

# **TÜRK HAVA YOLLARI ANONİM ORTAKLIĐI**

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

CAPITAL MARKETS BOARD STANDARDS

FOR THE PERIOD ENDED 30 SEPTEMBER 2006

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 SEPTEMBER 2006 AND 31 DECEMBER 2005**  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

| ASSETS  | Note | <u>Not Audited</u><br><u>30 September 2006</u> | <u>Audited</u><br><u>31 December 2005</u> |
|---|------|--|---|
| <b>Current Assets</b>                                     |      | <b>907.894.073</b>                             | <b>825.922.684</b>                        |
| Cash and Cash Equivalents                                 | 4    | 400.742.254                                    | 482.910.555                               |
| Marketable Securities (net)                               | 5    | -  | -   |
| Accounts Receivable (net)                                 | 7    | 303.986.956                                    | 191.596.806                               |
| Financial Lease Receivables (net)                         | 8    | -  | -   |
| Due from Related Parties (net)                            | 9    | 25.437   | 970.701                                   |
| Other Receivables (net)                                   | 10   | 27.995.939                                     | 6.567.690                                 |
| Biological Assets (net)                                   | 11   | -  | -   |
| Inventories (net)   | 12   | 98.145.817                                     | 84.255.279                                |
| Receivables from Construction Contracts in Progress (net) | 13   | -  | -   |
| Deferred Tax Assets                                       | 14   | -  | -   |
| Other Current Assets                                      | 15   | 76.997.670                                     | 59.621.653                                |
| <b>Non-Current Assets</b>                                 |      | <b>3.706.153.681</b>                           | <b>2.688.869.983</b>                      |
| Accounts Receivable (net)                                 | 7    | -  | -   |
| Financial Lease Receivables (net)                         | 8    | -  | -   |
| Due from Related Parties (net)                            | 9    | -  | -   |
| Other Receivables (net)                                   | 10   | 2.324.508                                      | 1.901.488                                 |
| Financial Assets (net)                                    | 16   | 13.980.137                                     | 37.406.378                                |
| Positive/Negative Goodwill (net)                          | 17   | -  | -   |
| Investment Property                                       | 18   | -  | -   |
| Tangible Fixed Assets (net)                               | 19   | 3.666.460.225                                  | 2.631.113.979                             |
| Intangible Fixed Assets (net)                             | 20   | 5.789.879                                      | 6.154.133                                 |
| Deferred Tax Assets                                       | 14   | -  | -   |
| Other Non-current Assets                                  | 15   | 17.598.932                                     | 12.294.005                                |
| <b>Total Assets</b>                                       |      | <b><u>4.614.047.754</u></b>                    | <b><u>3.514.792.667</u></b>               |

