

CONVENIENCE TRANSLATION OF
REPORT AND FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

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

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE
SIX-MONTH INTERIM
PERIOD ENDED 30 JUNE 2012

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Türk Hava Yolları Anonim Ortaklığı (the “Company”) and its subsidiaries (together the “Group”) as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended. Group Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with financial reporting standards published by the Capital Markets Board. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the independent auditing standards published by the Capital Markets Board. A review of consolidated 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 the 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 review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with the financial reporting standards issued by the Capital Markets Board.

Deloitte.

Emphasis of Matter

The Company's management decided to change its functional currency from Turkish Lira to US Dollar and considered that it would be appropriate to apply the change from the beginning of 2011. Turkish Lira is continued to be used as presentation currency and the financial statements are presented in Turkish Lira. The Group's accompanying consolidated financial statements as of 30 June 2011 are prepared in US Dollar by the method explained in Note 2.1 and translated into Turkish Lira by the method explained in the same Note.

As explained in detail in Note 2.1 and Note 26, the Group made certain reclassifications and adjustments to its consolidated financial statements for the interim periods ended 30 June 2011 and 31 March 2011.

İstanbul, 31 August 2012

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



Berkman Özata
Partner

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

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

ASSETS	Notes	Current Period	Prior Period
		(Reviewed) 30 June 2012	(Audited) 31 December 2011
Current Assets		5,170,828,801	4,071,271,934
Cash and cash equivalents		1,691,927,955	1,549,524,710
Short-term financial investments	4	1,003,915,924	213,899,678
Trade receivables		1,001,179,227	760,396,929
Other receivables		764,711,631	809,440,825
Inventories		229,640,636	251,785,807
Other current assets		159,590,978	206,751,785
Non-current assets held for sale	20	319,862,450	279,472,200
Non-current Assets		12,762,363,098	12,331,420,131
Other receivables		456,744,717	583,806,507
Financial assets		1,780,524	1,767,872
Investments accounted by using the equity method	7	266,499,425	294,960,592
Investment property		52,332,935	54,720,000
Property and equipment	8	11,710,533,005	11,092,594,872
Intangible assets	9	60,295,880	46,962,939
Deferred tax assets	21	12,102,703	-
Other non-current assets		202,073,909	256,607,349
TOTAL ASSETS		17,933,191,899	16,402,692,065

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

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

LIABILITIES	Notes	Current Period (Reviewed) 30 June 2012	Prior Period (Audited) 31 December 2011
Current Liabilities		5,124,188,856	3,949,155,344
Financial debt	5	805,212,591	790,159,337
Other financial liabilities	6	183,917,371	158,483,592
Trade payables		1,083,301,544	999,354,557
Other payables		208,230,637	216,512,852
Current tax liabilities	21	1,473,966	5,368,643
Provisions	11	37,281,688	26,224,798
Provisions for employee benefits		354,122,316	251,298,892
Passenger flight liabilities	13	1,934,785,074	1,076,598,617
Other current liabilities		515,863,669	425,154,056
Non- current Liabilities		8,307,584,648	7,954,609,080
Financial debt	5	7,502,650,249	7,122,723,496
Other payables		5,918,683	11,439,394
Provisions for employee benefits		232,588,801	191,632,448
Deferred tax liability	21	507,531,323	574,679,843
Other non- current liabilities		58,895,592	54,133,899
SHAREHOLDERS' EQUITY			
Equity Attributable to Shareholders' of Parent		4,501,418,395	4,498,927,641
Share capital	14	1,200,000,000	1,200,000,000
Inflation difference on share capital	14	1,123,808,032	1,123,808,032
Restricted profit reserves	14	39,326,341	39,326,341
Currency translation differences	14	656,295,478	798,590,878
Cash flow hedge reserves	14	(65,577,587)	(46,613,446)
Retained earnings	14	1,383,815,836	1,365,299,204
Net profit for the period/year	14	163,750,295	18,516,632
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		17,933,191,899	16,402,692,065

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

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

	Notes	Current Period (Reviewed) 1 January - 30 June 2012	Current Period (Not Reviewed) 1 April - 30 June 2012	(Restated) Prior Period (Reviewed) 1 January - 30 June 2011	(Restated) Prior Period (Not Reviewed) 1 April - 30 June 2011
Sales revenue	15	6,681,653,243	3,839,002,483	4,899,593,339	2,802,975,999
Cost of sales (-)	15	(5,655,903,182)	(3,036,271,803)	(4,433,213,214)	(2,420,819,412)
GROSS PROFIT		1,025,750,061	802,730,680	466,380,125	382,156,587
Marketing and sales expenses (-)	16	(761,566,945)	(416,332,531)	(610,803,195)	(321,583,563)
Administrative expenses (-)	16	(212,469,669)	(115,525,651)	(187,627,618)	(86,606,212)
Other operating income	17	124,281,349	70,799,985	70,352,140	35,382,829
Other operating expenses (-)	17	(72,536,740)	(63,240,533)	(33,974,979)	(21,225,382)
OPERATING PROFIT/(LOSS)		103,458,056	278,431,950	(295,673,526)	(11,875,740)
Share of investments' profit/ (loss) accounted by using the equity method	7	(9,373,193)	11,549,938	(7,605,616)	2,062,721
Financial income	18	181,275,985	157,428,029	50,697,650	36,268,122
Financial expenses (-)	19	(125,249,439)	101,551,186	(200,684,774)	(154,537,867)
PROFIT/(LOSS) BEFORE TAX		150,111,409	548,961,103	(453,266,267)	(128,082,765)
Tax income/(expense)		13,638,886	(355,827,837)	62,829,040	(42,542,183)
Current tax expense (-)	21	(4,390,971)	(1,343,195)	(18,956,251)	(15,732,269)
Deferred tax income/(expense)	21	18,029,857	(354,484,642)	81,785,291	(26,809,914)
PROFIT/(LOSS) FOR THE PERIOD		163,750,295	193,133,266	(390,437,227)	(170,624,948)
OTHER COMPREHENSIVE INCOME / (LOSS)					
Change in currency translation differences		(142,295,400)	89,660,145	189,816,506	1,758,009
Change in cash flow hedge reserves		(23,705,176)	(49,032,626)	10,041,224	65,122,224
Tax income/(loss) on items in other comprehensive income		4,741,035	9,806,525	(2,008,245)	(13,024,445)
OTHER COMPREHENSIVE INCOME/(LOSS) (AFTER TAX)		(161,259,541)	50,434,044	197,849,485	53,855,788
TOTAL COMPREHENSIVE INCOME/(LOSS)		2,490,754	243,567,310	(192,587,741)	(116,769,160)
Earnings/(loss) per share (Kır)	22	0.14	0.16	(0.33)	(0.14)

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
REVIEWED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

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

Notes	Share capital	Inflation difference on share capital	Restricted profit reserves	Currency translation differences	Cash flow hedge reserves	Net profit for the period	Retained earnings	Total
As at 31 December 2010	1,000,000,000	1,123,808,032	39,326,341	3,589,635	15,383,772	286,443,361	1,278,855,843	3,747,406,984
Transfer of previous years' profit to retained earnings	-	-	-	-	-	(286,443,361)	286,443,361	-
Total comprehensive income/(loss)	-	-	-	189,816,506	8,032,979	(390,437,227)	-	(192,587,741)
As at 30 June 2011	1,000,000,000	1,123,808,032	39,326,341	193,406,141	23,416,751	(390,437,227)	1,565,299,204	3,554,819,243
As at 31 December 2011	1,200,000,000	1,123,808,032	39,326,341	798,590,878	(46,613,446)	18,516,632	1,365,299,204	4,498,927,641
Transfer of previous years' profit to retained earnings	-	-	-	-	-	(18,516,632)	18,516,632	-
Total comprehensive income/(loss)	-	-	-	(142,295,400)	(18,964,141)	163,750,295	-	2,490,754
As at 30 June 2012	1,200,000,000	1,123,808,032	39,326,341	656,295,478	(65,577,587)	163,750,295	1,383,815,836	4,501,418,395

