

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

ASSETS	Note	Not Audited Current Period 30.09.2005	Audited Previous Period 31.12.2004
Current Assets		945.734.385	677.317.067
Cash and Cash Equivalents	4	611.416.339	365.637.483
Marketable Securities (net)	5	--	--
Accounts Receivable (net)	7	220.057.398	158.585.050
Financial Lease Receivables (net)	8	--	--
Due from Related Parties (net)	9	436.540	812.921
Other Receivables (net)	10	6.451.913	2.989.387
Biological Assets (net)	11	--	--
Inventories (net)	12	77.743.227	64.513.843
Receivables from Construction in Progress (net)	13	--	--
Deferred Tax Assets	14	--	--
Other Current Assets	15	29.628.968	84.778.383
Non-Current Assets		2.511.450.215	2.270.835.407
Accounts Receivable (net)	7	--	--
Financial Lease Receivables (net)	8	--	--
Due from Related Parties (net)	9	--	--
Other Receivables (net)	10	1.980.812	1.921.124
Financial Assets (net)	16	42.525.378	42.636.073
Positive/Negative Goodwill (net)	17	--	--
Investment Property	18	--	--
Tangible Fixed Assets (net)	19	2.448.321.817	2.206.147.116
Intangible Fixed Assets (net)	20	6.255.130	7.463.579
Deferred Tax Assets	14	--	--
Other Non-current Assets	15	12.367.078	12.667.515
Total Assets		3.457.184.600	2.948.152.474

The accompanying notes form an integral part of these financial statements

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

	Note	Not Audited Current Period 30.09.2005	Audited Previous Period 31.12.2004
LIABILITIES			
Short Term Liabilities			
		1.183.633.021	721.872.724
Bank Borrowings (net)	6	362.514.157	--
Short-term portion of finance lease obligations (net)	6	--	--
Financial Lease Obligations (net)	8	214.000.633	202.712.254
Other Financial Liabilities (net)	10	326.800	281.244
Accounts Payable (net)	7	248.355.581	190.770.953
Due to Related Parties (net)	9	10.842.191	6.508.221
Advances Received	21	23.687.984	34.452.683
Billings on Construction Contracts in Progress (net)	13	--	
Provisions for Liabilities	23	45.288.006	25.222.977
Deferred Tax Liabilities	14	--	--
Other Liabilities (net)	10	278.617.669	261.924.392
Long Term Liabilities			
		1.021.017.447	1.116.165.994
Bank Borrowings (net)	6	--	--
Financial Lease Obligations (net)	8	807.265.167	957.728.732
Other Financial Liabilities (net)	10	--	--
Accounts Payable (net)	7	8.157.175	8.556.817
Due to Related Parties (net)	9	--	--
Advances Received	21	--	--
Provisions for Liabilities	23	113.257.625	99.777.377
Deferred Tax Liability	14	91.083.328	46.484.742
Other Liabilities (net)	10	1.254.152	3.618.326
MINORITY INTERESTS	24	--	--
SHAREHOLDERS' EQUITY			
		1.252.534.132	1.110.113.756
Share Capital			
	25	175.000.000	175.000.000
Capital Reserves			
	26-27-28	1.872.838.374	1.872.838.374
- Share Premium		181.185	181.185
- Share Premium of Cancelled Shares		--	--
- Revaluation Surplus on Tangible Fixed Assets		--	--
- Revaluation Increments on Financial Assets		--	--
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
Profit Reserves			
	26-27-28	8.223.909	8.223.909
- Legal Reserves		417.011	417.011
- Statutory Reserves		--	--
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		9	9
- Associate Shares and Gain on Sale of Investments			
Property to be added to Capital		--	--
- Foreign Currency Translation Differences		--	--
Net Profit for the Period		142.420.376	107.058.441
Accumulated Profits/(Losses)	26-27-28	(945.948.527)	(1.053.006.968)
Total Liabilities and Shareholders' Equity		3.457.184.600	2.948.152.474

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF INCOME FOR THE NINE-MONTH PERIOD ENDED
AT 30 SEPTEMBER 2005 AND 2004

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

		Not Audited 1 January - 30 September 2005	Not Audited 1 July- 30 September 2005	Audited 1 January- 30 September 2004	Audited 1 July- 30 September 2004
	Note	<u>30 September 2005</u>	<u>30 September 2005</u>	<u>30 September 2004</u>	<u>30 September 2004</u>
MAIN OPERATING REVENUES					
Sales Revenues (net)	36	2.100.128.691	872.840.351	1.915.253.092	821.052.669
Cost of Sales (-)	36	(1.791.013.050)	(689.070.126)	(1.522.597.279)	(599.906.471)
Service Revenues (net)		--	--	--	--
Other Revenues from Main Operations /Interest +Dividend+Rent (net)	36	264.693.107	86.793.441	203.227.891	60.473.079
GROSS OPERATING PROFIT		573.808.748	270.563.666	595.883.704	281.619.277
Operating Expenses (-)	37	(454.296.070)	(146.021.710)	(437.204.588)	(149.123.265)
NET OPERATING PROFIT / (LOSS)		119.512.678	124.541.956	158.679.116	132.496.012
Income from Other Operations	38	351.806.213	128.072.015	246.932.764	76.274.851
Losses from Other Operations (-)	38	(221.163.687)	(56.910.501)	(273.229.392)	(55.712.108)
Financial Expenses (-)	39	(44.274.346)	(17.329.079)	(33.170.241)	(11.417.109)
OPERATING PROFIT / (LOSS)		205.880.858	178.374.391	99.212.247	141.641.646
Net Monetary Gain / (Loss) (net)	40	--	--	101.409.013	21.844.262
MINORITY INTEREST	24	--	--	--	--
PROFIT BEFORE TAXATION		205.880.858	178.374.391	200.621.260	163.485.908
Taxes	41	(63.460.482)	(49.265.792)	(74.538.513)	(45.821.687)
NET PROFIT FOR THE PERIOD		<u>142.420.376</u>	<u>129.108.599</u>	<u>126.082.747</u>	<u>117.664.221</u>
EARNINGS PER SHARE (YKr)	42	0,081	0,072	0,072	0,067