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

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED BALANCE SHEETS**

**AS AT 30 SEPTEMBER 2006 AND 31 DECEMBER 2005**

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

|   | Note     | Not Audited<br>30 September 2006 | Audited<br>31 December 2005 |
|---|----------|----------------------------------|-----------------------------|
| <b>LIABILITIES</b>                                    |          |                                  |                             |
| <b>Short Term Liabilities</b>                         |          | <b>1.102.814.335</b>             | <b>1.198.903.059</b>        |
| Bank Borrowings (net)                                 | 6        | 4.704.882                        | 362.903.225                 |
| Short-term Portion of Long-term Bank Borrowings (net) | 6        | -                                | -                           |
| Financial Lease Obligations (net)                     | 8        | 231.566.568                      | 179.092.821                 |
| Other Financial Liabilities (net)                     | 10       | 398.639                          | 332.636                     |
| Accounts Payable (net)                                | 7        | 377.824.906                      | 255.994.916                 |
| Due to Related Parties (net)                          | 9        | 26.531.899                       | 8.022.859                   |
| Advances Received                                     | 21       | 39.104.343                       | 52.397.414                  |
| Billings on Construction Contracts in Progress (net)  | 13       | -                                | -                           |
| Provisions for Liabilities                            | 23       | 26.943.607                       | 27.543.644                  |
| Deferred Tax Liabilities                              | 14       | -                                | -                           |
| Other Liabilities (net)                               | 10       | 395.739.491                      | 312.615.544                 |
| <b>Long Term Liabilities</b>                          |          | <b>1.957.008.107</b>             | <b>1.067.548.015</b>        |
| Bank Borrowings (net)                                 | 6        | 39.878.802                       | -                           |
| Financial Lease Obligations (net)                     | 8        | 1.581.546.587                    | 856.730.859                 |
| Other Financial Liabilities (net)                     | 10       | -                                | -                           |
| Accounts Payable (net)                                | 7        | 9.919.022                        | 7.124.267                   |
| Due to Related Parties (net)                          | 9        | -                                | -                           |
| Advances Received                                     | 21       | -                                | -                           |
| Provisions for Liabilities                            | 23       | 114.200.576                      | 113.641.242                 |
| Deferred Tax Liabilities                              | 14       | 211.463.120                      | 90.051.647                  |
| Other Liabilities (net)                               | 10       | -                                | -                           |
| <b>MINORITY INTERESTS</b>                             | 24       | -                                | -                           |
| <b>SHAREHOLDERS' EQUITY</b>                           |          | <b>1.554.225.312</b>             | <b>1.248.341.593</b>        |
| <b>Share Capital</b>                                  | 25       | <b>175.000.000</b>               | <b>175.000.000</b>          |
| <b>Capital Reserves</b>                               | 26-27-28 | <b>1.872.838.374</b>             | <b>1.872.838.374</b>        |
| - Share Premium                                       |          | 181.185                          | 181.185                     |
| - Share Premium of Cancelled Shares                   |          | -                                | -                           |
| - Revaluation Surplus on Tangible Fixed Assets        |          | -                                | -                           |
| - Revaluation Increments on Financial Assets          |          | -                                | -                           |
| - Restatement Effect on Shareholders' Equity          |          | 1.872.657.189                    | 1.872.657.189               |
| <b>Profit Reserves</b>                                | 26-27-28 | <b>56.118.476</b>                | <b>8.223.909</b>            |
| - Legal Reserves                                      |          | 417.011                          | 417.011                     |
| - Statutory Reserves                                  |          | -                                | -                           |
| - Extraordinary Reserves                              |          | 7.806.889                        | 7.806.889                   |
| - Special Funds                                       |          | 47.894.576                       | 9                           |
| - Associate Shares and Gain on Sale of Investment     |          | -                                | -                           |
| Property to be added to Capital                       |          | -                                | -                           |
| - Foreign Currency Translation Differences            |          | -                                | -                           |
| <b>Net Profit for the Year</b>                        |          | <b>131.540.879</b>               | <b>138.227.837</b>          |
| <b>Accumulated Profits/(Losses)</b>                   | 26-27-28 | <b>(681.272.417)</b>             | <b>(945.948.527)</b>        |
| <b>Total Liabilities and Shareholders' Equity</b>     |          | <b>4.614.047.754</b>             | <b>3.514.792.667</b>        |