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH INTERIM PERIOD ENDED 30 JUNE 2012
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period (Reviewed) 1 January - 30 June 2012	Restated Prior Period (Reviewed) 1 January - 30 June 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) before taxes		150,111,409	(453,266,267)
Adjustments to obtain net cash flow generated from operating activities			
Depreciation and amortization	8-9	435,265,847	373,291,522
Provision for retirement pay liability		4,375,874	30,463,918
Provisions, net	11	11,056,889	3,357,696
Interest income	18	(59,576,797)	(37,974,566)
Gain on sales of fixed assets		(3,384,915)	(9,740)
Increase in provision for impairment	20	20,648,295	-
Loss on equity investments accounted by using the equity method	7	9,373,193	7,605,616
Interest expense on finance leases	19	117,681,135	82,310,800
Change in manufacturers' credit		45,531,057	(1,753,716)
Unrealized foreign exchange (gain)/loss on finance leases		(126,386,025)	207,312,119
Increase in provision for doubtful receivables		3,409,339	21,829,544
Change in fair value of derivative instruments	18-19	(27,400,061)	(9,118,810)
Operating profit before working capital changes		580,705,240	224,048,116
Increase in trade receivables		(275,391,207)	(299,887,881)
Increase in other short and long term receivables		(170,250,192)	(482,819,101)
Decrease/(increase) in inventories		11,081,129	(33,856,213)
Decrease in other current assets		37,867,141	45,008,251
Decrease/(increase) in other non-current assets		43,027,507	(18,337,106)
Increase in trade payables		126,624,282	120,833,211
(Decrease)/increase in other short-term and long-term payables		(3,831,133)	35,393,874
Increase in other short-term and long-term liabilities		61,602,004	83,568,799
Increase in short-term employee benefits		112,967,075	7,449,009
Increase in passenger flight liabilities		898,637,531	587,772,452
Cash flows from operating activities		1,423,039,377	269,173,411
Payment of retirement pay liabilities		(13,994,927)	(13,287,243)
Interest paid		(100,144,153)	(78,319,744)
Taxes paid	21	(8,285,648)	(3,195,824)
Net cash generated from operating activities		1,300,614,649	174,370,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment and intangible assets		36,426,930	4,012,272
Interest received		83,503,256	41,780,747
Purchase of property and equipment and intangible assets (*)	8-9	(415,596,879)	(469,531,337)
Prepayments for the purchase of aircrafts		280,464,293	1,100,731,031
Increase in short-term financial investments		(796,398,838)	(652,983,358)
Net cash used in/(generated from) investing activities		(811,601,238)	24,009,355
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal in finance lease liabilities		(370,689,989)	(275,114,298)
Decrease financial borrowings		-	(7,135,832)
Increase in other financial liabilities		24,079,823	210,903
Net cash used in financing activities		(346,610,166)	(282,039,227)
NET INCREASE / (DECREASE) IN CASH AND EQUIVALENTS		142,403,245	(83,659,272)
CASH AND CASH EQUIVALENTS AT THE BEGINING OF THE PERIOD		1,549,524,710	813,936,552
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1,691,927,955	730,277,280

(*) TL 1,217,170,295 of property and equipment and intangible assets purchases in total of TL 1,632,767,174 for the six-month period ended 30 June 2012 was financed through finance leases (30 June 2011: TL 2,206,019,650 of property and equipment and intangible assets purchases in total of TL 2,675,550,987 was financed through finance leases).

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

For the Six-Month Period Ended 30 June 2012

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 30 June 2012 and 31 December 2011, the shareholders and their respective shareholdings in the Company are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</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 the Company and its subsidiaries (together the “Group”) as of 30 June 2012 is 17,391 (31 December 2011: 18,489). The average number of employees working for the Group for the six-month interim period ended 30 June 2012 and 2011 are 17,503 and 17,543, respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

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

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

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

Air Transport (“Aviation”)

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

Technical Maintenance Services (“Technical”)

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

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 30 June 2012 and delegated authority for publishing it on 31 August 2012. General shareholders’ meeting has the authority to modify the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Preparation for Financial Statements and Significant Accounting Policies

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

For the Six-Month Period Ended 30 June 2012

(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 Preparation for Financial Statements and Significant Accounting Policies (cont'd)

The Company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation.

Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles and the local currency in their registered countries.

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

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

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

Currency Used in Financial Statements

Functional currency

Although the currency of the country in which the Company is domiciled is Turkish Lira (TL), for the purpose of this report the Company’s functional currency is determined as US Dollar. US Dollar is used to a significant extent in, or has a significant impact on, the operations of the Company and reflects the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company uses the US Dollar in measuring items in its financial statements and as the reporting currency. All currencies other than the currency selected for measuring items in the financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in US Dollar have been remeasured in US Dollar in accordance with the relevant provisions of IAS 21 (the Effects of Changes in Foreign Exchange Rates).

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

2.1 Basis of Presentation (cont'd)

Translation to the presentation currency

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

- (a) Assets and liabilities in the balance sheet are translated into TL at the prevailing exchange rates of the Central Bank of Turkish Republic;
- (b) The income statement is translated into TL by using the monthly average US Dollar exchange rates; and
- (c) All differences are recognized as a separate equity item under exchange differences.

Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current year, the Group has made adjustments and reclassifications in the prior year consolidated financial statements in order to maintain consistency, with current year consolidated financial statements. The content, reason and amount of reclassifications are explained in Note:26.

The Group changed its functional currency from Turkish Lira to US Dollar and prepared its consolidated financial statements based on US Dollar. With regards to this change, the financial statements for the six-month period ended 30 June 2011 are restated. Net loss for the period decreased by TL 153,174,846 after restatement. As a result of this restatement, loss per share for the six-month period ended 30 June 2011 decreased by 0.013 Kr.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
For the Six-Month Period Ended 30 June 2012
(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)

Comparative Information and Restatement of Prior Period Financial Statements (cont'd)

	30 June 2012		
	<u>Reported in the previous period</u>	<u>Reclassified amount</u>	<u>Restated amount</u>
Assets			
Investments accounted for using the equity method	222,233,192	2,237,566	224,470,758
Investment property	49,570,000	2,699,738	52,269,738
Property and equipment	8,726,319,586	414,211,498	9,140,531,084
Intangible assets	37,557,962	5,212,074	42,770,036
Other current/non-current assets	412,390,627	3,661,110	416,051,737
Liabilities			
Passenger flight liabilities	1,316,177,584	6,978,085	1,323,155,669
Deferred tax liability	285,822,529	82,501,562	368,324,091
Other current/non-current liabilities	455,427,242	1,735,516	457,162,758
Foreign currency translation differences	8,936,307	183,631,977	192,568,284
Net profit for the period	(543,612,073)	153,174,846	(390,437,227)
Statement of Income			
Sales revenue	4,904,799,590	(5,206,251)	4,899,593,339
Cost of sales (-)	(4,395,131,488)	(38,081,726)	(4,433,213,214)
Marketing and sales expenses (-)	(620,881,903)	10,078,708	(610,803,195)
Administrative expenses (-)	(185,601,576)	(2,026,042)	(187,627,618)
Other operating income	67,743,755	2,608,385	70,352,140
Other operating expenses (-)	(37,079,108)	3,104,129	(33,974,979)
Share of investment profit/ (loss) accounted for using the equity method	(9,879,323)	2,273,707	(7,605,616)
Financial income	180,615,808	(129,918,158)	50,697,650
Financial expenses	(590,190,045)	389,505,271	(200,684,774)
Current tax expense (-)	(10,290,547)	-	(10,290,547)
Deferred tax income	152,282,764	(79,163,177)	73,119,587
	<u>(543,612,073)</u>	<u>153,174,846</u>	<u>(390,437,227)</u>

Subsidiaries and Associates

The table below sets out the consolidated subsidiaries and participation rate of the Group in these subsidiaries as of 30 June 2012:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Participation Rate</u>		<u>Country of Registration</u>
		<u>30 June 2012</u>	<u>31 December 2011</u>	
THY Teknik	Aircraft Maintenance Services	100%	100%	Turkey
HABOM	Aircraft Maintenance Services	100%	100%	Turkey
THY Aydın Çıldır	Airport Operations	100%	-	Turkey

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
For the Six-Month Period Ended 30 June 2012
(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)

Subsidiaries and Associates (cont'd)

The table below sets out consolidated affiliates and indicates the proportion of ownership interest of the Company in these affiliates as of 30 June 2012:

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

Share percentage and voting rights are the same in the year 2012 and 2010, except for Bosna Hersek Havayolları.