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE NINE-MONTH PERIOD
ENDED AT 30 SEPTEMBER 2005 AND 2004

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

	Share Capital	Restatement Effect on Shareholders' Equity	Share Premium	Legal Reserves	Extraordinary Reserves	Special Funds	Net Profit/(Loss) For The Period	Accumulated Losses	Total
Balances at 31 December 2003	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	243.458.570	(1.296.465.538)	1.003.055.315
Transfer of Previous Year's Profit to Accumulated Losses	--	--	--	--	--	--	(243.458.570)	243.458.570	--
Current Period Profit	--	--	--	--	--	--	126.082.747	--	126.082.747
Balances at 30 September 2004	<u>175.000.000</u>	<u>1.872.657.189</u>	<u>181.185</u>	<u>417.011</u>	<u>7.806.889</u>	<u>9</u>	<u>126.082.747</u>	<u>(1.053.006.968)</u>	<u>1.129.138.062</u>
Balances at 31 December 2004	175.000.000	1.872.657.189	181.185	417.011	7.806.889	9	107.058.441	(1.053.006.968)	1.110.113.756
Transfer of Previous Year's Profit to Accumulated Losses	--	--	--	--	--	--	(107.058.441)	107.058.441	--
Current Period Profit	--	--	--	--	--	--	142.420.376	--	142.420.376
Balances at 30 September 2005	<u>175.000.000</u>	<u>1.872.657.189</u>	<u>181.185</u>	<u>417.011</u>	<u>7.806.889</u>	<u>9</u>	<u>142.420.376</u>	<u>(945.948.527)</u>	<u>1.252.534.132</u>

The accompanying notes form an integral part of these financial statements

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 30 September 2005, the shareholders and their respective shareholdings in the Company were as follows:

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

The total number of employees working for the Company as of 30 September 2005 is 11.256 (30 September 2004: 10.312). The average number of employees working for the Company in 30 September 2005 and 2004 is 11.138 and 10.236, respectively. Financial assets of the Company are stated at note 16.

The Company is registered in İstanbul, Turkey and its head office address is as follows: THY Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy- İstanbul.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Accounting Standards Applied:

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

The Company’s financial statements are prepared compliant with accounting and reporting principles promulgated by Capital Markets Board. Capital Markets Board issued a comprehensive set of accounting principles in the Comminique Serial XI no:25 “Accounting Principles in the Capital Markets”. In the Comminique, it is stated that alternatively application of accounting standards promulgated by International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) is deemed as the application of accounting standards of Capital Markets Board.

By the decision made on 17 March 2005, Capital Markets Board declared that it is not required to apply inflation accounting effective after 1 January 2005 for companies which operate in Turkey and prepare financial statements compliant with Accounting Principles of Capital Markets Board. Therefore, IAS 29 “Financial Reporting in Hyperinflationary Economies” issued by IASC was not applied in the financial statements, all other International Financial Reporting Standards pertaining to measurement and all changes made in those standards in 2005 were applied. Financial statements and footnotes are presented in the compulsory formats by an announcement dated on 20 December 2004 by Capital Markets Board.

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

New Turkish Lira:

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

Preparation of Financial Statements in Hyperinflationary Periods

Depending on the CMB's decision dated on 17 March 2005 which stated that it is not required to apply inflation accounting effective after 1 January 2005 for the companies preparing the financial statements compliant with CMB Accounting Standards, The Company did not apply inflation accounting after 1 January 2005. The balance sheet as of 31 December 2004 and the income statement of previous period which were presented for comparison are stated in the purchasing power of YTL as of 31 December 2004.

International Accounting Standard 29 (IAS 29), "Financial Reporting in Hyperinflationary Economies", requires financial statements prepared in the currency of a hyperinflationary economy to be adjusted by purchasing power of that currency as of balance sheet date and previous period's financial statements to be adjusted for comparison by using the same values. One of the primary reasons requiring application of IAS 29 is three-year cumulative inflation rate approaching to 100 % or exceeding 100 %. Adjustment has been made by using conversion factors derived from countywide Wholesale Price Index announced by the State Institute of Statistics. The indices and the conversion factors used to restate the financial statements as at 31 December 2004 and 30 September 2004 are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion Factor</u>	<u>Three-year cumulative inflation rates %</u>
31 December 2004	8.403,8	1,000	69,7
30 September 2004	8.069,7	1,041	88,7

As at 30 September 2005, the exchange rate announced by the Turkish Central Bank was YTL 1,3406 = US Dollar 1 (31 December 2004: 1,3421 YTL = US Dollar 1).

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

The main procedures for the restatement of previous period's financial statements are given below:

- Previous period's financial statements in the currency of a hyperinflationary economy are expressed at the purchasing power as of 31 December 2004.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit at the balance sheet date.
- Non-monetary assets and liabilities and shareholders' equity which was not expressed at the purchasing power as of balance sheet date are restated by using relevant conversion factors.
- All items in the income statement are restated by using relevant (monthly) conversion factors and expressed at the purchasing power as of 31 December 2004.
- The effect of inflation on the Company's net monetary position is reflected as net monetary gain/loss in the previous period's income statement.

Basis of Consolidation:

Jointly-controlled entity:

There is one entity which is controlled jointly by THY. The associate of which participation rate of THY is 50 % and not controlled by The Company is valued by equity method.

For purposes of financial statements, the associate's principal activity and direct and indirect participation rate of the Company are given below:

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

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

Comparative Information

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

Offsetting

Financial assets and liabilities are offset and the net amount recognized 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.

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

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

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

3.2 Inventory Valuation

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

3.3 Tangible Fixed Assets

Tangible fixed assets are measured at net book value calculated as acquisition cost at 30 September 2005 less accumulated depreciation. Tangible fixed assets are depreciated on a periodical basis for all categories except for repairables. Repairables are depreciated on a group basis.

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

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

3.4 Intangible Fixed Assets

Intangible fixed assets of the Company include leasehold improvements, rights, information systems and softwares. Intangible fixed assets are reflected at cost as of 30 September 2005, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years.

