the profit distribution of earnings derived from the operations in 2009, minimum profit distribution is not required for listed companies (December 31, 2008: 20%), and accordingly, profit distribution should be made based on the requirements set out in the Board's Communiqué Serial:IV, No: 27 "Principles of Dividend Advance Distribution of Companies That Are Subject To The Capital Markets Board Regulations", terms of articles of corporations and profit distribution policies publicly disclosed by the companies;

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27. SHAREHOLDERS' EQUITY (cont'd)

Distribution of Dividends (cont'd)

Furthermore, based on the afore-mentioned decree, companies that are required to prepare consolidated financial statements should calculate their net distributable profits, to the extent that they can be recovered from equity in their statutory records, by considering the net profit for the period in the consolidated financial statements which are prepared and disclosed in accordance with the Communiqué Serial: XI, No: 29;

Within the frame of Communiqué Series: XI, No: 29, amount disclosed in notes to financial statements based on the Board decision dated 9 January 2009; following the deduction of companies' retained earnings, total of remaining profit for the period and other total resources that may apply to profit distribution;

Within the frame of 6 th bulletin of Communiqué Series: IV No: 27, application of related period about profit distribution time;

a) If all dividends are distributed in cash, dividends made to continue the adoption of distributing until the end of following fifth month of the fiscal period.

b) If dividends are distributed as share, the Entity should apply for Capital Markets Board until the end of following fifth month of the fiscal period and finish profit distribution until the end of following sixth month of the fiscal period as the purpose of exported shares are recorded by Capital Markets Board.

c) In the case of combination of the options "a" and "b", it was decided that operations described earlier should be performed separately but within the time that referred to in subparagraph

The items of shareholders' equity of the Company in the statutory accounts as of 30 June 2010 as the dividends distributed not reflected are as follows:

Paid-in capital	1.000.000.000
Share premium	181.185
Legal reserves	55.692.565
Extraordinary reserves (*)	198.959.553
Other profit reserves	9
Special funds	51.409.365
Retained earnings (*)	303.035.058
Net profit for the period (*)	139.782.420
Total shareholders' equity	<u>1.749.060.155</u>

* Per legal records total amount which will be subject to distribution of dividends is TL 641.777.031.

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27. SHAREHOLDERS' EQUITY (cont'd)

Hedge Fund against the Cash Flow Risk

Hedge fund against cash flow risk arises from the accounting under shareholders' equity for the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows. Total of deferred gain/loss arising from hedging against financial risk are accounted when the effect of the hedged item goes into the income statement.

28. SALES AND COST OF SALES

Details of gross profit are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Scheduled flights				
Passenger	3.276.585.201	1.833.946.226	2.629.245.393	1.528.290.819
Cargo and mail	291.870.270	152.285.128	190.803.747	101.141.772
Total scheduled flights	3.568.455.471	1.986.231.354	2.820.049.140	1.629.432.591
Unscheduled flights	25.200.936	18.887.838	21.758.366	17.647.951
Other revenue	149.766.249	83.216.514	169.195.421	85.281.033
Gross sales	3.743.422.656	2.088.335.706	3.011.002.927	1.732.361.575
Less: discounts and sales returns	(18.120)	(4.204)	(8.151)	(2.858)
Net sales	3.743.404.536	2.088.331.502	3.010.994.776	1.732.358.717
Cost of sales (-)	(3.016.898.634)	(1.605.010.219)	(2.324.545.121)	(1.243.000.078)
Gross profit	726.505.902	483.321.283	686.449.655	489.358.639

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

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
- Europe	1.260.374.372	704.774.055	1.106.591.324	648.792.278
- Far East	682.048.784	371.400.059	483.114.627	253.507.441
- Middle East	452.878.905	243.705.023	357.826.148	209.822.329
- America	233.442.846	134.671.927	155.481.087	86.388.932
- Africa	223.040.885	120.495.310	107.806.269	67.322.897
Total international flights	2.851.785.792	1.575.046.374	2.210.819.455	1.265.833.877
Domestic flights	716.669.679	411.184.980	609.229.685	363.598.714
Total revenue	3.568.455.471	1.986.231.354	2.820.049.140	1.629.432.591

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28. SALES AND COST OF SALES (cont'd)

The details of the cost of sales are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Fuel expense	1.006.628.253	551.194.623	613.032.612	334.185.102
Personnel expense	604.720.111	318.389.388	499.091.322	261.712.276
Landing and navigation expense	289.313.134	149.209.824	256.483.751	140.168.815
Ground services expenses	226.469.299	120.365.318	176.957.416	92.464.308
Maintenance expenses	206.107.953	124.753.946	171.220.734	81.986.186
Passenger service and catering expenses	192.301.124	103.010.600	154.415.019	84.629.196
Operating lease expenses	177.313.005	91.880.908	121.220.430	62.720.975
Depreciation expenses	166.310.617	84.188.378	161.246.737	74.729.765
Other airlines' seat rents	64.554.657	22.010.569	64.320.648	57.687.680
Other leasing expenses	13.230.302	7.982.294	9.276.564	6.290.772
Insurance expenses	11.381.326	5.870.410	13.435.943	6.391.770
Service expenses	11.180.535	3.839.816	11.155.800	7.902.986
Short term leasing expenses	10.733.670	7.745.813	54.285.827	26.751.145
Communication expenses	4.047.311	2.179.863	4.339.312	1.669.535
Utility expenses	3.420.265	1.587.752	2.218.532	1.271.732
Transportation expenses	3.053.918	1.868.862	3.214.606	1.470.833
Other tax expenses	2.917.701	316.085	2.951.426	409.450
Cost of other sales	23.215.453	8.615.770	5.678.442	557.552
	3.016.898.634	1.605.010.219	2.324.545.121	1.243.000.078