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

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

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

|   |             | <b>Not Audited</b>                          | <b>Not Audited</b>                    | <b>Audited</b>                              | <b>Audited</b>                        |
|---|-------------|---|---------------------------------------|---|---------------------------------------|
|   | <b>Note</b> | 01 January<br>2006-<br>30 September<br>2006 | 01 July 2006-<br>30 September<br>2006 | 01 January<br>2005-<br>30 September<br>2005 | 01 July 2005-<br>30 September<br>2005 |
| <b>MAIN OPERATING REVENUES</b>  |             |   |                                       |   |                                       |
| Sales Revenues (net)  | 36          | 2.807.890.951                               | 1.266.756.157                         | 2.250.609.952                               | 922.185.788                           |
| Cost of Sales (-)   | 36          | (2.395.177.178)                             | (959.006.963)                         | (1.791.013.050)                             | (689.070.126)                         |
| Service Revenues (net)  |             | -   | -                                     | -   | -                                     |
| Other Revenues from Main Operations<br>/Interest +Dividend+Rent (net) | 36          | 144.954.836                                 | 57.707.662                            | 114.211.846                                 | 37.448.004                            |
| <b>GROSS OPERATING PROFIT</b>   |             | <b>557.668.609</b>                          | <b>365.456.856</b>                    | <b>573.808.748</b>                          | <b>270.563.666</b>                    |
| Operating Expenses (-)  | 37          | (526.245.533)                               | (206.363.491)                         | (454.296.070)                               | (146.021.710)                         |
| <b>NET OPERATING PROFIT / (LOSS)</b>                                  |             | <b>31.423.076</b>                           | <b>159.093.365</b>                    | <b>119.512.678</b>                          | <b>124.541.956</b>                    |
| Income from Other Operations  | 38          | 799.308.289                                 | 60.618.574                            | 351.806.213                                 | 128.072.015                           |
| Losses from Other Operations (-)                                      | 38          | (557.905.440)                               | (112.877.105)                         | (221.163.687)                               | (56.991.501)                          |
| Financial Expenses (-)  | 39          | (77.682.598)                                | (5.761.337)                           | (44.274.346)                                | (17.248.079)                          |
| <b>OPERATING PROFIT</b>   |             | <b>195.143.327</b>                          | <b>101.073.497</b>                    | <b>205.880.858</b>                          | <b>178.374.391</b>                    |
| <b>MINORITY INTEREST</b>  | 24          | -   | -                                     | -   | -                                     |
| <b>PROFIT BEFORE TAXATION</b>   |             | <b>195.143.327</b>                          | <b>101.073.497</b>                    | <b>205.880.858</b>                          | <b>178.374.391</b>                    |
| Taxes   | 40          | (63.602.448)                                | (1.659.112)                           | (63.460.482)                                | (49.265.792)                          |
| <b>NET PROFIT</b>   |             | <b>131.540.879</b>                          | <b>99.414.385</b>                     | <b>142.420.376</b>                          | <b>129.108.599</b>                    |
| <b>EARNINGS PER SHARE (YKr)</b>                                       | 41          | <b>0,075</b>                                | <b>0,057</b>                          | <b>0,081</b>                                | <b>0,074</b>                          |

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

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

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

|   | Share Capital      | Restatement<br>Effect on<br>Shareholders'<br>Equity | Share<br>Premium | Legal<br>Reserves | Extraordinary<br>Reserves | Special<br>Funds  | Net Profit /<br>(Loss) For The<br>Period | Accumulated<br>Losses | Total                |
|---|--------------------|---|------------------|-------------------|---------------------------|-------------------|--|-----------------------|----------------------|
| Balances at 31 December 2004                                | 175.000.000        | 1.872.657.189                                       | 181.185          | 417.011           | 7.806.889                 | 9                 | 107.058.441                              | (1.053.006.968)       | 1.110.113.756        |
| Transfer of Previous Years'<br>Profit to Accumulated Losses | -                  | -   | -                | -                 | -                         | -                 | (107.058.441)                            | 107.058.441           | -                    |
| Net Profit for the Period                                   | -                  | -   | -                | -                 | -                         | -                 | 142.420.376                              | -                     | 142.420.376          |
| <b>Balances at 30 September 2005</b>                        | <b>175.000.000</b> | <b>1.872.657.189</b>                                | <b>181.185</b>   | <b>417.011</b>    | <b>7.806.889</b>          | <b>9</b>          | <b>142.420.376</b>                       | <b>(945.948.527)</b>  | <b>1.252.534.132</b> |
| Balances at 31 December 2005<br>Previously Reported         | 175.000.000        | 1.872.657.189                                       | 181.185          | 417.011           | 7.806.889                 | 9                 | 138.227.837                              | (945.948.527)         | 1.248.341.593        |
| Accounting policy change-<br>effect of IAS 36               | -                  | -   | -                | -                 | -                         | -                 | -  | 126.448.273           | 126.448.273          |
| Balances at 31 December 2005<br>As restated                 | 175.000.000        | 1.872.657.189                                       | 181.185          | 417.011           | 7.806.889                 | 9                 | 138.227.837                              | (819.500.254)         | 1.374.789.866        |
| Transfer of Previous Years'<br>Profit to Accumulated Losses | -                  | -   | -                | -                 | -                         | -                 | (138.227.837)                            | 138.227.837           | -                    |
| Revaluation Surplus on<br>Tangible Fixed Assets             | -                  | -   | -                | -                 | -                         | 47.894.567        | -  | -                     | 47.894.567           |
| Net Profit for the Period                                   | -                  | -   | -                | -                 | -                         | -                 | 131.540.879                              | -                     | 131.540.879          |
| <b>Balances at 30 September 2006</b>                        | <b>175.000.000</b> | <b>1.872.657.189</b>                                | <b>181.185</b>   | <b>417.011</b>    | <b>7.806.889</b>          | <b>47.894.576</b> | <b>131.540.879</b>                       | <b>(681.272.417)</b>  | <b>1.554.225.312</b> |