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Impairment on Assets:

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

The Company's management is in the opinion that the situation explained above causes a fictitious value increase. Therefore, the Company decreases the adjusted net book value of its aircraft, spare engines and simulators as of 30 September 2005 to net book value of these assets based on US Dollar acquisition costs. An examination is then made of whether net book values based on US Dollar acquisition costs may exceed their recoverable amount. Recoverable amount is determined as, higher of the present value of cash flows expected from the use of assets and their net selling price. Net selling price is determined based on the International Aircraft Price Guide. In the accompanying financial statements, the difference between adjusted net book values of these assets and net book values based on US Dollar acquisition costs is netted off against monetary gain. The difference between net book values of these assets based on US Dollar acquisition costs and recoverable amount is recognized as impairment loss under operating expenses.

3.6 Borrowing Costs

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

3.7 Manufacturers' Credits

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

3.8 Financial Instruments and Financial Risk Management

(a) Classification and Accounting

The Company classifies and accounts for financial instruments as follows:

Securities Held for Trading:

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Investments Held to Maturity:

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

Investments Available for Sale:

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

Investments At Equity:

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

(b) Measurement

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

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

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

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include accounts and other payables, due to related parties, bank loan and finance lease obligations. Foreign currency loans are translated into Turkish Lira at the rates of change ruling at the balance sheet date.

Book values of accounts payable and due to related parties are estimated to reach approximate market value, except discounting of liabilities.

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

Credit Risk

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

Price Risk

• Currency Risk:

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

• Interest Risk:

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

• Market Risk:

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

• Liquidity Risk

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

3.9 Foreign Currency Transactions

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

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

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2003	1,3958	1,4953
30 September 2004	1,4977	1,4159
31 December 2004	1,3421	1,4223
30 September 2005	1,3406	1,3373

3.10 Earnings Per Share

Earnings per share is calculated as 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.

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

3.11 Events Subsequent To The Balance Sheet Date

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

3.12 Provisions, Contingent Liabilities and Contingent Assets

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Provisions, Contingent Liabilities and Contingent Assets (cont'd)

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

3.13 Leases

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

3.14 Related Parties

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

3.15 Segmental Reporting

Business Segments

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

Geographical Segments

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

3.16 Taxation and Deferred Taxes

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

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

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

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

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Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Taxation and Deferred Taxes (cont'd)

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

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

3.17 Employee Retirement and Termination Indemnities

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

3.18 Use of Estimates

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

3.19 Maintenance and Repair Costs

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

3.20 Frequent Flyer Program

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

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

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Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Cash	341.441	162.030
Cheques received	23.156	116.877
Banks	601.471.952	363.838.243
Other liquid assets	9.579.790	1.520.333
	<u>611.416.339</u>	<u>365.637.483</u>

Foreign currency bank balances are 311.207.058 YTL at 30 September 2005 (31 December 2004: 247.555.286 YTL).

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>30 September 2005</u>
279.740.000	YTL	05.07.2005 – 30.09.2005	03.10.2005 – 30.01.2006	279.740.000
157.525.000	Euro	01.09.2005 – 30.09.2005	03.10.2005 – 03.10.2005	254.576.153
				<u>534.316.153</u>
<u>Amount</u>	<u>Currency</u>	<u>Opening</u>	<u>Maturity</u>	<u>31 December 2004</u>
112.500.000	YTL	25.10.2004-31.12.2004	03.01.2005- 24.01.2005	112.500.000
22.500.000	US Dollar	31.12.2004	03.01.2005	30.197.250
89.790.000	Euro	31.12.2004	03.01.2005	164.028.372
				<u>306.725.622</u>

5 MARKETABLE SECURITIES (NET)

None (31 December 2004: None).

6 BANK BORROWINGS (NET)

Bank Borrowings consists of the following short-term bank credit.

<u>Bank Name</u>	<u>Maturity</u>	<u>Currency</u>	<u>Interest Accruals</u>	<u>YTL</u>
T.İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	411.873 US Dollar	362.514.157

(31 December 2004: None).

7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

i) Short-term accounts receivable consists of:

	30 September 2005	31 December 2004
Trade receivables	240.841.600	175.591.911
Discount on receivables	(2.958.259)	(341.303)
Provision for doubtful receivables	(17.825.943)	(16.665.558)
	<u>220.057.398</u>	<u>158.585.050</u>

ii) Short-term accounts payable consists of :

	30 September 2005	31 December 2004
Trade payables	243.418.299	186.439.488
Deposits and guarantees received	4.927.699	4.221.819
Other	9.583	109.646
	<u>248.355.581</u>	<u>190.770.953</u>

iii) Long-term accounts receivable consists of:

	30 September 2005	31 December 2004
Deposits and guarantees received	<u>8.157.175</u>	<u>8.556.817</u>

8 FINANCIAL LEASE RECEIVABLES AND OBLIGATIONS (NET)

i) Financial Lease Receivables: None (31 December 2004: None).

ii) Financial Lease Obligations:

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

	30 September 2005	31 December 2004
Not later than one year	248.268.908	237.797.984
Between 1 - 4 years	566.000.396	608.219.202
Over 4 years	335.671.919	451.213.188
	<u>1.149.941.223</u>	<u>1.297.230.374</u>
Less: Future interest expense	(128.675.423)	(136.789.388)
Principal value of future rentals shown in the balance sheets	<u>1.021.265.800</u>	<u>1.160.440.986</u>
Represented by :		
Current liabilities	214.000.633	202.712.254
Long term liabilities	807.265.167	957.728.732
	<u>1.021.265.800</u>	<u>1.160.440.986</u>
Interest range:		
Floating rate obligations	784.714.905	872.924.584
Fixed rate obligations	236.550.895	287.516.402
	<u>1.021.265.800</u>	<u>1.160.440.986</u>

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

8 FINANCIAL LEASE RECEIVABLES AND OBLIGATIONS (NET) (cont'd)

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

	30 September 2005	31 December 2004
Not later than one year	106.180.014	74.824.262
Between 1 - 4 years	155.482.019	117.723.485
Over 4 years	16.521.796	1.488.724
	278.183.829	194.036.471

9 DUE TO AND FROM RELATED PARTIES (NET)

i) Due to and from related parties as of 30 September 2005 and 31 December 2004 :