(*) The Board of Directors of the Company decided to cease its partnership in Bosnia Herzegovina Airlines; therefore, the Company has transferred its 49% participation for free of charge with the Share Transfer Agreement signed between the Company and Federation of Bosnia Herzegovina on 14 June 2012.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

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

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

2.2 Significant Accounting Policies

The same accounting policies have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2011.

2.3 Significant Accounting Assumptions

The same presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2011.

2.4 New and Revised International Financial reporting Standards

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

Amendments to IAS 12 *Deferred Taxes – Recovery of Underlying Assets*

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*

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

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

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

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

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

Annual Improvements 2009/2011 Cycle

Further to the above amendments and revised standards, the IASB have issued Annual Improvements to IFRSs in May 2012 that cover 5 main standards/interpretations as follows:

- IFRS 1 - Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets
- IAS 1 - Clarification of the requirements for comparative information
- IAS 16 - Classification of servicing equipment
- IAS 32 - Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes
- IAS 34 - Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

All amendments are effective on or after 1 January 2013. Early adoptions 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.

3. 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 15.

3.1 Total Assets and Liabilities

Total Assets	30 June 2012	31 December 2011
Aviation	17,777,840,455	16,339,859,248
Technic	1,129,043,159	1,097,317,847
Total	18,906,883,614	17,437,177,095
Less: Eliminations due to consolidation	(973,691,715)	(1,034,485,030)
Total assets in consolidated financial statements	<u>17,933,191,899</u>	<u>16,402,692,065</u>
Total Liabilitites	30 June 2012	31 December 2011
Aviation	13,249,820,905	11,745,959,309
Technic	255,467,708	248,997,863
Total	13,505,288,613	11,994,957,172
Less: Eliminations due to consolidation	(73,515,109)	(91,192,748)
Total liabilitites in consolidated financial statements	<u>13,431,773,504</u>	<u>11,903,764,424</u>

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Notes to the Condensed Consolidated Financial Statements

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

3. SEGMENTAL REPORTING (cont'd)

3.2 Net Operating Profit / (Loss)

Segment Results:

1 January - 30 June 2012	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	6,566,404,963	115,248,281	-	6,681,653,244
Inter-segment sales	16,220,475	292,127,662	(308,348,137)	-
Segment revenue	6,582,625,438	407,375,941	(308,348,137)	6,681,653,243
Cost of sales (-)	(5,597,622,138)	(355,506,222)	297,225,178	(5,655,903,182)
Gross profit / (loss)	985,003,300	51,869,719	(11,122,959)	1,025,750,061
Marketing and sales expenses (-)	(757,198,760)	(4,759,037)	390,852	(761,566,945)
Administrative expenses (-)	(176,623,546)	(38,504,442)	2,658,318	(212,469,669)
Other operating income	116,209,381	9,779,603	(1,707,635)	124,281,349
Other operating expenses (-)	(66,203,381)	(6,780,919)	447,560	(72,536,740)
Operating profit / (loss)	101,186,995	11,604,924	(9,333,863)	103,458,056
Share of investment profit/ (loss) accounted for using the equity method	(934,819)	(8,438,374)	-	(9,373,193)
Financial income	189,686,428	(8,410,443)	-	181,275,985
Financial expenses (-)	(125,144,676)	(104,764)	-	(125,249,439)
Profit / (loss) before tax	164,793,928	(5,348,657)	(9,333,863)	150,111,408

1 January - 30 June 2011	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	4,811,673,947	87,919,392	-	4,899,593,339
Inter-segment sales	28,677,303	312,927,552	(341,604,855)	-
Segment revenue	4,840,351,251	400,846,944	(341,604,855)	4,899,593,339
Cost of sales (-)	(4,447,484,362)	(325,322,646)	339,593,794	(4,433,213,214)
Gross profit / (loss)	392,866,889	75,524,298	(2,011,061)	466,380,125
Marketing and sales expenses (-)	(606,685,828)	(4,248,617)	131,250	(610,803,195)
Administrative expenses (-)	(156,488,699)	(33,015,857)	1,876,938	(187,627,618)
Other operating income	63,467,715	7,183,750	(299,325)	70,352,140
Other operating expenses (-)	(21,151,177)	(13,590,317)	766,515	(33,974,979)
Operating profit / (loss)	(327,991,100)	31,853,257	464,317	(295,673,526)
Share of investment profit/ (loss) accounted for using the equity method	1,069,480	(8,675,096)	-	(7,605,616)
Financial income	48,963,948	1,733,702	-	50,697,650
Financial expenses (-)	(200,627,334)	(57,440)	-	(200,684,774)
Profit / (loss) before tax	(478,585,006)	24,854,423	464,317	(453,266,267)

3. SEGMENTAL REPORTING (cont'd)

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

Income statement items related to investments accounted for equity method:

1 January-30 June 2012	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/ (loss) accounted for using the equity method	(934,819)	(8,438,374)	-	(9,373,193)
1 January-30 June 2011	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/ (loss) accounted for using the equity method	1,069,480	(8,675,096)	-	(7,605,616)

3.3 Investment Operations

1 January-30 June 2012	Aviation	Technic	Inter-segment elimination	Total
Purchase of tangible and intangible fixed assets	1,480,106,505	152,660,668	-	1,632,767,173
Current period amortization and depreciation	403,473,199	31,792,648	-	435,265,847
Investments accounted for using the equity method	190,984,342	75,515,083	-	266,499,425
1 January-30 June 2011	Aviation	Technic	Inter-segment elimination	Total
Purchase of tangible and intangible fixed assets	2,581,692,175	93,858,812	-	2,675,550,987
Current period amortization and depreciation	342,174,882	31,116,640	-	373,291,522
Investments accounted for using the equity method	147,920,972	66,062,031	-	213,983,003

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4. SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Time deposits with maturity more than 3 months	929,789,632	133,533,101
Fair values of derivative instruments	74,126,292	80,366,577
	<u>1,003,915,924</u>	<u>213,899,678</u>

Time deposits with maturity of more than 3 months:

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 June 2012</u>
326,686,941	EUR	3.67% - 4.42%	December 2012	742,951,441
103,425,514	USD	4.29% - 4.68%	December 2012	186,838,191
				<u>929,789,632</u>

<u>Amount</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2011</u>
20,000,000	TL	8.16% - 9.60%	April 2012	20,000,000
46,457,607	EUR	4.67% - 5.50%	June 2012	113,533,101
				<u>133,533,101</u>

5. FINANCIAL BORROWINGS

Short-term financial borrowings are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Finance lease obligation	805,212,591	790,159,337

Long-term financial borrowings are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Finance lease obligation	7,502,650,249	7,122,723,496

Financial lease obligations are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Less than 1 year	995,794,217	964,312,250
Between 1 - 5 years	3,815,945,451	3,599,737,058
Over 5 years	4,735,105,185	4,498,997,066
	9,546,844,853	9,063,046,374
Less: Future interest expenses	(1,238,982,013)	(1,150,163,541)
Principal value of future rentals stated in financial statements	<u>8,307,862,840</u>	<u>7,912,882,833</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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

5. FINANCIAL BORROWINGS (cont'd)

	<u>30 June 2012</u>	<u>31 December 2011</u>
Interest Range:		
Floating rate obligations	3,587,867,400	3,984,803,923
Fixed rate obligations	4,719,995,440	3,928,078,910
	<u>8,307,862,840</u>	<u>7,912,882,833</u>

As of 30 June 2012, the US Dollars and Euro denominated lease obligations' weighted average interest rates are 4.28% (31 December 2011: 4.47%) for the fixed rate obligations and 0.80% (31 December 2011: 0.88%) for the floating rate obligations.