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

### 1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

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

|  |                 |
|--|-----------------|
| Republic of Turkey Prime Ministry Privatization Administration | % 49,00         |
| Other  | % 51,00         |
| Total  | <u>% 100,00</u> |

The total number of employees working for Türk Havayolları A.O. and its subsidiary as of 30 September 2006 is 12.795 (30 September 2005: 11.256). The average number of employees as of 30 September 2006 and 2005 are 12.765 and 11.138, respectively. Financial assets of the Group are stated at note 16.

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

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

### 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

#### 2.1 Accounting Standards Applied

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

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

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

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

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

| <u>Dates</u>      | <u>Index</u> | <u>Three-year cumulative<br/>inflation rates (%)</u> |
|-------------------|--------------|--|
| 30 September 2006 | 9.799,14     | 36,6   |
| 31 December 2005  | 8.785,74     | 35,6   |
| 30 September 2005 | 8.950,24     | 48,6   |
| 31 December 2004  | 8.403,80     | 69,7   |

#### 2.3 Basis of Consolidation

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

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

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

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

c) THY has two associates. The participation rate of THY is 50%, and the associates are not controlled by the Group. The entities are valued by equity method.

The table below sets out consolidated associates and indicates the proportion of ownership interest and effective interest of the Group in those associates at 30 September 2006:

| <u>Name of the Company</u>      | <u>Principal Activity</u> | <u>Direct Participation</u> | <u>Indirect Participation</u> | <u>Country of Registration</u> |
|---------------------------------|---------------------------|-----------------------------|-------------------------------|--------------------------------|
| Güneş Ekspres Havacılık A.Ş.    | Air Transportation        | 50%                         | -                             | Turkey                         |
| THY DO&CO İkrâm Hizmetleri A.Ş. | Catering                  | 50%                         | -                             | Turkey                         |

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

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

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

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

#### 2.5 Offsetting

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

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Revenue Recognition and Commission Expenses

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

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

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

#### 3.2 Inventory Valuation

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



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

#### 3.3 Tangible Fixed Assets

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

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

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

#### 3.4 Intangible Fixed Assets

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

#### 3.5 Impairment on Assets

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

The Company appraises its lands by appraisal reports and determines their net selling prices. The value increases determined by appraisal reports compared to book values are shown under the shareholders' equity accounts. The Company has appraised its lands in 2006.

#### 3.6 Borrowing Costs

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

#### 3.7 Manufacturers' Credits

Manufacturers' credits are earned against acquisition and/or lease of aircraft and engines. The Company records these credits as a reduction to the cost of the owned or financially leased assets and amortizes them over the assets' economic lives. Manufacturers' credits earned through operational leases are recorded as deferred revenue and amortized over the lease term.

#### 3.8 Financial Instruments and Financial Risk Management

##### a) Classification and Accounting

The Group classifies and accounts for financial instruments as follows:

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

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

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

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

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

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

##### *Investments At Equity:*

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

##### b) Measurement

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

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

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

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

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

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

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

Güneş Ekspres Havacılık A.Ş.(Sunexpress) and THY DO&CO İkrâm Hizmetleri A.Ş. (THY DO&CO) are accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. (USAŞ) shares are classified as available for sale investments and changes in their fair values are recognized as profit or loss.

Financial assets other than Sunexpress, THY DO&CO, and USAŞ are stated at their cost since their fair values can not be measured reliably.

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

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

Financial expenses are accounted for on an accrual basis. Accounts and other payables and due to related parties are recorded at their nominal value, which approximates their fair value.