Due from related parties consists of following:

	30 September 2005	31 December 2004
Güneş Ekspres Havacılık A.Ş. (Sun Express)	436.540	812.763
Uçak Servisi A.Ş. (USAŞ)	-	158
	436.540	812.921

Due from related parties consists of following:

	30 September 2005	31 December 2004
Sun Express	344.335	211.054
Uçak Servisi A.Ş. (USAŞ)	10.497.856	6.297.167
	10.842.191	6.508.221

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

	30 September 2005	30 September 2004
Services rendered to Sun Express	1.954.417	2.011.587
Services rendered to USAŞ	265.033	181.184
	2.219.450	2.192.771

	30 September 2005	30 September 2004
Services received from Sun Express	657.697	2.455.363
Services received from USAŞ	59.796.207	49.986.146
	60.453.904	52.441.509

Dividends received from Related Parties:

	30 September 2005	30 September 2004
Sun Express	7.080.216	4.237.552
Uçak Servisi A.Ş. (USAŞ)	1.113.723	192.844
Emek İnşaat ve İşletme A.Ş.	-	6.560
France Telecom	157.326	94.083
	8.351.265	4.531.039

10 OTHER RECEIVABLES AND LIABILITIES (NET)

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

i) Other short-term receivables consists of:

	30 September 2005	31 December 2004
Restriction on transfer of funds from banks (*)	-	845.502
Business advances given	854.023	345.966
Due from personnel	237.159	247.834
Receivable from SITA deposit certificates	116.056	150.242
Foreign receivables re-technical equipment	1.042.569	920.791
Due from insurance firms	3.195.465	-
Personnel salary advance	393.828	326.363
Other receivables	612.813	152.689
	6.451.913	2.989.387

(*) As of 31 December 2004, the balance of this account is related to bank balance in Egypt.

ii) Other long-term receivables consists of:

	30 September 2005	31 December 2004
Due from personnel	1.067.542	1.127.433
Receivable from SITA deposit certificates	821.994	702.736
Other receivables	91.276	90.955
	1.980.812	1.921.124

iii) Other short-term financial liabilities consist of:

	30 September 2005	31 December 2004
Bank borrowings (*)	326.800	281.244

(*) Bank borrowings consist of overnight interest-free borrowings for the purposes of settlement of tax and social security premium payments.

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

iv) Other short-term liabilities consist of:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Flight liability-advanced ticket sales	122.614.854	124.731.094
Flight liability resulting from sales of mileage	52.374.690	52.071.858
Accrued frequent flyer liability	8.801.368	6.993.168
Tax and funds payable	23.718.573	19.340.449
Gross manufacturers' credit	16.937.140	16.956.092
Accumulated amortization(-)	(15.780.873)	(14.564.872)
Accrued maintenance costs	14.351.583	15.944.575
Social security premiums payable	14.512.406	12.188.329
Expense accruals of insurance premiums	18.920.935	10.074.286
Deferred income from USAŞ share transfer	5.016.621	3.618.326
Sales incentive premium accrual	7.336.734	7.734.390
Fuel oil privilege expense accrual	730.598	730.598
Payable to personnel	535.933	253.428
State Airport Administration ("DHMI") protocol payable	-	1.822.211
Discount on DHMI protocol payable	-	(36.401)
Other liabilities	3.107.317	790.475
Other expense accruals	5.439.790	3.276.386
	<u>278.617.669</u>	<u>261.924.392</u>

v) Other long-term liabilities consist of:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Deferred income from USAŞ share transfer	1.254.152	3.618.326
	<u>1.254.152</u>	<u>3.618.326</u>

11 BIOLOGICAL ASSETS (NET)

None (31 December 2004: None).

12 INVENTORIES (NET)

	<u>30 September 2005</u>	<u>31 December 2004</u>
Spare parts, flight equipment	54.780.805	54.483.543
Other inventories	22.962.422	10.030.300
	<u>77.743.227</u>	<u>64.513.843</u>

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

None (31 December 2004: None).

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

14 DEFERRED TAX ASSETS AND LIABILITIES

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements as reported for financial statements compliant to Capital Markets Board's accounting standards and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for CMB and tax purposes and calculated regarding the items such as fixed assets, retirement pay, allowance for doubtful receivables. The deferred tax rate is 30%.

Temporary differences: deferred tax assets / (liabilities)

	30 September 2005	31 December 2004
Allowance for unrecoverable bank accounts	246	276
Provision for doubtful receivables	907.746	416.692
Restatement of inventory	469.695	8.716.457
Appreciation in value of financial assets	(812.201)	(1.483.820)
Changes in other short term assets	-	60.960
Short term lease obligation	48.641.682	47.867.011
Deferred income and expense	466.011	290.395
Expense accruals	10.138.128	13.125.543
Provision for advance ticket sales	(21.833.643)	(17.973.936)
Deferred income	1.881.224	1.851.799
Adjustments to long term assets	-	(620.529)
Fixed assets	(407.044.715)	(425.380.016)
Long term lease obligation	242.179.550	287.318.620
Retirement pay liability	33.977.288	29.933.213
Manufacturers' credit	346.880	717.366
Discount on receivables	772.994	102.072
Discount on payables	(1.174.213)	(19.996)
Unused investment incentives	-	3.704.211
Unused tax losses	-	4.888.940
Deferred tax liability	<u>(91.083.328)</u>	<u>(46.484.742)</u>

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

	30 September 2005	31 December 2004
Deferred tax charge related to the origination and reversal of temporary differences	44.598.586	2.818.011
Monetary gain on deferred tax liabilities	-	(6.043.575)
Net change in deferred tax	<u>44.598.586</u>	<u>(3.225.564)</u>