29 RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Marketing, sales and distribution expenses	455.420.705	239.584.857	374.752.825	206.178.310
Administrative expense	156.067.990	81.372.697	132.516.646	70.850.348
	611.488.695	320.957.554	507.269.471	277.028.658

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29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (cont'd)

Marketing, sales and distribution expenses are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Personnel expenses	126.865.512	68.335.925	105.821.656	54.950.839
Commissions and incentive expenses	116.113.903	62.113.998	94.128.632	53.499.366
Reservation systems expense	91.368.332	47.067.598	79.277.797	42.735.081
Advertising expenses	48.684.629	24.419.142	35.364.296	22.600.321
Service expenses	12.137.528	6.514.193	10.568.569	5.375.428
Rent expenses	8.924.688	4.126.511	11.872.611	5.970.341
Passenger service and catering expense	7.808.160	4.837.251	5.446.880	3.065.047
Special passenger program mileage expenses	7.793.734	4.635.616	6.089.560	4.292.635
Communication expense	6.286.874	3.258.850	5.501.130	2.875.241
Transportation expense	4.618.485	2.682.459	2.750.960	1.236.491
Membership fees	4.070.803	2.388.434	2.507.497	1.288.174
Tax expenses	3.380.535	1.693.435	3.843.728	2.261.756
Lightening, heating, energy and water expenses	1.893.342	834.798	1.621.040	727.615
Maintenance expenses	1.441.521	751.990	809.533	483.424
Depreciation expenses	475.510	238.369	287.607	142.690
Insurance expenses	457.536	271.337	458.447	249.877
Fuel expense	352.719	195.343	471.090	300.370
Other sales and marketing expenses	12.746.894	5.219.608	7.931.792	4.123.614
	455.420.705	239.584.857	374.752.825	206.178.310

General administrative expenses are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Personnel expenses	87.211.534	45.922.507	71.831.325	36.724.560
Depreciation expenses	17.085.140	8.676.115	12.263.799	5.777.168
Service expenses	7.889.360	3.829.075	5.473.023	3.268.751
Tax expenses	7.290.083	3.943.122	4.986.660	3.471.532
Insurance expenses	6.389.979	3.411.852	9.253.465	4.244.960
Rent expenses	5.569.634	2.858.704	5.759.319	3.093.383
Fuel expense	5.524.789	2.733.300	2.982.971	2.927.072
Communication expense	4.213.869	2.092.232	3.296.362	1.830.255
Maintenance expenses	2.197.916	826.816	4.288.450	2.374.864
Lightening, heating, energy and water expenses	1.274.882	452.485	1.098.746	660.207
Other administrative expenses	11.420.804	6.626.489	11.282.526	6.477.596
	156.067.990	81.372.697	132.516.646	70.850.348

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30. EXPENSES ACCORDING TO CATEGORIES

Expenses according to categories are explained in Notes 28 and 29.

31. OTHER OPERATING INCOME / EXPENSES

Other operating income consists of the following:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Gain on sale of fixed assets	37.444.958	4.262.425	3.073.699	3.042.880
Insurance, indemnities, penalties income	15.034.938	4.064.640	3.615.090	(23.081.599)
Reimbursement of maintenance fee from leasing companies	6.692.076	(4.512.741)	17.621.576	407.055
Provisions no longer required	4.563.802	(2.827.752)	11.443.187	6.794.904
Discounts received from maintenance spare parts suppliers	3.125.622	1.505.120	4.509.453	3.602.601
Banks protocol revenue	2.479.452	1.246.575	5.360.982	4.726.027
Other operating income	14.904.569	5.330.689	11.214.151	6.939.138
	<u>84.245.417</u>	<u>9.068.956</u>	<u>56.838.138</u>	<u>2.431.006</u>

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Real increase in provisions for impairment of fixed assets (Note 18) *	80.603.863	142.892.011	118.578.314	162.734.113
Labor union agreement salary difference **	51.381.366	51.381.366	-	-
Provisions expenses	22.446.679	8.424.044	7.408.191	3.187.335
Expenses due to passengers without visa	1.739.204	930.244	1.084.428	829.762
Expenses due to aircraft crash	489.589	201.223	3.780.829	1.929.546
Other operating expense	4.694.871	2.892.228	4.501.923	3.191.408
	<u>161.355.572</u>	<u>206.721.116</u>	<u>135.353.685</u>	<u>171.872.164</u>

* “Real decrease in provision for tangible assets impairment” item, which was stated under “Other operating income” and amounting to TL 62.288.148 in the interim period between 1 January – 31 March 2010, is included in “Other operating expense” as “Real increase in provision for tangible assets impairment” in the interim period between 1 January – 30 June 2010 .

** The Company made a wage increase of 6% on its own initiative regarding to the year 2009. Per labor union agreement which is signed in 2010; from 1 January 2009; wages of 31 December 2008 is increased by 8% for first half of 2009 and for the second half of the 2009 wages of 30 June 2009 is increased by 2%. The difference between wage increase per labor union agreement and the company’s own initiative is shown as labor union agreement salary difference.