#### *Credit Risk*

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

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Notes to the consolidated financial statements as at 30 September 2006

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

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

##### *Price Risk*

- Currency Risk

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

- Interest Risk

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

- Market Risk

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

- Liquidity Risk

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

#### 3.9 Foreign Currency Transactions

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

The closing and average exchange rates of YTL to US Dollar, calculated starting from the beginning of the year, for the periods are as follows:

|                   | <u>Closing Rate</u> | <u>Average Rate</u> |
|-------------------|---------------------|---------------------|
| 30 September 2006 | 1,4971              | 1,4262              |
| 31 December 2005  | 1,3418              | 1,3405              |
| 30 September 2005 | 1,3406              | 1,3373              |
| 31 December 2004  | 1,3421              | 1,4223              |

#### 3.10 Earnings Per Share

Earnings per share is calculated by dividing net profit for the period by the number of shares outstanding at the end of the 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.

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

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

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

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

#### 3.13 Leases

The Group leases aircraft, engines, simulators, computer equipments and vehicles by financial leases or operational leases. Financial leases are reflected in the Group's balance sheet by recording leased assets and lease liabilities equal to the present value of lease payments. The finance leased assets are depreciated over their economic lives. Operating leases are accounted for as operating expense when incurred.

#### 3.14 Related Parties

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

#### 3.15 Taxation and Deferred Taxes

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

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

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences whereas deferred tax assets are only recognized when it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

#### 3.16 Employee Retirement and Termination Indemnities

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

#### 3.17 Use of Estimates

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

#### 3.18 Maintenance and Repair Costs

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

#### 3.19 Frequent Flyer Program

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

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

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

|                     | <u>30 September 2006</u> | <u>31 December 2005</u> |
|---------------------|--------------------------|-------------------------|
| Cash                | 400.461                  | 195.489                 |
| Cheques received    | 67                       | 138.532                 |
| Banks               | 387.729.596              | 477.065.690             |
| Other liquid assets | 12.612.130               | 5.510.844               |
|                     | <u>400.742.254</u>       | <u>482.910.555</u>      |

Foreign currency bank balances are YTL 351.343.801 as of 30 September 2006 (31 December 2005: YTL 295.610.051).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

#### Time Deposits:

| <u>Amount</u> | <u>Currency</u> | <u>Opening Date</u>     | <u>Maturity</u>         | <u>30 September 2006</u> |
|---------------|-----------------|-------------------------|-------------------------|--------------------------|
| 33.700.000    | YTL             | 08.09.2006 - 29.09.2006 | 02.10.2006 – 09.10.2006 | 33.700.000               |
| 135.960.000   | Euro            | 08.09.2006 – 29.09.2006 | 02.10.2006 – 30.10.2006 | 257.834.544              |
|               |                 |                         |                         | <u>291.534.544</u>       |

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

### 5 MARKETABLE SECURITIES (NET)

None (31 December 2005: None).

### 6 BANK BORROWINGS (NET)

Bank loan which constitutes short and long term bank borrowings is as follows at 30 September 2006:

| <u>Bank Name</u> | <u>Maturity</u> | <u>Original Amount</u> | <u>Interest Accruals</u> | <u>YTL</u> |
|------------------|-----------------|------------------------|--------------------------|------------|
| Akbank           | 15.08.2009      | 29.597.073 US Dollar   | 182.958 US Dollar        | 44.583.684 |

Bank loan which constitutes short term bank borrowings is as follows at 31 December 2005:

| <u>Bank Name</u>                     | <u>Maturity</u> | <u>Original Amount</u> | <u>Interest Accruals</u> | <u>YTL</u>  |
|--------------------------------------|-----------------|------------------------|--------------------------|-------------|
| T.İş Bankası /<br>Citibank NA London | 31.03.2006      | 270.000.000 ABD Doları | 459.998 ABD Doları       | 362.903.225 |

### 7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

i) Short-term accounts receivable comprised the following:

|                                    | <u>30 September 2006</u> | <u>31 December 2005</u> |
|------------------------------------|--------------------------|-------------------------|
| Trade receivables                  | 325.254.441              | 210.448.412             |
| Discount on receivables            | (3.525.584)              | (2.334.886)             |
| Provision for doubtful receivables | (17.741.901)             | (16.516.720)            |
|                                    | <u>303.986.956</u>       | <u>191.596.806</u>      |

ii) Short-term accounts payable comprised the following:

|                                  | <u>30 September 2006</u> | <u>31 December 2005</u> |
|----------------------------------|--------------------------|-------------------------|
| Trade payables                   | 377.891.931              | 254.984.188             |
| Discount on payables             | (4.863.220)              | (2.705.808)             |
| Deposits and guarantees received | 4.796.195                | 3.715.141               |
| Other                            | -                        | 1.395                   |
|                                  | <u>377.824.906</u>       | <u>255.994.916</u>      |