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

i) Other current assets consist of:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Prepaid sales commissions	12.428.822	10.414.391
Maintenance service income accrual	1.060.432	6.172.005
Deferred insurance expense	329.607	6.154.237
Prepaid operating lease expenses	5.208.672	3.982.248
Tax to be refunded	2.313.091	2.682.798
Prepaid financial expense of bank borrowing	1.480.248	-
Prepaid rent expenses	2.834.921	440.142
Expenditure allowance receivables from Tax Authority	26.378	10.601
Prepaid taxes and funds	-	51.305.913
Interline passenger income accrual	400.605	182.580
Prepaid Eximbank USA guarantee fee	1.092.408	1.092.408
VAT deductible	662.258	152.793
Prepaid aircraft financing expense	526.872	539.501
Other prepaid expenses	1.264.654	1.648.766
	<u>29.628.968</u>	<u>84.778.383</u>

ii) Other non-current assets consist of:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Prepaid Eximbank USA guarantee and exposure fee	6.162.474	7.001.219
Prepaid aircraft financing expense	2.338.646	2.688.118
Advances given for operating leases	2.625.569	1.241.311
Deposits given	1.240.389	1.736.867
	<u>12.367.078</u>	<u>12.667.515</u>

16 FINANCIAL ASSETS (NET)

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

	<u>30 September 2005</u>	<u>31 December 2004</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	18.974.630	16.706.000

ii) Financial assets available for sale are as follows:

	<u>30 September 2005</u>	<u>31 December 2004</u>
France Telecom	20.214.336	20.214.336
Diminution in value of France Telecom shares	(12.390.286)	(11.192.456)
Uçak Servis A.Ş. (USAŞ)	10.867.743	8.213.707
Appreciation in value of USAŞ shares	3.044.932	6.880.463
Sita Inc.	1.785.738	1.785.738
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
Other financial assets	1.426	1.426
	<u>23.550.748</u>	<u>25.930.073</u>
	<u>42.525.378</u>	<u>42.636.073</u>

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Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

16 FINANCIAL ASSETS (NET) (cont'd)

Tender for the catering service was won by Uçak Servis A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15 % of its total share capital to the Company. According to the agreement, ownership of first 10 % of shares was transferred on 21 June 2002, 1,25 % of shares was transferred on 2 January 2003 and 1,25 % of shares were transferred on 2 January 2004, 1,25 % of shares was transferred on 3 January 2005 and it will be completed to 15 % by transferring the ownership of 1,25% share in the year 2006. Consequently, 1.140 million shares corresponding to first 13,75 % of share of USAŞ's share capital, which was transferred to the Company, was recorded to "financial assets" and "deferred income" accounts at market value of YTL 19.650.109. "Deferred income" amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003 and 50 million shares in 2005 at İstanbul Stock Exchange.

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

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

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

17 POSITIVE/NEGATIVE GOODWILL (NET)

None (31 December 2004: None).

18 INVESTMENT PROPERTY (NET)

None (31 December 2004: None).

19 TANGIBLE FIXED ASSETS (NET)

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

	30 September 2005	31 December 2004
Tangible fixed assets (net)	1.769.240.154	1.810.476.604
Advances given for aircraft purchases	672.725.582	395.670.512
Advances given for other tangible fixed assets	6.356.081	-
	<u>2.448.321.817</u>	<u>2.206.147.116</u>

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Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

	Land, Land Improvements & Building	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Softwares	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction in Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets & Simulator s	Total Leased Assets	Total
Cost											
Opening balance 1 January 2005	164.394.003	293.126.703	216.627.863	1.271.455.508	284.390.748	386.260	2.230.381.085	3.359.221.949	17.796.598	3.377.018.547	5.607.399.632
Additions	-	2.682.981	1.910.580	59.209.061	70.035.194	1.924.568	135.762.384	-	-	-	135.762.384
Disposals	-	(2.691.251)	(4.741.780)	(57.043.500)	(38.911.060)	(341.221)	(103.728.812)	-	-	-	(103.728.812)
Closing balance 30 September 2005	164.394.003	293.118.433	213.796.663	1.273.621.069	315.514.882	1.969.607	2.262.414.657	3.359.221.949	17.796.598	3.377.018.547	5.639.433.204
Accumulated depreciation											
Opening balance 1 January 2005	45.636.971	252.663.395	196.713.598	778.440.216	139.865.031	-	1.413.319.211	936.557.576	5.265.168	941.822.744	2.355.141.955
Depreciation for the period	2.052.416	9.917.438	5.749.520	19.749.303	63.865.934	-	101.334.611	117.572.768	1.043.105	118.615.873	219.950.484
Disposals	-	(2.674.375)	(4.722.361)	(443.672)	(38.911.060)	-	(46.751.468)	-	-	-	(46.751.468)
Closing balance 30 September 2005	47.689.387	259.906.458	197.740.757	797.745.847	164.819.905	-	1.467.902.354	1.054.130.344	6.308.273	1.060.438.617	2.528.340.971
Accumulated impairment	-	6.275.679	-	273.124.786	-	-	279.400.465	1.057.984.368	4.467.246	1.062.451.614	1.341.852.079
30 September 2005 net book value	116.704.616	26.936.296	16.055.906	202.750.436	150.694.977	1.969.607	515.111.838	1.247.107.237	7.021.079	1.254.128.316	1.769.240.154
31 December 2004 net book value	118.757.032	32.529.232	19.914.266	202.929.868	144.525.717	386.260	519.042.375	1.283.505.372	7.928.857	1.291.434.229	1.810.476.604

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

20 INTANGIBLE FIXED ASSETS (Net)

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<u>Cost</u>			
Opening balance 1 January 2005	60.098.447	18.829.214	78.927.661
Additions	942.025	334.764	1.276.789
Disposals	-	(58.052)	(58.052)
Closing balance 30 September 2005	<u>61.040.472</u>	<u>19.105.926</u>	<u>80.146.398</u>
<u>Accumulated depreciation</u>			
Opening balance 1 January 2005	53.301.396	18.162.686	71.464.082
Amortization charge for the period	2.101.230	377.504	2.478.734
Disposals	-	(51.548)	(51.548)
Closing balance 30 September 2005	<u>55.402.626</u>	<u>18.488.642</u>	<u>73.891.268</u>
Accumulated impairment	-	-	-
30 September 2005 net book value	<u>5.637.846</u>	<u>617.284</u>	<u>6.255.130</u>
31 December 2004 net book value	<u>6.797.051</u>	<u>666.528</u>	<u>7.463.579</u>

21 ADVANCES RECEIVED

Advances received consist of:

	<u>30 September 2005</u>	<u>31 December 2004</u>
MCO advances	17.171.655	8.360.092
E-pos ticket advance	5.527.005	348.806
Deposits received from Turkish Republic		
Religious Affairs	570.125	2.350.512
Advances received for mileage credit sales	-	23.101.559
Other advances received	419.199	291.714
	<u>23.687.984</u>	<u>34.452.683</u>

22 RETIREMENT PLANS

There is not any agreement of retirement commitment except retirement pay liability which is explained under Provision for Liabilities.