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32. FINANCIAL INCOME

Financial income consists of the following:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Decrease in the provisions for impairment of fixed assets due to changes in exchange rate (Note 18)	182.588.209	136.516.636	74.348.230	(241.694.637)
Finance lease foreign exchange rate income	139.511.514	62.008.031	-	-
Foreign exchange rate income	74.889.589	61.634.713	2.319.758	(123.972.835)
Interest income	26.903.389	13.488.600	91.865.000	40.649.324
Rediscount interest income	2.893.160	2.498.295	1.900.574	1.860.149
The fair value of derivatives exchange income	-	-	23.061.932	30.324.289
	426.785.861	276.146.275	193.495.494	(292.833.710)

33. FINANCIAL EXPENSES

Finance expenses are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Finance lease interest expense	64.875.991	37.315.126	56.696.161	25.298.043
Loss due to changes in the fair value of derivative instruments	1.488.405	(8.661.971)	-	-
Rediscount expense	4.701.763	2.370.681	8.764.705	6.884.311
Retirement pay interest expense	4.462.667	2.242.159	4.403.966	2.247.928
loss	1.518.473	1.224.996	12.881.676	(210.551.312)
Other financial expense	757.287	363.148	536.382	202.355
	77.804.586	34.854.139	83.282.890	(175.918.675)

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None (31 December 2009: None).

35. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

	30 June 2010	31 December 2009
Provisions for corporate tax	45.758.058	70.893.068
Prepaid taxes and funds	(9.474.668)	(68.473.524)
	36.283.390	2.419.544

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35 TAX ASSETS AND TAX LIABILITIES (cont'd)

Tax liability consists of the following items:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Current period tax expense	43.584.344	41.244.924	16.625.334	12.559.511
Deferred tax expense	31.314.345	(924.437)	56.336.812	(24.921.763)
Change in deferred tax for the year 2009 (other)	2.173.714	-	33.121.718	-
Tax expense	77.072.403	40.320.487	106.083.864	(12.362.252)

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Provision is set aside in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods.

Corporate Tax Law of 5520 entered into force by 21 June 2006 and published in the Official Gazette No. 26205. With this Law, Law No. 5422 was repealed from application.

The corporate tax rate in Turkey is 20% since 2006.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized. Companies file their tax returns within the 25th of the fourth month following the close of the related financial year.

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

Despite of the offset, if there are temporary tax amounts, it may be returned by cash or may be offset any other financial liabilities.

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

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

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35. TAX ASSETS AND TAX LIABILITIES (cont'd)

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

	1 Ocak - 30 June 2010	1 Ocak - 30 June 2009
Reconciliation of provision for taxes:		
Profit from operations before tax	355.336.932	208.045.835
Domestic income tax rate of 20%	71.067.386	41.609.167
Taxation effects on:		
- revenue that is exempt from taxation	-	(543.400)
- foreign branch earning exemption	-	64.328.144
- change in corporate tax for 2009	2.173.714	-
- non-deductible expenses	1.725.295	689.953
- other	2.106.008	-
Provisions for tax expense in income statement	<u>77.072.403</u>	<u>106.083.864</u>

Tax effect regarding other comprehensive income is as follows:

	1 January - 30 June 2010		
	Amount before tax	Tax (expense) /income	Amount after tax
Foreign currency translation differences	(5.026.470)	-	(5.026.470)
Change in cash flow hedge fund	(27.634.401)	5.526.880	(22.107.521)
Other comprehensive income for the period	<u>(32.660.871)</u>	<u>5.526.880</u>	<u>(27.133.991)</u>

Change in translation differences of foreign currency that is included in other comprehensive income, is TL 5.026.470 for the period 1 January – 30 June 2010. In addition, the effect on taxation does not exist for the period.

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements prepared in accordance with IFRS and its statutory financial statements. Deferred tax assets and liabilities calculated for temporary differences expected to be realized in future are calculated under the liability method.

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35. TAX ASSETS AND TAX LIABILITIES (cont'd)

The deferred tax assets and (liabilities) as of 30 June 2010 and 31 December 2009 are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Fixed assets	(464.064.583)	(437.228.761)
Provisions for ticket sales advances	(53.108.779)	(48.624.219)
Accrued expense	52.414.553	41.874.247
Provisions for retirement pay liability	32.569.422	30.375.112
Long-term lease obligations	13.566.657	21.625.506
Short-term lease obligations	19.348.584	21.321.316
Adjustment on inventories	(14.671.479)	(1.165.198)
Allowance for doubtful receivables	3.030.904	3.752.304
Provisions for impairment in inventories	2.873.729	2.873.729
Provisions for unused vacation	4.085.974	2.739.207
Accumulated loss	11.935.985	(756.009)
Accrual for the difference in Collective Bargaining Agreement	3.966.526	-
Other	21.937	969.661
Deferred tax assets/ (liabilities)	<u>(388.030.570)</u>	<u>(362.243.105)</u>

The changes of deferred tax liability as of 30 June 2010 and 2009 are as follows:

	<u>1 January - 30 June 2010</u>	<u>1 January - 30 June 2009</u>
Opening balance at 1 January	362.243.105	289.302.967
Deferred tax expense	31.314.345	56.336.812
Hedge fund tax income	(5.526.880)	(429.861)
Closing balance at 30 June	<u>388.030.570</u>	<u>345.209.918</u>

36. EARNINGS PER SHARE

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

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

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

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36. EARNINGS PER SHARE (cont'd)