6. OTHER FINANCIAL LIABILITIES

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

	<u>30 June 2012</u>	<u>31 December 2011</u>
Fair value of derivative instruments	156,208,087	154,871,082
Borrowings to banks	27,709,284	3,612,510
	<u>183,917,371</u>	<u>158,483,592</u>

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

7. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted by using the equity method are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Turkish DO&CO	61,511,134	60,594,468
P&W T.T Uçak Bakım Merkezi	62,194,632	74,626,727
TGS	75,485,762	72,672,672
THY Opet	51,867,337	37,295,786
TCI	1,825,887	1,703,496
Türkbine Teknik	7,818,449	8,182,875
Goodrich	987,779	1,744,878
Uçak Koltuk	4,808,445	50,000
Sun Ekspres (*)	-	26,515,230
Air Bosna (Note 2.1)	-	11,574,460
	<u>266,499,425</u>	<u>294,960,592</u>

(*) As of 30 June 2012, the total equity balance of Sun Express is negative. Therefore, the Group's share on Sun Express was presented as zero.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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

Share of investments' profit/(loss) accounted by using the equity method are as follows:

	1 January - 30 June 2012	1 April - 30 June 2012	1 January - 30 June 2011	1 April - 30 June 2011
Sun Ekspres	(18,872,115)	-	(20,708,331)	(5,197,856)
Turkish DO&CO	8,416,666	7,545,376	6,784,252	5,499,805
P&W T.T. Uçak Bakım	(7,049,933)	(2,020,687)	(8,675,096)	(2,213,439)
Bosna Hersek Havayolları	(11,574,460)	(3,241,123)	-	-
TGS	2,813,090	(159,838)	8,630,293	4,490,265
THY Opet	14,571,552	6,255,888	6,363,266	(516,054)
TCI	(1,754,365)	(1,045,167)	-	-
Türkbine Teknik	(11,026)	(3,835)	-	-
Goodrich	(676,044)	(544,118)	-	-
Uçak Koltuk	4,763,442	4,763,442	-	-
Total	(9,373,193)	11,549,938	(7,605,616)	2,062,721

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8. PROPERTY AND EQUIPMENT

<u>Cost</u>	Land improvements and buildings	Technical equipment, simulator and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction In Progress	Total
Opening balance at 1 January 2012	194,445,053	461,185,261	148,453,434	12,863,510,808	615,266,465	399,664,054	111,431,957	435,264,825	15,229,221,857
Foreign currency translation reserve	(8,449,517)	(17,635,854)	(6,318,621)	(411,582,934)	(26,616,688)	(17,954,463)	(4,850,678)	(18,601,797)	(512,010,553)
Additions	4,526,898	15,560,452	7,912,054	1,364,524,468	30,799,745	57,853,311	1,451,129	140,796,983	1,623,425,039
Disposals	-	(52,468,870)	(7,421,636)	(52,823,384)	-	(84,153,539)	(8,657)	(7,446,069)	(204,322,154)
Transfer to non-current assets held-for-sale	-	-	-	(349,853,314)	(20,854,234)	-	-	-	(370,707,548)
Transfers	-	(98,937,800)	98,301,966	2,824,804	-	-	5,755,399	(8,580,203)	(635,834)
Closing balance at 30 June 2012	190,522,434	307,703,189	240,927,196	13,416,600,448	598,595,287	355,409,363	113,779,150	541,433,739	15,764,970,806
Accumulated depreciation									
Opening balance at 1 January 2012	64,597,647	321,520,088	69,210,291	3,291,791,980	139,105,118	185,035,832	65,366,028	-	4,136,626,984
Foreign currency translation reserve	(6,831,710)	(9,697,511)	(2,032,920)	4,641,801	(2,003,687)	9,733,244	1,119,214	-	(5,071,567)
Depreciation charge for the period	1,620,604	12,030,613	12,330,867	354,242,099	20,129,767	23,534,469	7,191,222	-	431,079,641
Disposals	-	(52,468,870)	(7,421,636)	(52,823,384)	-	(58,564,096)	(2,154)	-	(171,280,140)
Transfer to non-current assets held-for-sale	-	-	-	(325,885,631)	(10,410,057)	-	-	-	(336,295,687)
Transfers	-	(94,945,332)	94,323,902	-	-	-	-	-	(621,430)
Closing balance at 30 June 2012	59,386,541	176,438,989	166,410,505	3,271,966,865	146,821,142	159,739,450	73,674,311	-	4,054,437,802
Net book value at 30 June 2012	131,135,893	131,264,200	74,516,691	10,144,633,583	451,774,145	195,669,913	40,104,840	541,433,739	11,710,533,005
Net book value at 31 December 2011	129,847,406	139,665,173	79,243,143	9,571,718,828	476,161,347	214,628,220	46,065,929	435,264,825	11,092,594,871

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8. PROPERTY AND EQUIPMENT (cont'd)

Cost	Land improvements and buildings	Technical equipment, simulator and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
Opening balance at 1 January 2011	155,789,647	285,624,230	176,655,997	9,090,395,828	375,473,917	327,545,637	58,093,484	73,716,649	10,543,295,389
Foreign currency translation reserve	8,508,042	16,551,608	9,968,700	536,502,706	22,683,997	17,839,160	3,972,575	4,102,414	620,129,201
Additions	659,673	33,014,909	11,859,219	2,418,317,432	88,066,611	43,276,151	22,321,992	50,314,341	2,667,830,329
Disposals	-	(4,807,249)	(2,069,625)	(48,289,866)	(24,666,853)	(38,299,350)	(308,950)	-	(118,441,893)
Transfers	-	-	-	1,100,956	-	-	1,263,813	(2,364,769)	-
Closing balance at 30 June 2011	164,957,362	330,383,497	196,414,291	11,998,027,055	461,557,672	350,361,598	85,342,914	125,768,636	13,712,813,025
Accumulated depreciation									
Opening balance at 1 January 2011	50,832,183	194,679,197	128,084,540	3,413,848,985	122,229,844	152,551,379	43,496,004	-	4,105,722,132
Foreign currency translation reserve	2,768,632	10,623,933	6,372,418	174,977,798	6,423,830	4,547,375	2,505,605	-	208,219,591
Depreciation charge for the period	4,313	8,487,282	1,393,980	300,606,086	30,806,203	25,140,451	6,341,265	-	372,779,580
Disposals	-	(2,916,024)	(1,524,102)	(47,409,749)	(24,217,283)	(38,299,350)	(72,854)	-	(114,439,362)
Closing balance at 30 June 2011	53,605,128	210,874,388	134,326,836	3,842,023,121	135,242,594	143,939,855	52,270,020	-	4,572,281,942
Net book value at 30 June 2011	111,352,234	119,509,109	62,087,455	8,156,003,934	326,315,078	206,421,743	33,072,894	125,768,636	9,140,531,084

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9. INTANGIBLE ASSETS

	<u>Slot Rights</u>	<u>Other Rights</u>	<u>Total</u>
<u>Cost</u>			
Opening balance at 1 January 2012	24,445,066	113,740,123	138,185,189
Foreign currency translation reserve	(1,066,374)	5,585,857	4,519,483
Additions	-	9,342,135	9,342,135
Disposals	-	(30,176)	(30,176)
Transfers	-	635,834	635,834
Closing balance at 30 June 2012	<u>23,378,692</u>	<u>129,273,773</u>	<u>152,652,465</u>
<u>Accumulated Depreciation</u>			
Opening balance at 1 January 2012	-	91,222,250	91,222,250
Foreign currency translation reserve	-	(3,643,125)	(3,643,125)
Amortization charge for the period	-	4,186,206	4,186,206
Disposals	-	(30,176)	(30,176)
Transfers	-	621,430	621,430
Closing balance at 30 June 2012	<u>-</u>	<u>92,356,585</u>	<u>92,356,585</u>
Net book value 30 June 2012	<u>23,378,692</u>	<u>36,917,188</u>	<u>60,295,880</u>
Net book value 31 December 2011	<u>24,445,066</u>	<u>22,517,873</u>	<u>46,962,939</u>
	<u>Slot Rights</u>	<u>Other Rights</u>	<u>Total</u>
<u>Cost</u>			
Opening balance at 1 January 2011	20,007,450	88,662,623	108,670,073
Foreign currency translation reserve	1,089,668	5,099,235	6,188,903
Additions	-	7,720,658	7,720,658
Closing balance at 30 June 2011	<u>21,097,118</u>	<u>101,482,516</u>	<u>122,579,634</u>
<u>Accumulated Depreciation</u>			
Opening balance at 1 January 2011	-	74,976,794	74,976,794
Foreign currency translation reserve	-	4,320,863	4,320,863
Amortization charge for the period	-	511,941	511,941
Closing balance at 30 June 2011	<u>-</u>	<u>79,809,598</u>	<u>79,809,598</u>
Net book value 30 June 2011	<u>21,097,118</u>	<u>21,672,918</u>	<u>42,770,036</u>