23 PROVISIONS FOR LIABILITIES

i) Provisions for short-term liabilities consist of:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Accrued salaries	21.703.380	15.619.949
Provision for Taxes	14.249.795	-
Provision for legal claims	8.985.235	9.245.739
Other provisions for liabilities	349.596	357.289
	<u>45.288.006</u>	<u>25.222.977</u>

ii) Provisions for long-term liabilities:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Provision for Retirement Pay Liability	113.257.625	99.777.377

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(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

23 PROVISIONS FOR LIABILITIES (cont'd)

Provision for Retirement Pay Liability is recognized according to following explanations:

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, complete 25 years of service (20 years for women), are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of YTL 1.727 as at 30 September 2005 (31 December 2004: YTL 1.575). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

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

	<u>30 September 2005</u>	<u>30 September 2004</u>
Current service cost	15.330.828	18.601.533
Interest cost	4.081.802	3.979.044
Monetary gain	-	(7.628.522)
	<u>19.412.630</u>	<u>14.952.055</u>

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

	<u>30 September 2005</u>	<u>31 December 2004</u>
Provision at 1 January	99.777.377	89.528.586
Charge for the period	19.412.630	16.585.532
Payments during the period	(5.932.382)	(6.336.741)
Provision at 30 September	<u>113.257.625</u>	<u>99.777.377</u>

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

24 MINORITY INTERESTS

None (31 December 2004: None).

25 SHARE CAPITAL/ ASSOCIATE SHARE CAPITAL ELIMINATIONS

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

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

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

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

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

As at 30 June 2005, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to name. The Class C share, which belongs to the Privatization Administration, is a unique share with a par value of YKr 0.1 with the following privileges:

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

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

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

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

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

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(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

The Shareholder's Equity accounts of the Company as of 31 December 2004 and 2003, based on the Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards" issued by the Capital Market Board on 15 November 2003, are stated below with their nominal amounts and the differences arises from indexation of equity items is recognized in "Shareholders' Equity Inflation Adjustment Differences" account.

	<u>30 September 2005</u>	<u>31 December 2004</u>
Share Capital	175.000.000	175.000.000
Share Premium	181.185	181.185
Legal Reserves	417.011	417.011
Extraordinary Reserves	7.806.889	7.806.889
Other reserves	9	9
Shareholders' Equity Inflation Adjustment Differences	1.872.657.189	1.872.657.189
Net Profit	142.420.376	107.058.441
Accumulated Losses	(945.948.527)	(1.053.006.968)
	<u>1.252.534.132</u>	<u>1.110.113.756</u>
(*) Shareholders' Equity Inflation Adjustment Differences		
Share Capital	1.739.005.871	1.739.005.871
Share Premium	714.307	714.307
Legal Reserves	60.597.395	60.597.395
Extraordinary Reserves	67.026.275	67.026.275
Other reserves	5.313.341	5.313.341
	<u>1.872.657.189</u>	<u>1.872.657.189</u>

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

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

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29 FOREIGN CURRENCY POSITION

Foreign currency risk occurs from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debt. As of 30 September 2005, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

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

30 September 2005	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency based assets</i>					
Cash and cash equivalents	8.516.014	271.982.431	3.330.511	37.521.349	321.350.305
Account receivables (net)	36.889.709	41.663.167	6.420.895	50.802.861	135.776.632
Due from related parties (net)	353.460	73.048	-	-	426.508
Other short term receivables (short term)	4.309.889	691.138	5.827	124.884	5.131.738
Inventories-advances given	3.407.536	155.758	154.608	9.160	3.727.062
Other current assets	11.635.231	2.330.401	234.792	236.251	14.436.675
Other receivables (net)	1.979.498	-	-	-	1.979.498
Tangibles fixed assets (advances for aircraft)	678.867.357	167.121	47.184	-	679.081.662
Other non-current assets	11.465.896	454.953	71.104	343.335	12.335.288
	757.424.590	317.518.017	10.264.921	89.037.840	1.174.245.368
<i>Foreign currency based liabilities</i>					
Bank borrowings	362.514.157	-	-	-	362.514.157
Short term finance lease obligations	214.000.633	-	-	-	214.000.633
Accounts payable (short term) (net)	61.434.229	53.002.242	3.923.173	32.014.857	150.374.501
Due to related parties (net)	320.154	50.765	3.028	-	373.947
Deposits and advances received	757.831	76.413	356	237.124	1.071.724
Other accrued liabilities	349.596	-	-	-	349.596
Other liabilities	79.857.802	4.651.554	1.296.980	1.641.905	87.448.241
Long term finance lease obligations	807.265.167	-	-	-	807.265.167
Accounts payable (long-term)	423.849	5.792.712	520.083	1.420.531	8.157.175
	1.526.923.418	63.573.686	5.743.620	35.314.417	1.631.555.141
<i>Net foreign currency position (*)</i>	(769.498.828)	253.944.331	4.521.301	53.723.423	(457.309.773)

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

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29 FOREIGN CURRENCY POSITION (cont'd)

As of 30 September 2005, the net book values of aircraft and spare engines, which are carried from US Dollar acquisition costs or US Dollar selling prices is YTL 1.463.146.807 (31 December 2004: YTL 1.504.373.218).

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

30 GOVERNMENT GRANTS

The Company have investment incentive certificates; dated 23 May 2003 covering the period of 22.04.2003 – 22.04.2006 at amount of YTL 2.414.935.000 and dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2007 at amount of YTL 135.895.893. The investment incentive certificates provide benefits as exemption of Value Added Tax regarding the purchases of domestic and international goods and exemption of customs duty for investment goods imported from countries except European Union members.