Number of total shares and calculation of earnings per share at 30 June 2010 and 2009 are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Number of shares outstanding at 1 January (in full)	87.500.000.000	87.500.000.000	87.500.000.000	87.500.000.000
New shares issued (in full)	12.500.000.000	12.500.000.000	12.500.000.000	12.500.000.000
Number of shares outstanding at 30 June (in full)	100.000.000.000	100.000.000.000	100.000.000.000	100.000.000.000
Weighted average number of shares outstanding during the year (in full)	100.000.000.000	100.000.000.000	100.000.000.000	100.000.000.000
Net profit for period	278.264.529	158.656.574	101.961.971	(53.187.081)
Earnings per share (kr) (*)	0,28	0,16	0,10	(0,05)

(*) The earnings per share with par value of TL 1 is TL 0, 28 in June 2010; TL 0,10 in June 2009

37. RELATED PARTY TRANSACTIONS

Short-term trade receivables from related parties (Note 10) are as follows:

	30 June 2010	31 December 2009
TGS	4.406.062	1.517
Bosnia Herzegovina Airlines	7.255.740	3.729.488
Sun Express	1.068.819	1.074.744
P & W T.T Uçak Bakım Merkezi	10.025.232	26.705.625
THY Opet	13.105	-
THY DO&CO İkrâm Hizmetleri A.Ş.	157.597	616.912
	<u>22.926.555</u>	<u>32.128.286</u>

Short-term non-trade receivables to related parties (Note 11) are as follows:

	30 June 2010	31 December 2009
TGS	198.949	12.546.944
Bosnia Herzegovina Airlines	513.075	34.372
	<u>712.024</u>	<u>12.581.316</u>

Short-term trade payables to related parties (Note 10) are as follows:

	30 June 2010	31 December 2009
Sun Express	12.004.144	14.416.433
TGS	50.955	-
THY DO&CO İkrâm Hizmetleri A.Ş.	19.992.065	8.246.716
	<u>32.047.164</u>	<u>22.663.149</u>

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37. RELATED PARTY TRANSACTIONS (cont'd)

Transactions with related parties period ended as of 30 June 2010 are as follows:

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Services rendered to TGS(*)	42.256.816	13.431.159	-	-
Service rendered to P&W T.T. (*)	23.696.181	8.202.838	455.288	260.690
Services rendered to Bosnia Herzegovina Airlines	4.378.663	2.060.833	156.610	109.926
Services rendered to Sun Express	5.405.514	4.779.932	16.984.680	10.867.151
Services rendered to THY DO&CO	895.530	581.551	328.151	197.453
Services rendered to THY OPET	19.810	18.976	-	-
	76.652.514	29.075.289	17.924.729	11.435.220

(*) Majority of services rendered to TGS and P&W T.T Uçak Bakım Merkezi is comprised of fixed asset disposals.

	1 January - 30 June 2010	1 April - 30 June 2010	1 January - 30 June 2009	1 April - 30 June 2009
Services received from THY DO&CO	132.378.686	71.034.021	103.025.175	55.947.474
Services received from TGS	58.759.224	33.080.008	-	-
Services received from Sun Express	23.833.923	15.266.619	17.904.619	12.024.086
Services received from Bosnia Herzegovina Airlines	3.206.087	1.778.216	63.973	53.943
Services received from P&W T.T Uçak Bakım Merkezi	1.216.418	1.144.645	-	-
	219.394.338	122.303.509	120.993.767	68.025.503

Transactions between the Group and Sun Express are codeshare operations; transactions between the Group and Turkish DO&CO are catering services and loan financing, transactions between the Group and TGS are ground services. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Chairman and the Members of Board of Directors, General Manager, General Coordinator and Deputy General Managers are TL 2.079.064 TL (2009: 1.536.815 TL).

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 8, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Group remains the same since the year 2009.

	<u>30 June 2010</u>	<u>31 December 2009</u>
Total debts	3.386.841.334	3.595.046.545
Less: Cash and cash equivalents	(630.781.823)	(1.096.111.869)
Net debt	2.756.059.511	2.498.934.676
Total shareholders' equity	3.696.010.764	3.444.880.226
Total capital stock	6.452.070.275	5.943.814.902
Net debt/total capital stock ratio	0,43	0,42

(b) Financial Risk Factors

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from different financial risks.

Risk management, in line with policies approved by the Board of Directors, is carried out. According to risk policy, financial risk is identified and assessed. By working together with Group's operational units, relevant instruments are used to reduce the risk.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

b.1) Credit Risk Management

Credit risk of financial instruments

30 June 2010	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of balance sheet date (*)	22.926.555	594.396.504	712.024	2.443.633.182	611.839.217	43.428.671
The part of maximum risk under guarantee with collateral etc. (**)	-	2.429.270	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	22.926.555	540.030.432	712.024	2.443.633.182	611.839.217	43.428.671
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired varlıkların defter değeri	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	54.366.072	-	-	-	-
-The part under guarantee with collateral etc.	-	222.192	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	58.205.318	-	-	-	-
-Impairment(-)	-	(58.205.318)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

b.1) Credit Risk Management (cont'd)

Credit Risk of Financial Instruments

31 Decemeber 2009	Receivables				Deposits in Banks	Derivative Instruments
	Trade receivables		Other receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of balance sheet date (*)	32.128.286	413.253.595	12.581.316	1.395.172.187	1.249.522.901	47.298.370
The part of maximum risk under guarantee with collateral etc. (**)	-	3.437.802	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	32.128.286	331.244.557	12.581.316	1.395.172.187	1.249.522.901	47.298.370
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired varlıkların defter değeri	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	82.009.038	-	-	-	-
-The part under guarantee with collateral etc.	-	2.442.335	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	40.576.100	-	-	-	-
-Impairment(-)	-	(40.576.100)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	1.215.792	-	-	-	-
-Impairment (-)	-	(1.215.792)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