10. GOVERNMENT GRANTS AND INCENTIVES

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

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11. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions for short-term liabilities are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Provisions for legal claims	37,281,688	26,224,798

Changes in the provisions for legal claims at 30 June 2012 and 2011 periods set out below:

	<u>1 January - 30 June 2012</u>	<u>1 January - 30 June 2011</u>
Provision at the beginning of the period	26,224,798	20,480,602
Charge for the period	11,073,538	3,960,651
Provisions released	(16,649)	(602,955)
Provision at the end of the period	<u>37,281,688</u>	<u>23,838,298</u>

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

a) Guarantees/Pledge/Mortgage ("GPM") given by the group: Amount of letter of guarantees given is TL 93,193,714 (31 December 2011: TL 97,177,999)

	<u>30 June 2012</u>		<u>31 December 2011</u>	
	<u>Foreign currency amount</u>	<u>TL equivalent</u>	<u>Foreign currency amount</u>	<u>TL equivalent</u>
A. Total amounts of GPM given on the behalf of its own legal entity	-	93,193,714	-	97,177,999
-Collaterals				
TL	10,708,131	10,708,131	10,419,036	10,419,036
EUR	8,906,172	20,254,400	7,536,458	18,417,595
USD	33,534,451	60,579,985	35,434,308	66,931,865
Other	25,506,851	1,651,198	-	1,409,503
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third partie debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>93,193,714</u>		<u>97,177,999</u>

The other CPMs given by the Group constitute 0% of the Group's equity as of 30 June 2012 (31 December 2011: %0).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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

b) The Group's discounted retirement pay provision is TL 232,588,801. The Group's liability for retirement pay would be approximately TL 409,186,042 as of 30 June 2012, if all employees were dismissed on that date.

12. COMMITMENTS

The detail of the Group's not accrued operational leasing debts related to aircrafts is as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Less than 1 year	296,001,568	335,010,923
Between 1 - 5 years	908,507,253	1,000,864,431
More than 5 years	139,350,384	218,425,929
	<u>1,343,859,205</u>	<u>1,554,301,283</u>

To be delivered between the years 2010-2015, the Group signed a contract for 89 aircrafts with a total value of 11.8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 10 of these aircrafts were delivered in 2010, 29 of these aircrafts were delivered in 2011 and 12 of these aircrafts were delivered as of June 2012. The Group has made an advance payment of 441 million US Dollars relevant to these purchases as of 30 June 2012.

The Group also has operational lease agreement for 20 years related with the land for the construction of maintenance hangar which is still under construction. The liabilities of the Group related with this lease agreements are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Less than 1 year	2,081,088	1,934,734
Between 1 - 5 years	16,417,472	12,572,518
More than 5 years	49,973,307	58,055,544
	<u>68,471,867</u>	<u>72,562,796</u>

13. PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Flight liability generating from ticket sales	1,537,932,675	689,801,850
Flight liability generating from sales of and frequent flyer programme	396,852,399	386,796,767
	<u>1,934,785,074</u>	<u>1,076,598,617</u>

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14. SHAREHOLDERS' EQUITY

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

	Type	%	30 June 2012	%	31 December 2011
Republic of Turkey					
Prime Ministry					
Privatization Adm. (*)	A, C	49.12	589,465,086	49.12	589,465,086
Other (Publicly held)	A	50.88	610,534,914	50.88	610,534,914
Paid-in capital			1,200,000,000		1,200,000,000
Restatement difference			1,123,808,032		1,123,808,032
Restated capital			2,323,808,032		2,323,808,032

(*) 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 2012, the Group's issued and paid-in share capital consists of 119,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

- 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,
- 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 mergers 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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14. SHAREHOLDERS' EQUITY (cont'd)

Restricted Profit Reserves

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

Foreign Currency Translation Differences

Method for consolidation purpose is, according to IAS 21, monetary items in statutory financial statements is translated to USD using year-end exchange rates, non-monetary items in balance sheet, income/expenses and cash flow are translated to USD by using the exchange rate of the transaction date(historic rate), and currency translation differences are presented under equity. Translation profit/loss from foreign currency transactions is presented under currency translation item in financial income of income statement.

Distribution of Dividends

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

According to the Serial:IV No:27 Communiqué of Capital Markets Board, depending on the decision made in shareholders' meeting, the profit distribution can be made either by giving bonus shares to shareholders which are issued either in cash or by adding dividend to capital or giving some amount of cash and some amount of bonus shares to shareholders. If the primary dividend amount determined is less than 5% of the paid-in capital, the decision gives the option of not to distribute the related amount as to keep within the equity.

In accordance with the Capital Markets Board's (the "Board") Decree issued as of 27 January 2010 and numbered 02/51,

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

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

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

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14. SHAREHOLDERS' EQUITY (cont'd)

Distribution of Dividends (cont'd)

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

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

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

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

The items of shareholders' equity of the Company in the statutory accounts as of 30 June 2012 as the dividends distributed not reflected are as follows:

Paid-in capital	1,200,000,000
Share premium	181,185
Legal reserves	55,692,565
Extraordinary reserves (*)	198,959,553
Other profit reserves	9
Special funds	15,431,988
Retained earnings (*)	(1,040,021,112)
Net profit for the period (*)	<u>355,533,136</u>
Total shareholders' equity	<u><u>785,777,324</u></u>

* Per legal records there is no amount which will be subject to distribution of dividends.

Hedge Fund against the Cash Flow Risk

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

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15. SALES AND COST OF SALES

Details of gross profit are as follows:

	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
Scheduled flights				
Passenger	5,681,834,152	3,312,741,369	4,197,575,849	2,405,673,030
Cargo and mail	583,239,557	311,251,073	434,873,665	235,773,245
Total scheduled flights	6,265,073,709	3,623,992,442	4,632,449,514	2,641,446,275
Unscheduled flights	47,290,126	36,148,785	45,361,351	30,973,193
Other revenue	369,289,408	178,861,256	221,782,474	130,556,531
Net sales	<u>6,681,653,243</u>	<u>3,839,002,483</u>	<u>4,899,593,339</u>	<u>2,802,975,999</u>
Cost of sales (-)	<u>(5,655,903,182)</u>	<u>(3,036,271,803)</u>	<u>(4,433,213,214)</u>	<u>(2,420,819,412)</u>
Gross profit	<u>1,025,750,061</u>	<u>802,730,680</u>	<u>466,380,125</u>	<u>382,156,587</u>

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

	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
- Europe	1,970,837,641	1,188,551,328	1,534,689,371	908,862,426
- Far East	1,446,412,408	807,358,697	997,870,617	547,447,016
- Middle East	852,604,517	469,769,550	652,650,705	356,852,143
- America	621,365,518	378,120,361	364,743,466	228,510,541
- Africa	463,725,137	252,951,144	282,140,129	151,763,187
flights	<u>5,354,945,221</u>	<u>3,096,751,080</u>	<u>3,832,094,288</u>	<u>2,193,435,313</u>
Domestic flights	<u>910,128,488</u>	<u>527,241,362</u>	<u>800,355,227</u>	<u>448,010,963</u>
Total revenue	<u>6,265,073,709</u>	<u>3,623,992,442</u>	<u>4,632,449,514</u>	<u>2,641,446,275</u>

Due to seasonality of air passenger transportation, the Company's management expects to make higher sales income in the second half of 2012 relatively to the first half. As of 31 December 2011, 41% of total income is realized in the first half, 59% of total income is realized in the second half of the accounting period.