In addition, of investment spending by 30 September 2005, the portion of YTL 38.729.018 is subject to 100% investment allowance, the portion of YTL 9.223.632 is subject to 40% investment allowance.

Investment allowances are deducted from current or future taxable income .

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31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is 37.898.648 YTL as of 30 September 2005 (31 December 2004: 34.044.958 YTL).

b) Purchase Commitments:

The Company has signed agreements to purchase 51 aircraft which will be obtained between years 2005-2008. Total value of these aircraft is approximately US Dollar 4.1 billion according to the list prices before any discounts to be applied by aircraft producer firms. THY paid a deposit of US Dollar 497 million as of 30 September 2005 related to these new purchases.

c) Letter of comfort:

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

d) The Company's discounted retirement pay provision is YTL 113.257.625. The Company's total undiscounted liability for retirement pay would be approximately YTL 180 million as of 30 September 2005, if all employees had been dismissed as at that date.

32 BUSINESS COMBINATIONS

None (31 December 2004: None).

33 SEGMENTAL REPORTING

Business Segments

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

Geographical Segments

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

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34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) Market price of 202.735 France Telecom securities, which is quoted at the Paris Stock Exchange, included in the financial investments available for sale as of 30 September 2005, has decreased from Euro 23,88 at 30 September 2005 to Euro 21,75 at 21 November 2005. Hence, the total market value of these securities decreased by YTL 697.873 compared to balance sheet date.

b) Market price of 2.650,5 million USAŞ securities, which is traded in İstanbul Stock Exchange Market, and included in the financial investments as available for sale as of 24 November 2005, has increased from YTL 5,35 at 30 June 2005 to YTL 6,25. Hence, the total market value of these securities increased by YTL 2.340.450 compared to balance sheet date.

c) The Company sold 397.500.000 of USAŞ shares in November 2005 at İstanbul Stock Exchange.

d) The Company has purchased three A340 type aircrafts before their lease agreements matured, which will be on 19 April 2006, 21 April 2010 and 22 April 2011.

35 DISCONTINUED OPERATIONS

None (31 December 2004: None).

36 OPERATING REVENUES

Operating revenues are as follows:

	30 September 2005	30 September 2004
Scheduled services		
- Passenger	1.909.602.784	1.724.600.587
- Cargo and mail	190.525.907	190.652.505
Non-scheduled services	25.959.121	33.241.961
Other revenues	238.746.506	169.989.245
Total revenues	2.364.834.318	2.118.484.298
Less: Discounts and sales returns	(12.520)	(3.315)
Net Sales	2.364.821.798	2.118.480.983
Cost of Sales (-)	(1.791.013.050)	(1.522.597.279)
Gross Operating Profit	573.808.748	595.883.704

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

	30 September 2005	30 September 2004
- Europe	903.329.525	814.695.011
- Middle East	189.469.274	180.717.936
- North Africa	54.307.664	48.864.846
- North America	112.504.322	119.246.260
- Far East	340.795.630	315.110.582
	1.600.406.415	1.478.634.635
Domestic	499.722.276	436.618.457
Total scheduled services' flight revenue	2.100.128.691	1.915.253.092

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36 OPERATING REVENUES (cont'd)

Cost of Sales consists of the following:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Fuel expenses	526.455.341	361.457.933
Staff expenses	373.492.566	294.487.188
Depreciation expenses	212.213.216	215.844.058
Handling and station expenses	185.689.968	179.927.495
Landing and navigation expenses	119.212.254	124.998.699
Passenger service and catering expenses	111.485.368	97.820.810
Maintenance expenses	107.156.407	93.701.589
Operating lease expenses	72.293.380	39.168.246
Insurance expenses	40.849.084	54.021.226
Other renting expenses	7.516.088	9.397.500
Aircraft rent expenses	6.844.268	17.790.112
Service expenses	5.132.382	4.236.516
Communication expenses	5.759.534	6.460.984
Other taxes	3.882.560	1.823.664
Lighting, heating and water expenses	2.551.191	3.097.370
Transportation expenses	1.671.528	938.328
Impairment loss	-	11.590.502
Cost of other sales	8.807.915	5.835.059
	<u>1.791.013.050</u>	<u>1.522.597.279</u>

37 OPERATING EXPENSES (-)

Operating expenses consist of the following:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Sales and marketing expenses		
Commission and promotion expenses	162.052.832	155.018.303
Staff expenses	92.527.408	81.576.102
Reservation system expenses	43.492.308	38.253.386
Communication expenses	10.360.749	10.487.576
Rent expenses	9.388.506	9.926.428
Service expenses	5.656.800	3.972.693
Advertisement expenses	4.584.117	2.429.613
Transportation expenses	3.429.757	2.648.642
Passenger service and catering expenses	3.127.442	2.656.231
Other taxes	2.923.952	1.805.447
Seat rent expenses	1.590.119	1.431.466
Lighting, heating and water expenses	1.087.478	1.057.338
Maintenance expenses	816.982	821.510
Software and computer equipment expenses	489.355	467.703
Fuel expenses	384.304	283.779
Insurance expenses	221.399	326.273
Other sales and marketing expenses	10.436.318	9.056.279
	<u>352.569.826</u>	<u>322.218.769</u>

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37 OPERATING EXPENSES (cont'd)

	<u>30 September 2005</u>	<u>30 September 2004</u>
General administrative expenses		
Staff expenses	71.584.254	84.246.959
Depreciation expenses	10.216.002	10.390.790
Other taxes	3.064.868	2.454.543
Maintenance expenses	2.711.855	2.661.514
Software and computer equipment expenses	2.335.180	2.995.041
Communication expenses	2.014.288	1.705.688
Commission and promotion expenses	1.531.438	1.356.464
Lighting, heating and water expenses	1.228.421	619.301
Service expenses	1.417.972	1.803.992
Other renting expenses	916.868	626.857
Insurance expenses	283.691	1.351.600
Fuel expenses	166.016	5.168
Other general administrative expenses	4.255.391	4.767.902
	<u>101.726.244</u>	<u>114.985.819</u>
Total operating expenses	<u>454.296.070</u>	<u>437.204.588</u>