The Group's credit risk is basically related to its receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economical conditions. Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The aging of past due receivables as of 30 June 2010 are as follows:

30 June 2010	<u>Receivables</u>			<u>Derivative</u>	<u>Other</u>	<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Instruments</u>		
Past due 1-30 days	38.025.190	-	-	-	-	38.025.190
Past due 1-3 month	31.703.261	-	-	-	-	31.703.261
Past due 3-12 months	12.441.327	-	-	-	-	12.441.327
Past due 1-5 years	30.250.633	-	-	-	-	30.250.633
Past due more than 5 years	150.979	-	-	-	-	150.979
Total past due receivables	112.571.390	-	-	-	-	112.571.390
The part under guarantee with collateral etc	222.192	-	-	-	-	222.192

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The aging of past due receivables as of 31 December 2009 are as follows:

31 December 2009	<u>Receivables</u>			<u>Derivative Instruments</u>	<u>Other</u>	<u>Total</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>			
Past due 1-30 days	31.024.457	-	-	-	-	31.024.457
Past due 1-3 month	30.409.900	-	-	-	-	30.409.900
Past due 3-12 months	19.120.026	-	-	-	-	19.120.026
Past due 1-5 years	42.030.755	-	-	-	-	42.030.755
Total past due receivables	122.585.138	-	-	-	-	122.585.138
The part under guarantee with collateral etc	2.442.335	-	-	-	-	2.442.335

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

As of balance sheet date, total amount of cash collateral and letter of guarantee, which is received by Group for past due not impaired receivable, is TL 222.192 (31 Aralık 2009: 2.442.335 TL).

As of the balance sheet date, Group has no guarantee for past due receivables for which provisions were recognized.

b.2) Liquidity risk management

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities. The adjustment column shows the item which causes possible cash flow in the future periods. The item in question is included in the maturity analysis and is not included balance sheet amount of financial liabilities in the balance sheet.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities..

Liquidity risk table:

30 June 2010

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Bank borrowings	22.445.703	23.168.647	-	15.593.610	7.575.037	-
Finance lease obligations	2.642.128.963	3.092.933.588	98.761.819	338.232.839	1.303.693.073	1.352.245.857
Trade payables	615.144.643	616.914.782	511.487.489	105.427.293	-	-
Other financial liabilities	19.243.276	19.243.276	19.243.276	-	-	-
Total	3.298.962.585	3.752.260.293	629.492.584	459.253.742	1.311.268.110	1.352.245.857

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

Liquidity risk table (cont'd):

31 December 2009

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract</u>				
		<u>(I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Bank borrowings	28.627.057	29.847.936	7.680.629	7.536.703	14.630.604	-
Finance lease obligations	2.959.539.067	3.456.591.636	103.436.047	366.181.926	1.438.363.567	1.548.610.096
Trade payables	560.801.478	561.612.148	490.554.785	71.057.363	-	-
Other financial liabilities	846.771	846.771	846.771	-	-	-
Total	3,549,814,373	4,048,898,491	602,518,232	444,775,992	1,452,994,171	1,548,610,096

b.3) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

b.3.1) Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	30 June 2010				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	347.189.159	56.524.777	93.755.362	12.916.608	183.992.412
2a.Monetary financial assets	2.512.622.636	2.245.777.603	128.194.922	1.080.178	137.569.933
2b.Non monetary financial assets	-	-	-	-	-
3.Other	3.928.859	2.079.285	228.989	25.892	1.594.693
4.Current assets (1+2+3)	2.863.740.654	2.304.381.665	222.179.273	14.022.678	323.157.038
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	323.422.918	323.422.918	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	164.221.609	135.605.034	21.865.950	2.963.754	3.786.871
8.Non current asstes (5+6+7)	487.644.527	459.027.952	21.865.950	2.963.754	3.786.871
9.Total assets (4+8)	3.351.385.181	2.763.409.617	244.045.223	16.986.432	326.943.909
10.Trade payables	265.138.086	88.416.886	104.608.624	3.079.116	69.033.460
11.Financial liabilities	470.961.953	283.455.109	187.506.844	-	-
12a.Other liabilities, monetary	11.245.430	2.465.208	3.862.255	253.099	4.664.868
12b.Other liabilities, non monetary	-	-	-	-	-
13.Current liabilities (10+11+12)	747.345.469	374.337.203	295.977.723	3.332.215	73.698.328
14.Trade payables	-	-	-	-	-
15.Financial liabilities	2.281.491.460	931.164.019	1.350.327.441	-	-
16a.Other liabilities, monetary	8.923.549	2.372.048	5.537.837	2.583	1.011.081
16b.Other liabilities, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	2.290.415.009	933.536.067	1.355.865.278	2.583	1.011.081
18.Total liabilities (13+17)	3.037.760.478	1.307.873.270	1.651.843.001	3.334.798	74.709.409
19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)	(21.102.306)	(261.112.061)	240.009.755	-	-
19a.Off-balance sheet foreign currency derivative assets	240.009.755	-	240.009.755	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	261.112.061	261.112.061	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	292.522.397	1.194.424.286	(1.167.788.023)	13.651.634	252.234.500
21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	145.474.235	1.317.852.028	(1.429.892.717)	10.661.988	246.852.936
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	3.746.904.408	488.758.120	1.346.085.653	93.090.742	1.818.969.892
26.Imports	1.012.757.400	682.385.773	242.668.067	7.402.070	80.301.490