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

The details of the cost of sales are as follows:

	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
Fuel expense	2,454,745,291	1,362,375,996	1,690,533,432	959,768,173
Personnel expense	905,013,168	468,983,939	790,513,985	415,975,394
Landing and navigation expense	556,949,444	302,799,570	382,367,743	210,051,197
Ground services expenses	336,137,966	178,523,139	348,525,843	186,406,365
Depreciation expenses	401,370,828	203,671,417	351,332,905	203,620,977
Passenger service and catering expenses	297,949,966	166,135,244	229,114,329	123,472,676
Operating lease expenses	166,543,655	79,198,991	199,321,229	99,584,484
Maintenance expenses	211,261,951	94,847,413	225,612,470	107,644,267
Other airlines' seat rents	99,120,365	44,360,153	70,420,854	40,896,211
Insurance expenses	45,336,270	22,059,942	26,757,071	15,985,971
Service expenses	33,535,441	19,678,885	22,181,072	17,328,967
Other rent expenses	29,906,290	16,253,619	17,269,101	9,216,942
Short term leasing expenses	29,881,443	25,294,003	15,023,655	4,565,061
Tax expenses	5,485,186	3,444,951	4,410,841	1,264,684
Utility expenses	4,888,759	2,492,805	3,959,276	1,363,560
Transportation expenses	4,035,395	2,113,247	4,820,605	3,156,878
Other costs	73,741,764	46,460,446	51,048,802	31,423,947
	<u>5,655,903,182</u>	<u>3,036,271,803</u>	<u>4,433,213,214</u>	<u>2,420,819,412</u>

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16. MARKETING AND SALES EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

Marketing and sales expenses are as follows:

	1 January - 30 June 2012	1 April - 30 June 2012	1 January - 30 June 2011	1 April - 30 June 2011
Personnel expenses	214,546,243	108,972,344	181,981,340	96,201,619
Commissions and incentive expenses	210,346,098	122,005,787	150,641,494	84,692,720
Reservation systems expense	155,913,235	83,362,942	104,803,941	55,240,593
Advertising expenses	56,838,836	31,368,925	88,428,323	44,701,512
Frequent flyer program mileage expenses	21,152,997	14,587,805	12,508,246	6,541,398
Service expenses	18,878,487	9,737,736	14,959,120	8,337,898
Rent expenses	13,406,417	7,145,300	9,874,207	5,215,991
Transportation expense	10,253,924	5,245,459	6,146,082	3,000,394
Communication expense	8,810,664	4,033,040	6,416,498	3,571,297
Membership fees	6,850,371	3,964,188	4,218,171	2,282,897
Tax Expenses	5,358,270	2,858,562	4,808,212	2,340,104
Utility expenses	2,745,725	1,248,040	2,218,633	1,133,173
Maintenance expenses	1,718,760	996,044	1,346,260	687,771
Depreciation expense	1,253,924	622,107	458,202	242,154
Fuel expense	855,529	423,016	676,469	376,405
Insurance expenses	796,140	493,330	525,744	319,112
Other sales and marketing expenses	31,841,325	19,267,906	20,792,252	6,698,523
	<u>761,566,945</u>	<u>416,332,531</u>	<u>610,803,195</u>	<u>321,583,563</u>

General administrative expenses are as follows:

	1 January - 30 June 2012	1 April - 30 June 2012	1 January - 30 June 2011	1 April - 30 June 2011
Personnel expenses	126,856,298	66,367,107	109,933,526	55,660,280
Depreciation expenses	32,641,095	19,375,948	21,500,415	11,280,007
Utility expenses	4,895,773	(309,668)	9,173,696	5,241,638
Rent expenses	8,694,213	4,852,978	8,449,279	4,110,880
Tax expenses	769,567	391,007	6,719,391	3,320,845
Service expenses	3,668,631	2,320,300	8,009,847	3,444,868
Communication expense	5,408,361	3,599,413	3,509,073	(1,902,928)
Fuel expense	367,674	235,198	430,319	(106,305)
Insurance expenses	9,907,067	8,378,814	2,682,578	1,310,220
Other sales and marketing expenses	19,260,990	10,314,554	17,219,494	4,246,707
	<u>212,469,669</u>	<u>115,525,651</u>	<u>187,627,618</u>	<u>86,606,212</u>

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17. OTHER OPERATING INCOME / EXPENSES

Other operating income / expense consist of the following:

	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
Income from investment assistance	31,536,700	18,776,020	18,843,629	14,888,449
Discounts received from maintenance spare parts suppliers	9,072,573	9,072,573	9,039,829	9,039,829
Insurance, indemnities, penalties income	10,149,882	8,290,419	3,787,843	2,963,265
Provisions released	15,138,608	13,293,259	2,882,821	1,650,904
TGS share premium	8,408,854	8,408,854	5,649,345	5,649,345
Returns and discounts received from services	296,309	(2,528,692)	4,013,890	1,188,890
Banks protocol revenue	3,621,452	2,164,061	1,936,884	(5,071,531)
Purchase discounts	592,299	(1,736,134)	-	(769,757)
Star Alliance membership revenue	3,493,207	(2,973,521)	1,229,684	95,244
Returns received from leasing firms	6,138,783	(8,018,359)	-	(9,265,796)
Other operating income	35,832,682	26,051,505	22,968,216	15,013,988
Total other operating income	<u>124,281,349</u>	<u>70,799,985</u>	<u>70,352,140</u>	<u>35,382,829</u>

	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
Provision for impairment on non-current assets held-for-sale	20,648,295	20,648,295	-	-
Provision expenses	23,088,349	17,427,694	25,818,423	15,252,071
Indemnity and penalty expense	5,215,043	2,612,162	6,099,947	4,460,988
Other operating expense	23,585,053	22,552,382	2,056,609	1,512,323
Total other operating expense	<u>72,536,740</u>	<u>63,240,533</u>	<u>33,974,979</u>	<u>21,225,382</u>

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18. FINANCIAL INCOME

Financial income consists of the following:

	1 January - 30 June 2012	1 April - 30 June 2012	1 January - 30 June 2011	1 April - 30 June 2011
Interest income	59,576,797	37,098,027	37,974,566	28,406,408
Rediscount interest income	2,257,226	888,040	3,604,274	956,218
The change in fair value of derivatives financial instruments	27,400,061	27,400,061	9,118,810	9,118,810
Foreign exchange gains/(losses)(*)	92,041,901	92,041,901	-	(2,213,314)
	<u>181,275,985</u>	<u>157,428,029</u>	<u>50,697,650</u>	<u>36,268,122</u>

(*) It is composed of foreign exchange income/(expense) arising from remeasurement of financial statements in to US Dollar (Note: 2.1).

19. FINANCIAL EXPENSES

Finance expenses are as follows:

	1 January - 30 June 2012	1 April - 30 June 2012	1 January - 30 June 2011	1 April - 30 June 2011
Finance lease interest expense	117,681,135	63,338,294	82,310,800	48,295,275
Employee termination benefit interest expense	3,394,880	1,345,605	3,310,594	1,351,266
Rediscount interest expense	3,541,397	2,930,649	4,250,378	1,639,755
Other financial expense	632,027	369,374	327,356	151,661
The change in fair value of derivatives financial instruments	-	(4,340,437)	-	(7,385,736)
Financial liabilities foreign exchange loss	-	(165,194,671)	110,485,645	110,485,645
	<u>125,249,439</u>	<u>(101,551,186)</u>	<u>200,684,774</u>	<u>154,537,867</u>

(*) It is composed of foreign exchange income/(expense) arising from remeasurement of financial statements in to US Dollar (Note: 2.1).

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20. ASSETS HELD FOR SALE

The Group has decided to dispose of seven A340-type aircrafts and two A310-type aircrafts and had negotiations with several companies interested in this subject. These assets, which are expected to be sold within twelve months, are classified as non-current assets held for sale as of 30 June 2012. Also in 2012, five spare engines of those aircrafts are classified as assets held for sale. The movement of the assets held for sale as of 30 June 2012 is as follows:

	1 January - 30 June 2012
Net book value of non-current assets held-for-sale 1 January 2012	279,472,000
Provision for decrease in value	(20,648,295)
Foreign currency translation differences	(17,013,100)
Additions to non-current assets held-for-sale	78,051,645
Adjusted net book value of non-current assets held-for-sale	<u>319,862,250</u>

21. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

	30 June 2012	31 December 2012
Provisions for corporate tax	4,390,971	18,956,251
Prepaid taxes and funds	(2,917,005)	(13,587,608)
Tax liability (*)	<u>1,473,966</u>	<u>5,368,643</u>

(*) Prepaid taxes, excess part of corporate taxes to be paid are shown under other current assets.