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

**7 ACCOUNTS RECEIVABLE AND PAYABLE (NET) (cont'd)**

iii) Long-term accounts payable comprised the following:

|                                  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|----------------------------------|--------------------------|-------------------------|
| Deposits and guarantees received | 9.919.022                | 7.124.267               |

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

The future financial lease payments are as follows:

|   | <b>30 September 2006</b> | <b>31 December 2005</b> |
|---|--------------------------|-------------------------|
| Not later than one year                                       | 312.604.946              | 221.054.754             |
| Between 1 - 4 years   | 880.910.304              | 540.757.739             |
| Over 4 years  | 1.046.071.217            | 458.520.976             |
|   | <u>2.239.586.467</u>     | <u>1.220.333.469</u>    |
| Less: Future interest expense                                 | (426.473.312)            | (184.509.789)           |
| Principal value of future rentals shown in the balance sheets | <u>1.813.113.155</u>     | <u>1.035.823.680</u>    |
| Represented by :  |                          |                         |
| Current liabilities   | 231.566.568              | 179.092.821             |
| Long term liabilities   | 1.581.546.587            | 856.730.859             |
|   | <u>1.813.113.155</u>     | <u>1.035.823.680</u>    |
| Interest range:   |                          |                         |
| Floating rate obligations                                     | 1.672.876.257            | 982.205.221             |
| Fixed rate obligations  | 140.236.898              | 53.618.459              |
|   | <u>1.813.113.155</u>     | <u>1.035.823.680</u>    |

As of 30 September 2006, the US Dollar and Euro denominated lease obligations' interest rates are between 4,28 % and 4,75 % for fixed-rate obligations and between LIBOR minus %0,057 and LIBOR plus %3,0 for floating-rate obligations.

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

|                         | <b>30 September 2006</b> | <b>31 December 2005</b> |
|-------------------------|--------------------------|-------------------------|
| Not later than one year | 169.903.313              | 118.983.335             |
| Between 1 - 4 years     | 329.783.632              | 176.568.422             |
| Over 4 years            | 502.582.163              | 124.747.806             |
|                         | <u>1.002.269.108</u>     | <u>420.299.563</u>      |

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

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

Due from related parties (short term) comprised the following:

|                          | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--------------------------|--------------------------|-------------------------|
| Sun Express              | 25.327                   | 970.701                 |
| Uçak Servisi A.Ş. (USAŞ) | 110                      | -                       |
|                          | <u>25.437</u>            | <u>970.701</u>          |

Due to related parties (short term) comprised the following:

|                          | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--------------------------|--------------------------|-------------------------|
| Sun Express              | 9.204.579                | 459.029                 |
| Uçak Servisi A.Ş. (USAŞ) | 17.327.320               | 7.563.830               |
|                          | <u>26.531.899</u>        | <u>8.022.859</u>        |



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

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

|                                  | <u>30 September 2006</u> | <u>30 September 2005</u> |
|----------------------------------|--------------------------|--------------------------|
| Services rendered to Sun Express | 4.871.866                | 1.954.417                |
| Services rendered to USAŞ        | 320.029                  | 265.033                  |
|                                  | <u>5.191.895</u>         | <u>2.219.450</u>         |

|                                    | <u>30 September 2006</u> | <u>30 September 2005</u> |
|------------------------------------|--------------------------|--------------------------|
| Services received from Sun Express | 8.807.958                | 657.697                  |
| Services received from USAŞ        | 72.784.803               | 59.796.207               |
|                                    | <u>81.592.761</u>        | <u>60.453.904</u>        |

Dividends received from Related Parties:

|                          | <u>30 September 2006</u> | <u>30 September 2005</u> |
|--------------------------|--------------------------|--------------------------|
| Sun Express              | 14.350.919               | 7.080.216                |
| Uçak Servisi A.Ş. (USAŞ) | 409.135                  | 1.113.723                |
| France Telecom           | 342.741                  | 157.326                  |
|                          | <u>15.102.795</u>        | <u>8.351.265</u>         |