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	31 December 2009				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	318.804.899	91.640.001	108.281.865	8.393.269	110.489.764
2a.Monetary financial assets	1.596.717.983	1.276.912.740	214.803.790	12.413.729	92.587.724
2b.Non monetary financial assets	-	-	-	-	-
3.Other	1.982.078	1.066.174	94.361	103.224	718.319
4.Current assets (1+2+3)	1.917.504.960	1.369.618.915	323.180.016	20.910.222	203.795.807
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	637.383.512	637.383.512	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	65.373.959	48.743.839	12.586.766	2.119.701	1.923.653
8.Non current asstes (5+6+7)	702.757.471	686.127.351	12.586.766	2.119.701	1.923.653
9.Total assets (4+8)	2.620.262.431	2.055.746.266	335.766.782	23.029.923	205.719.460
10.Trade payables	297.880.412	120.793.475	107.571.626	5.863.884	63.651.427
11.Financial liabilities	457.499.014	252.991.955	204.507.059	-	-
12a.Other liabilities, monetary	14.337.275	7.789.570	3.479.885	336.138	2.731.682
12b.Other liabilities, non monetary	-	-	-	-	-
13.Current liabilities (10+11+12)	769.716.701	381.575.000	315.558.570	6.200.022	66.383.109
14.Trade payables	-	-	-	-	-
15.Financial liabilities	2.575.899.284	975.801.038	1.600.098.246	-	-
16a.Other liabilities, monetary	8.941.614	2.354.919	5.734.714	2.605	849.376
16b.Other liabilities, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	2.584.840.898	978.155.957	1.605.832.960	2.605	849.376
18.Total liabilities (13+17)	3.354.557.599	1.359.730.957	1.921.391.530	6.202.627	67.232.485
19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)	27.416.849	(257.400.455)	284.817.304	-	-
19a.Off-balance sheet foreign currency derivative assets	284.817.304	-	284.817.304	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	257.400.455	257.400.455	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(706.878.319)	438.614.854	(1.300.807.444)	16.827.296	138.486.975
21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(801.651.205)	646.205.296	(1.598.305.875)	14.604.371	135.845.003
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	5.356.374.684	756.866.783	2.821.421.134	152.119.413	1.625.967.354
26.Imports	1.684.743.255	1.003.419.468	488.549.014	19.535.389	173.239.384

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from US dollar, Euro and GBP. The following table details the Group's sensitivity to a 10% increase and decrease in US Dollars, Euro and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss.

	30 June 2010	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated against TL by 10%	If foreign currency deppreciated against TL by 10%
1 - US Dollar net asset / liability	119.442.429	(119.442.429)
2- Part of hedged from US Dollar risk (-)	-	-
3- US Dollar net effect (1 +2)	119.442.429	(119.442.429)
4 - Euro net asset / liability	(116.778.802)	116.778.802
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(116.778.802)	116.778.802
7 - GBP net asset / liability	1.365.163	(1.365.163)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	1.365.163	(1.365.163)
10 - Other foreign currency net asset / liability	25.223.450	(25.223.450)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	25.223.450	(25.223.450)
TOTAL (3 + 6 + 9 + 12)	29.252.240	(29.252.240)

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

	30 June 2009	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated against TL by 10%	If foreign currency depreciated against TL by 10%
1 - US Dollar net asset / liability	(36.712.983)	36.712.983
2- Part of hedged from US Dollar risk (-)	-	-
3- US Dollar net effect (1 +2)	(36.712.983)	36.712.983
4 - Euro net asset / liability	(115.207.226)	115.207.226
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(115.207.226)	115.207.226
7 - GBP net asset / liability	(3.738.397)	3.738.397
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	(3.738.397)	3.738.397
10 - Other foreign currency net asset / liability	18.450.350	(18.450.350)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	18.450.350	(18.450.350)
TOTAL (3 + 6 + 9 + 12)	(137.208.256)	137.208.256

As explained in Note 2.5.6, the Group uses net US Dollars sales price as the recoverable amount in the impairment calculation of its property, plant and equipment (i.e. aircrafts, spare engines and simulators - "Aircrafts"). Accordingly, the impairment provided by the Group for the tangible assets decreases when the US Dollar is evaluated against TL, and increases when the US Dollar is devaluated against TL. In this context, If US Dollar is appreciated by 10 % against TL, there would be an increase amounted TL 433.329.473 (1 January-30 June 2009: TL 322.024.959) in the net profit for the period except for the effects in the table above due to the decrease in the impairment of aircrafts, spare engines and simulators. On the other hand, since the decrease in impairment on tangible assets is restrained with TL net book value of the tangible assets; the effect of the increase in foreign exchange is limited to TL 405.444.034 (This amount is estimated by appreciation of USD against TL by approximately by 6%). If US Dollar is devaluated by 10 % against TL, there would be a decrease amounted TL 436.363.281 effect in the profit before tax.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.2) Interest rate risk management

Group has been borrowing over fixed and variable interest rates. Considering the interest types of the current borrowings, borrowings with variable interest rates have the majority but in financing of aircrafts performed in the last years, Group tries to create a partial balance between borrowings with fixed and variable interest rates by increasing the weight of the borrowings with fixed interest rate in condition of the suitability of the cost. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, dependency to local risks is low.