Tax liability consists of the following items:

	1 January - 30 June 2012	1 January - 30 June 2011
Current period tax expense	4,390,971	18,956,251
Deferred tax income	(18,029,857)	(81,785,291)
Tax income	<u>(13,638,886)</u>	<u>(62,829,040)</u>

Tax effect regarding other comprehensive income is as follows:

	1 January - 30 June 2012		
	Amount before tax	Tax (expense) /income	Amount after tax
Foreign currency translation differences	(142,295,400)	-	(142,295,400)
Change in cash flow hedge fund	(23,705,176)	4,741,035	(18,964,141)
Other comprehensive income for the period	<u>(166,000,576)</u>	<u>4,741,035</u>	<u>(161,259,541)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

For the Six-Month Period Ended 30 June 2012

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

21. TAX ASSETS AND LIABILITIES (cont'd)

Change in translation differences of foreign currency that is included in other comprehensive income, is TL 142,295,400 for the period 1 January - 30 June 2012 (1 January - 30 June 2011: TL 189,816,506). In addition, the effect on taxation does not exist for the period.

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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

The effective tax rate in 2012 is 20% (2011: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2012 is 20% (2011: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2011: 20%) is used.

In Turkey, the companies cannot declare a consolidated tax return, therefore subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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

21. TAX ASSETS AND LIABILITIES (cont'd)*Deferred Tax (Cont'd)*

The deferred tax assets and liabilities as of 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012	31 December 2011
Fixed assets	(788,305,601)	(901,848,053)
Provisions for ticket sales advance	(61,404,614)	(56,547,535)
Adjustment on inventories	(26,314,110)	(42,833,609)
Accumulated loss	135,904,061	207,976,984
Accruals for expenses	137,420,589	119,292,064
Provisions for employee termination benefits	41,935,154	38,326,490
Income and expense for future periods	25,197,091	14,950,671
Long-term lease obligations	11,958,143	13,141,314
Labor union accruals	12,041,158	12,041,158
Short-term lease obligations	3,235,931	7,288,257
Allowance for doubtful receivables	5,991,401	6,360,975
Provisions for unused vacation	5,131,406	2,382,874
Provisions for impairment in inventories	-	2,873,729
Other	1,780,772	1,914,838
Deferred tax liabilities	<u>(495,428,620)</u>	<u>(574,679,843)</u>

The changes of deferred tax liability as of 30 June 2012 and 2011 are as follows:

	1 January - 30 June 2012	1 January - 30 June 2011
Opening balance at 1 January	574,679,843	435,385,525
Deferred tax expense	(18,029,857)	(81,785,291)
Hedge fund tax income	4,741,035	2,008,245
Foreign currency translation differences	(65,962,401)	12,715,612
Closing balance at 30 June	<u>495,428,620</u>	<u>368,324,091</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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

22. EARNINGS PER SHARE

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

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

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

Number of total shares and calculation of earnings per share at 30 June 2012 and 2011:

	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
Number of shares outstanding at 1 January (in full)	120,000,000,000	120,000,000,000	100,000,000,000	100,000,000,000
New shares issued (in full)	-	-	-	-
Number of shares outstanding at 30 June (in full)	<u>120,000,000,000</u>	<u>120,000,000,000</u>	<u>100,000,000,000</u>	<u>100,000,000,000</u>
Weighted average number of shares outstanding during the year (in full)	<u>120,000,000,000</u>	<u>120,000,000,000</u>	<u>100,000,000,000</u>	<u>100,000,000,000</u>
Net profit / (loss) for period	163,750,295	193,133,266	(390,437,227)	(170,624,948)
Earnings / (loss) per share (Kr) (*)	0.14	0.16	(0.33)	(0.14)

(*) The earnings/(loss) per share with par value of TL 1 is TL 0.14 for the period 1 January-30 June 2012, and TL 0.33 for the period 1 January-30 June 2011.

23. RELATED PARTY TRANSACTIONS

Short-term trade receivables from related parties that are accounted for by using the equity method are:

	<u>30 June 2012</u>	<u>31 December 2011</u>
P & W T.T Uçak Bakım Merkezi Ltd. Şti.	9,547,367	-
Bosna Hersek Hava Yolları	765,145	1,526,276
TCI	407,616	58,387
Türkbine Teknik Gaz Türbinleri Bakım A.Ş.	72,675	312,350
Sun Express Deutschland	15,664	5,072,047
	<u>10,808,467</u>	<u>6,969,060</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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23. RELATED PARTY TRANSACTIONS (cont'd)

Other short-term receivables from related parties are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
TCI Kabinçi Sistemleri A.Ş.	7,959	7,959
Goodrich THY Teknik Servis Merkezi Ltd. Şti.	6,438	38,638
Türkbine Teknik Gaz Türbinleri Bakım A.Ş.	2,185	9,671
Uçak Koltuk Üretimi San.ve Tic.A.Ş.	1,814	1,814
	<u>18,396</u>	<u>58,082</u>

Short-term trade payables to related parties that are accounted for by using the equity method are as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
THY Opet	148,539,785	127,045,062
Turkish DO&CO	44,862,097	25,136,455
TGS	21,430,416	21,907,112
Güneş Exspress Havacılık A.Ş.	4,747,640	-
Goodrich THY Teknik Servis Merkezi Ltd. Şti.	1,455,201	-
P & W T.T Uçak Bakım Merkezi Ltd. Şti.	-	6,855,313
	<u>221,035,139</u>	<u>180,943,942</u>

Transactions with related parties that are accounted for by using the equity method for the period ended as of 30 June 2012 are as follows:

Services rendered to :	<u>1 January - 30 June 2012</u>	<u>1 April - 30 June 2012</u>	<u>1 January - 30 June 2011</u>	<u>1 April - 30 June 2011</u>
Sun Ekspress	20,356,321	7,334,961	18,965,263	13,188,542
P & W T.T Uçak Bakım Merkezi Ltd. Şti	10,064,912	4,764,373	17,709,176	13,520,856
TGS	4,943,455	2,525,187	20,233,664	11,271,352
Bosna Hersek Hava Yolları	2,090,157	474,642	5,234,495	2,933,843
Türkbine Teknik Gaz Türbinleri Bakım A.Ş.	267,252	88,771	-	-
Turkish DO&CO	984,874	535,571	861,633	473,959
THY Opet	148,782	72,648	291,407	45,997
TCI	749,833	364,547	22,873	22,873
Goodrich Thy Teknik Servis	345,412	345,412	-	-
	<u>39,950,996</u>	<u>16,506,110</u>	<u>63,318,511</u>	<u>41,457,422</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****For the Six-Month Period Ended 30 June 2012**

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23. RELATED PARTY TRANSACTIONS (cont'd)

	1 January - 30 June 2012	1 April - 30 June 2012	1 January - 30 June 2011	1 April - 30 June 2011
Services received from :				
THY Opet	1,491,821,694	817,933,322	664,891,961	392,776,053
Turkish DO&CO	199,336,586	111,833,799	154,492,638	86,079,420
TGS	147,485,857	78,831,974	146,281,934	78,307,246
P & W T.T Uçak Bakım Merkezi	21,990,108	-	71,180,527	32,690,548
Bosna Hersek Hava Yolları	3,262,215	1,417,484	3,927,178	2,240,590
TCI	461,117	-	-	-
Türkbine Teknik Gaz	27,404	27,404	-	-
Türbinleri Bakım A.Ş.				
Goodrich Thy Teknik Servis	6,517,535	6,517,535	-	-
Sun Ekspres	585,889	507,908	172,638	100,904
	1.871.488.405	1.017.069.426	1.040.946.876	592.194.761

Transactions between the Group and Sun Express and Bosnia Herzegovina Airlines seat rental operations; transactions between the Group and Turkish DO&CO are catering services and loan financing, transactions between the Group and TGS are ground services, transactions between the Group and P&W T.T are engine maintenance services and the transactions between the Group and THY OPET is the supply of aircraft fuel. Receivables from related parties are not collateralized.

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 2,675,074 (30 June 2011: TL 2,757,513).