38 REVENUES/EXPENSES AND PROFIT/LOSS FROM OTHER OPERATIONS

Income from other operations consists of the following:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Foreign exchange gains	182.487.824	179.882.906
Provision for diminution in value of fixed assets	99.928.995	-
Interest income	29.707.772	29.828.003
Reversal of unnecessary provision	7.712.281	7.678.593
Discounts received from spare parts suppliers	7.473.799	7.819.030
Free of cost of materials income	3.729.332	947.862
Income from investment accounted for equity method	2.268.630	7.364.298
Compensation received	2.994.110	1.769.697
Dividend income	8.351.265	4.531.039
Discount income	1.171.830	-
Manufacturers' credit income	1.370.759	1.477.897
Gain from sale of fixed assets	787.150	52.314
Other income	3.822.465	5.581.125
	<u>351.806.213</u>	<u>246.932.764</u>

Loss from other operations consists of the followings:

Foreign exchange losses	207.777.007	247.842.079
Provision expenses	8.210.651	10.605.117
Interest expenses-third parties	-	3.522.209
Retirement pay interest cost	4.081.802	3.979.044
Rent expense of RJ aircraft to be returned	-	2.882.110
Rent expense of RJ aircraft for the non-operating period	-	2.352.912
Discount expense	-	1.404.597
Expenses for Passengers without Visa	368.496	454.891
Other expenses	725.731	186.433
	<u>221.163.687</u>	<u>273.229.392</u>

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39 FINANCIAL EXPENSES (NET)

Financial expenses consist of the following:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Finance Lease interest expenses	34.976.472	33.170.241
Interest expense-bank borrowings	7.817.626	-
Other financial expense	1.480.248	-
	<u>44.274.346</u>	<u>33.170.241</u>

40 NET MONETARY GAIN/LOSS

By the decision issued on 17 March 2005, Capital Markets Board announced that it is not required to apply inflation accounting effective after 1 January 2005 for the companies operating in Turkey and making financial reporting compliant with the accounting standards of CMB. Depending on this announcement, The Company has ended application of inflation accounting after 1 January 2005. Therefore, there is no monetary gain/loss pertaining to the nine-month period ended as at 30 September 2005.

41 TAX

Corporation tax payable is as follows:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Provision for corporation tax payable	18.861.896	-
Prepaid taxes and funds	(4.612.101)	(51.305.913)
	<u>14.249.795</u>	<u>(51.305.913)</u>

Tax expense is as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Current period tax expense	18.861.896	11.788.390
Deferred tax expense	44.598.586	16.928.436
Tax expense	<u>63.460.482</u>	<u>28.716.826</u>

Corporate tax:

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

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

The effective tax rates are as follows:

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

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(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

41 TAX (cont'd)

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

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

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

Income withholding tax:

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

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

42 EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding during 30 September 2005 and 2004 the basic earnings per share calculation is as follows:

	30 September 2005	30 September 2004
Number of shares outstanding at January 1, (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at 30 September (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Weighted average number of shares outstanding during the period (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Net profit for the period	142.420.376	126.082.747
Basic earnings per share (YTL, full amount)	0,081	0,072

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43 STATEMENTS OF CASH FLOWS

	Not Audited 30 September 2005	Audited 30 September 2004
Cash flows from operating activities:		
Profit prior to taxation	205.880.858	200.621.260
<i>Adjustments to reconcile profit for the period to net cash provided by operating activities:</i>		
Depreciation	222.429.218	226.234.848
Provision for retirement pay liability	19.412.630	14.952.055
Interest income	(29.707.772)	(29.828.003)
Gain on fixed asset sales	(787.150)	(52.314)
Monetary gain on deferred taxes liabilities	--	(4.235.695)
Impairment (gain)/loss	(99.928.995)	11.590.502
Income from financial investment accounted per equity method	(2.268.630)	(7.364.298)
Interest expense	42.794.098	36.692.450
Movement in manufacturers' credit	3.547.487	(1.567.177)
Foreign exchange gain on finance leases	(910.165)	(13.395.652)
Provision for diminution in value of financial assets	5.033.361	1.963.492
Amortization of deferred income from USA\$ share transfer	(2.654.036)	(2.713.745)
Increase/(Decrease) in provision for doubtful receivable	1.160.385	(4.795.264)
Operating profit before working capital change	364.001.289	428.102.459
Increase in trade receivables	(62.632.733)	(40.687.361)
Decrease in due from related parties (short term)	376.381	58.671.235
Increase in other short and long term receivables	(3.522.214)	(6.085.329)
Increase in inventories	(13.229.384)	(12.189.428)
Decrease in other current assets	55.149.415	1.447.706
Decrease in other non-current assets	300.437	2.908.612
Increase in other financial liabilities	45.556	--
Increase in accounts payable	57.184.986	48.134.549
Increase in due to related parties	4.333.970	1.833.638
Decreases in advances received	(10.764.699)	(39.353.236)
Increase in provision for short term liabilities	5.815.234	--
Increase in other short and long term liabilities	10.781.616	2.603.527
Retirement benefits paid	(5.932.382)	(5.933.600)
Interest paid	(40.589.826)	(35.319.761)
Income taxes paid	(4.612.101)	(35.185.303)
Cash Generated from Operations	356.705.545	368.947.708
Cash flows from investing activities		
Cash outflow from purchase of financial assets	--	(8.266)
Cash inflow from sale of tangible and intangible fixed assets	57.429.777	6.116.567
Interest received	29.707.772	29.828.003
Acquisition of tangible and intangible fixed assets	(136.697.951)	(81.865.029)
Advances given for aircrafts	(283.411.151)	(315.827.689)
Net cash used in investing activities	(332.971.553)	(361.756.414)
Cash flows from financing activities		
Principal payment of finance leases	(140.469.293)	(229.250.586)
Changes in bank borrowings	362.514.157	811.875
Net cash provided by/(used in) financing activities	222.044.864	(228.438.711)
Net (decrease)/ increase in cash and cash equivalents	245.778.856	(221.247.417)
Cash and cash equivalents at the beginning of period	365.637.483	751.131.264
Cash and cash equivalents at the end of period	611.416.339	529.883.847

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

None (31 December 2004: None).