Interest Rate Position Table

	30 June 2010	31 December 2009
<u>Instruments with fixed interest rate</u>		
Financial Assets – Time Deposits	440.689.467	1.149.329.053
Financial Liabilities	1.657.343.143	1.825.552.349
<u>Financial Instruments with Variable Interest Rate</u>		
Financial Liabilities	1.007.231.523	1.162.613.775
Interest Swap Agreements not subject to Hedge accounting (net)	12.549.053	(829.874)
Interest swap agreements subject to Hedge accounting (Net)	(34.629.581)	(7.130.730)

As indicated in Note 39, the Group as of 31 March 2010 fixed the interest rate for TL 811.269.765 of floating–interest-rated financial liabilities via an interest rate swap contract.

Interest rate sensitivity

The following sensitivity analysis is determined according to the interest rate exposure in the reporting date and possible changes on this rate and it is fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the interest rates of the borrowings with variable interest rates, fluctuate 0, 5% and reports these to the top management.

In condition that 0, 5% increase in Libor and Euribor interest rate and all other variables being constant:

Profit before taxes of the Group, which belongs to six-month-period, will decrease by TL 2.518.079 (as of 30 June 2009 it will increase by TL 5.336.946). In contrast, if Libor and Euribor interest rate decreases 0, 5%, Profit Before Taxes for six-month-period will increase by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in case of a 0,5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by TL 16.938.581 without the deferred tax effect. In case of a 0,5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amount without the deferred tax effect.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.3) Fuel prices sensitivity

As explained in Note 39, Group made forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases beginning from 2009. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by TL 26.386.170 excluding the deferred tax effect. In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by the same amount excluding the deferred tax effect.

39. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- In standard maturities and conditions, fair values of financial assets and liabilities which are traded in an active market are determined as quoted market prices.
- Fair values of derivative instruments are calculated by using quoted prices. In absence of prices, discounted cash flows analysis is used through applicable yield curve for maturities of derivative instruments (forward and swaps).

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39. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

30 June 2010 Balance Sheet	Loans and Receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	630.781.823	-	-	-	-	630.781.823	6
Financial investments	-	-	43.428.671	-	-	43.428.671	7
Trade receivables	617.323.059	-	-	-	-	617.323.059	10
Other receivables	2.444.345.206	-	-	-	-	2.444.345.206	11
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	22.445.703	22.445.703	8
Finance lease obligations	-	-	-	-	2.642.128.963	2.642.128.963	8
Other financial liabilities	-	48.792.655	39.086.094	-	19.243.276	107.122.025	9
Trade payables	-	-	-	-	615.144.643	615.144.643	10
31 December 2009 Balance Sheet	Loans and Receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	1.096.111.869	-	-	-	-	1.096.111.869	6
Financial investments	175.000.000	4.102.120	43.196.250	1.750.943	-	224.049.313	7
Trade receivables	445.381.881	-	-	-	-	445.381.881	10
Other receivables	1.407.753.503	-	-	-	-	1.407.753.503	11
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	14.187.801	14.187.801	8
Finance lease obligations	-	-	-	-	2.959.539.067	2.959.539.067	8
Other financial liabilities	-	7.866.905	37.365.267	-	846.771	46.078.943	9
Trade payables	-	-	-	-	560.801.478	560.801.478	10

The Group considers the book values of financial assets are of fair value.

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39. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair values of financial assets and liabilities are determined as follows:

- First level: Financial assets and liabilities, are valued with the stock exchange prices in the active market for the assets and liabilities same with each other.
- Second level: Financial assets and liabilities are valued with input obtained while finding the stock exchange price of the relevant asset or liability mentioned in the first level and the direct or indirect observation of price in the market.
- Third level: Financial assets and liabilities are valued by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets and liabilities, which are presented in their fair values, level reclassifications are as follows:

	30 June 2010	Fair value level as of the reporting date		
		Level 1 TL	Level 2 TL	Level 3 TL
Financial assets				
Financial assets at fair value through profit or loss				
Derivative instruments	43.428.671	-	43.428.671	-
Financial assets subject to hedge accounting				
Derivative instruments	-	-	-	-
Total	43.428.671	-	43.428.671	-
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative instruments	39.086.094	-	39.086.094	-
Financial liabilities subject to hedge accounting				
Derivative instruments	48.792.655	-	48.792.655	-
Total	87.878.749	-	87.878.749	-

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39. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions

In order to hedge important operations and cash flows in the future against financial risks, Group made interest rate swap contracts to convert some of the fixed-rate finance lease liabilities into floating rate and cross-currency swap contracts to convert Euro-denominated finance lease liabilities into US Dollars. The changes in the fair values of those derivative instruments are directly accounted in the income statement for the period.

The floating-rate financial liabilities of the Group are explained in Note 38 (b.3.2). Beginning from June 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group made fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities whose maturities are after the second half of 2010 and account for approximately 81% of floating rate USD and Euro denominated liabilities. Effective part of the change in the fair values of those derivative instruments which are subject to hedge accounting for cash flows risks of floating-rate finance lease liabilities are accounted in cash flow hedge fund under the shareholders' equity.