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24. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

Foreign currency risk management

Foreign currency position of the Group for the periods ended 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	769,229,092	125,450,701	220,605,189	27,373,972	395,799,230
2a.Monetary financial assets	2,213,508,888	913,027,907	951,861,526	1,594,326	347,025,129
2b.Non monetary financial assets	-	-	-	-	-
3.Other	1,036,492,264	1,023,398,526	12,644,258	33,557	415,923
4.Current assets (1+2+3)	4,019,230,244	2,061,877,134	1,185,110,973	29,001,855	743,240,282
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	-	-	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	11,040,865	1,691,430	4,356,809	30,750	4,961,876
8.Non current assets (5+6+7)	11,040,865	1,691,430	4,356,809	30,750	4,961,876
9.Total assets (4+8)	4,030,271,109	2,063,568,564	1,189,467,782	29,032,605	748,202,158
10.Trade payables	775,521,690	318,322,695	198,869,646	8,105,896	250,223,453
11.Financial liabilities	464,849,438	6,552	464,842,886	-	-
12a.Other liabilities, monetary	50,494,818	33,733,206	8,391,521	250,235	8,119,856
12b.Other liabilities, non monetary	13,370,472	13,272,115	98,357	-	-
13.Current liabilities (10+11+12)	1,304,236,418	365,334,568	672,202,410	8,356,131	258,343,309
14.Trade payables	-	-	-	-	-
15.Financial liabilities	3,555,011,595	-	3,555,011,595	-	-
16a.Other liabilities, monetary	28,471,454	23,613,520	4,283,940	-	573,995
16b.Other liabilities, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	3,583,483,049	23,613,520	3,559,295,535	-	573,995
18.Total liabilities (13+17)	4,887,719,467	388,948,088	4,231,497,945	8,356,131	258,917,304
19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)	220,985,474	-	220,985,474	-	-
19a.Off-balance sheet foreign currency derivative assets	220,985,474	-	220,985,474	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(636,462,884)	1,674,620,476	(2,821,044,689)	20,676,474	489,284,854
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(1,891,611,015)	662,802,635	(3,058,932,873)	20,612,167	483,907,055
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	6,467,841,257	1,190,626,908	1,971,982,099	278,543,830	3,026,688,420
26.Imports	1,193,885,482	583,354,441	395,376,784	9,005,156	206,149,101

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

Foreign currency risk management (cont'd)

	31 December 2011				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	552,043,752	185,113,977	109,556,908	20,855,509	236,517,358
2a.Monetary financial assets	1,379,232,996	355,589,247	827,874,879	1,037,973	194,730,897
2b.Non monetary financial assets	-	-	-	-	-
3.Other	783,280,900	777,111,536	3,880,392	911,868	1,377,104
4.Current assets (1+2+3)	2,714,557,648	1,317,814,760	941,312,179	22,805,350	432,625,359
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	-	-	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	12,669,299	634,694	7,647,026	270,045	4,117,534
8.Non current assets (5+6+7)	12,669,299	634,694	7,647,026	270,045	4,117,534
9.Total assets (4+8)	2,727,226,947	1,318,449,454	948,959,205	23,075,395	436,742,893
10.Trade payables	724,967,077	339,514,208	250,583,484	9,038,313	125,831,072
11.Financial liabilities	445,023,191	524,414	444,498,777	-	-
12a.Other liabilities, monetary	39,346,934	27,913,536	7,516,665	394,154	3,522,579
12b.Other liabilities, non monetary	632,032	620,338	11,694	-	-
13.Current liabilities (10+11+12)	1,209,969,234	368,572,496	702,610,620	9,432,467	129,353,651
14.Trade payables	-	-	-	-	-
15.Financial liabilities	3,286,402,558	-	3,286,402,558	-	-
16a.Other liabilities, monetary	34,330,826	26,521,260	4,790,822	-	3,018,744
16b.Other liabilities, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	3,320,733,384	26,521,260	3,291,193,380	-	3,018,744
18.Total liabilities (13+17)	4,530,702,618	395,093,756	3,993,804,000	9,432,467	132,372,395
19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)	254,424,060	-	254,424,060	-	-
19a.Off-balance sheet foreign currency derivative assets	254,424,060	-	254,424,060	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(1,549,051,611)	923,355,698	(2,790,420,735)	13,642,928	304,370,498
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(2,598,793,838)	146,229,806	(3,056,360,519)	12,461,015	298,875,860
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	11,305,317,391	2,570,894,658	2,815,171,973	262,108,817	5,657,141,943
26.Imports	4,091,338,689	2,682,995,840	910,380,714	37,519,114	460,443,020

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

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 2012	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated 10%	If foreign currency depreciated 10%
1- Turkish Lira net asset / liability	167,462,048	(167,462,048)
2- Part of hedged from Turkish Lira risk (-)	-	-
3- Turkish Lira net effect (1 +2)	<u>167,462,048</u>	<u>(167,462,048)</u>
4- Euro net asset / liability	(282,104,469)	282,104,469
5- Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(282,104,469)</u>	<u>282,104,469</u>
7- GBP net asset / liability	2,067,647	(2,067,647)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	<u>2,067,647</u>	<u>(2,067,647)</u>
10- Other foreign currency net asset / liability	48,928,485	(48,928,485)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	<u>48,928,485</u>	<u>(48,928,485)</u>
TOTAL (3 + 6 + 9 + 12)	<u><u>(63,646,288)</u></u>	<u><u>63,646,289</u></u>

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24. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)*Foreign currency risk management (cont'd)**Foreign currency sensitivity (cont'd)*

	31 December 2011	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated by 10%	If foreign currency depreciated by 10%
1- Turkish Lira net asset / liability	92,335,570	(92,335,570)
2- Part of hedged from Turkish Lira risk (-)	-	-
3- Turkish Lira net effect (1 +2)	92,335,570	(92,335,570)
4- Euro net asset / liability	(279,042,074)	279,042,074
5- Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(279,042,074)	279,042,074
7- GBP net asset / liability	1,364,293	(1,364,293)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	1,364,293	(1,364,293)
10- Other foreign currency net asset / liability	30,437,050	(30,437,050)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	30,437,050	(30,437,050)
TOTAL (3 + 6 + 9 + 12)	(154,905,161)	154,905,161

25. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The dispute arising from Article 42 of the Collective Labor Agreement 23 in-between the Company and Hava-İş Union was resolved upon the ruling of the High Board of Arbitration as at 2 August 2012. Based on the ruling of the High Board of Arbitration, the incrementation rate of employee wages is calculated as 5% each for the first half and second half of 2011 and it is calculated as 4% and 3% for the first half and second half of 2012, respectively. The provision as of 30 June 2012 was calculated by using these rates.

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

As there is a change in the presentation and classification of the Group's financial statement items, prior financial statements are reclassified accordingly to maintain comparability. Significant reclassifications in the financial statements include:

TL 9,347,577 of passenger and catering expenses which was stated under "Marketing and selling expenses" in the period between 1 January - 30 June 2011, is classified under "Cost of sales" in the current period.

TL 224,146 of communication expenses which was stated under "Cost of sales" in the period between 1 January - 30 June 2011, is classified under "General administrative expenses" in the current period.

Out of TL 2,567,214 of the "Expenses for the passengers without a visa", which was stated under "Other operating expenses" in the period between 1 January - 30 June 2011, TL 2,531,153 of it is classified under "Cost of sales" and the remaining TL 36,061 is classified under "General administrative expenses" in the current period.

TL 24,718,407 part of the income which was stated under "Passenger and cargo income" in the period between 1 January - 30 June 2011, is classified in "Other sales income" in the current period.

TL 6,129,386 part of the income which was stated under "Other sales income" in the period between 1 January - 30 June 2011, is classified in "Passenger and cargo income" in the current period.

TL 1,597,272 part of the income which was stated under "Other sales income" in the period between 1 January - 30 June 2011, is classified in "Other operational income" in the current period.

TL 148,087 part of the income which was stated under "Extraordinary income" in the period between 1 January - 30 June 2011, is classified in "Other sales income" in the current period.

Out of TL 788,971 of the "Other sales income" in the period between 1 January - 30 June 2011, TL 564,518 is classified under "Marketing and selling expenses" and the remaining TL 224,454 is classified under "Other operating expenses" in the current period.

TL 2,255,064 of deposits and guarantees given which was stated under "Short term trade receivables" in the period between 1 January - 30 June 2011, is net-off with "Trade payables" in the current period.