Beginning from January 2010, in order to control risk arising from fluctuations in price of fuel which is approximately 32% of cost of sales as of 30 June 2010 and to lessen the effects of fluctuations in oil prices on fuel expenses, the Group began hedging transactions for approximately 20% of annual jet fuel consumption in 2010. For this purpose, the Group made forward fuel purchase contracts settled on cash basis. Effective part of the change in the fair values of those derivative instruments which are subject to hedge accounting for cash flows risks of fuel purchases are accounted in cash flow hedge fund under the shareholders' equity

Group's derivative instruments arisen from transactions stated above and their balances as of 30 June 2010 and 31 December 2009 are as follows:

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39. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

30 June 2010	Pozitive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(34.629.581)	(34.629.581)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	(14.163.074)	(14.163.074)
Fair values of derivative instruments for hedging purposes	-	(48.792.655)	(48.792.655)
Cross-currency swap contracts not subject to hedge accounting	2.594.692	(10.801.168)	(8.206.476)
Interest rate swap contracts not subject to hedge accounting	40.833.979	(28.284.926)	12.549.053
Fair values of derivative instruments not for hedging purposes	43.428.671	(39.086.094)	4.342.577
Total	43.428.671	(87.878.749)	(44.450.078)
	Pozitif gerçeğe uygun değer	Negatif gerçeğe uygun değer	Toplam
31 December 2009			
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(7.130.730)	(7.130.730)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	4.102.120	(736.175)	3.365.945
Fair values of derivative instruments for hedging purposes	4.102.120	(7.866.905)	(3.764.785)
Cross-currency swap contracts not subject to hedge accounting	15.596.383	(8.935.528)	6.660.855
Interest rate swap contracts not subject to hedge accounting	27.599.867	(28.429.739)	(829.872)
Fair values of derivative instruments not for hedging purposes	43.196.250	(37.365.267)	5.830.983
Total	47.298.370	(45.232.172)	2.066.198

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39. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

	<u>Hedging against fuel risk</u>	<u>Hedging against interest risk</u>	<u>Total</u>
Increase/(decrease) in fair values of derivative instruments for hedging purposes	(14.163.074)	(34.629.581)	(48.792.655)
The amount of financial expenses inside hedge funds	-	7.262.223	7.262.223
Reclassified amount for inactive part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	<u>11.706.869</u>	<u>-</u>	<u>11.706.869</u>
Total	<u>(2.456.205)</u>	<u>(27.367.358)</u>	<u>(29.823.563)</u>
Deferred tax	<u>491.241</u>	<u>5.473.472</u>	<u>5.964.713</u>
Hedge fund as of 30 June 2010	<u>(1.964.964)</u>	<u>(21.893.886)</u>	<u>(23.858.850)</u>

40. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

As a part of HABOM (Maintenance Repair and Overhaul Center) project; a good will agreement was signed between the subsidiary of Goodrich Corporation, Goodrich Aerostructures, and the Group on 8 November 2007 in order to establish a joint venture for maintenance and overhaul services. The talks concluded and a new agreement on 15 July 2010 was signed between THY Teknik A.Ş. Goodrich Corporation subsidiary TSA-Rina Holdings B.V. with shares 40% and 60% respectively. The new joint venture is named Goodrich THY Teknik Servis Merkezi Limited Şirketi.

Group will sign a “Joint Venture General Principles Agreement” with Zorlu O/M Enerji Tesisleri İşletme ve Bakım Hizmetleri A.Ş. in order to provide maintenance, overhaul and revision of some aircraft engines and industrial gas turbines used in energy powerhouses which are not under the work scope of current joint ventures. The shares are 50% for THY Teknik A.Ş. and 50% for Zorlu O/M Enerji Tesisleri İşletme ve Bakım Hizmetleri A.Ş.

The Competition Authority of Turkey started an investigation in the 1 July 2010 meeting whether the Group is in exclusivist actions against the competitors regarding domestic and international flights from İstanbul. In the same announcement, the Authority emphasized that the statement concerning about informing the public does not mean the investigated enterprises did or will encounter criminal sanctions. The group operates in accordance with both Competition Law and other laws.

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

The Board of Directors approved and authorized to issue the consolidated financial statements on 23 August 2010.

In compliance with Capital Markets Board (“CMB”) Communiqué Serial: XI No: 29, the Group restated the previous periods’ financial statements due to the changes in presentation and classification of financial statement items in order to maintain comparability. The changes have no material impact on the shareholders’ equity and net profit / (loss) of the previous periods. The significant classifications are as follows:

“Codeshare expenses” item, which was stated under “Sales revenue” and amounting to net book value of TL 45.529.485 in the interim period between 1 January – 30 January 2009, is now classified under “Cost of sales”.

TL 2.904.729 part of the ‘Fuel expenses’ item, which was stated under “Cost of sales” in the interim period between 1 January – 30 January 2009, is now classified under “General administrative expenses”.

The Group reconsidered the depreciation accounting method of its aircrafts, spare engines and simulators, which are subject to impairment while preparing the financial statements for the year ended at 31 December 2009. In previous years, the Group made depreciation calculation over cost value impairment according to 63 th paragraph in the International Accounting Standard 36 "Impairment of Assets"; after the recognition of impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the asset’s revised charging amount, less its residual value, on a systematic basis over its remaining useful life. The mentioned change does not lead to a change in balance sheet items, equity and net profit for the year, however, led to a reclassification between “Depreciation expense for the year” and “Provision for impairment loss for the year”. Thus, 30 June 2009 interim period financial statements were restated based on International Accounting Standard 8 “Changes and Inaccuracies in Accounting Policies and Accounting Predictions” (“IAS 8). Because of this change, “Depreciation expense” under “Cost of sales” item decreased by TL 23.892.185 and “Real increase in provision for impairment in value of tangible assets” item under “Operatin expense” increased by the same amount.