### 10 OTHER RECEIVABLES AND LIABILITIES (NET)

i) Other short-term receivables comprised the following:

|  | <u>30 September 2006</u> | <u>31 December 2005</u> |
|--|--------------------------|-------------------------|
| Receivables from several firms               | 17.254.297               | -                       |
| Due from insurance firms                     | 3.688.278                | 3.192.141               |
| Foreign receivables from technical suppliers | 1.566.955                | 1.557.088               |
| Business advances                            | 2.893.720                | 95.989                  |
| Receivables from RJ aircrafts modifications  | 625.390                  | 560.516                 |
| Personnel salary advances                    | 760.117                  | 375.337                 |
| Due from personnel                           | 285.730                  | 278.853                 |
| Receivable from SITA deposit certificates    | 165.629                  | 155.882                 |
| Other receivables                            | 755.823                  | 351.884                 |
|  | <u>27.995.939</u>        | <u>6.567.690</u>        |

ii) Other long-term receivables comprised the following:

|   | <u>30 September 2006</u> | <u>31 December 2005</u> |
|---|--------------------------|-------------------------|
| Receivable from SITA deposit certificates | 1.139.417                | 804.107                 |
| Due from personnel                        | 1.090.822                | 1.006.711               |
| Other receivables                         | 94.269                   | 90.670                  |
|   | <u>2.324.508</u>         | <u>1.901.488</u>        |

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

|                   | <u>30 September 2006</u> | <u>31 December 2005</u> |
|-------------------|--------------------------|-------------------------|
| Debt to banks (*) | 398.639                  | 332.636                 |

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

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**10 OTHER RECEIVABLES AND LIABILITIES (NET) (cont'd)**

iv) Other short-term liabilities comprised the following:

|  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--|--------------------------|-------------------------|
| Flight liability resulting from ticket sales           | 184.534.507              | 154.979.724             |
| Flight liability resulting from mileage sales          | 59.052.433               | 51.770.242              |
| Frequent flyer program liability                       | 39.049.628               | 30.577.262              |
| Accruals for maintenance costs                         | 34.697.599               | 12.585.613              |
| Taxes and funds payable                                | 19.377.907               | 16.204.908              |
| Social security premiums payable                       | 16.502.179               | 14.840.062              |
| Expense accruals for insurance premiums                | 10.631.786               | 10.468.387              |
| Gross manufacturers' credits                           | 11.517.840               | 19.690.997              |
| Accumulated amortization on manufacturers' credits (-) | (605.856)                | (16.199.785)            |
| Accruals for sales incentive premiums                  | 10.750.406               | 6.684.627               |
| Deferred income from USAŞ shares transfer              | 1.991.591                | 5.016.608               |
| Other liabilities                                      | 1.669.941                | 1.373.121               |
| Deferred technical income                              | 669.144                  | -                       |
| Debt to personnel                                      | 1.039.016                | 276.417                 |
| Accruals for other expenses                            | 4.861.370                | 4.347.361               |
|  | <u>395.739.491</u>       | <u>312.615.544</u>      |

**11 BIOLOGICAL ASSETS (NET)**

None (31 December 2005: None).

**12 INVENTORIES (NET)**

|                                | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--------------------------------|--------------------------|-------------------------|
| Spare parts, flight equipments | 81.756.068               | 69.659.366              |
| Other inventories              | 16.389.749               | 14.595.913              |
|                                | <u>98.145.817</u>        | <u>84.255.279</u>       |

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

None (31 December 2005: None).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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### 14 DEFERRED TAX ASSETS AND LIABILITIES

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

Temporary differences: Deferred Tax Assets / (Liabilities)

|   | <b>30 September 2006</b> | <b>31 December 2005</b> |
|---|--------------------------|-------------------------|
| Allowance for unrecoverable bank accounts         | 273                      | 246                     |
| Allowance for doubtful receivables                | 792.673                  | 230.607                 |
| Restatements on inventory                         | 436.380                  | 520.391                 |
| Diminution/(appreciation) in value of investments | 1.166.255                | (666.579)               |
| Short term lease obligations                      | 33.448.216               | 36.369.506              |
| Deferred income and expenses                      | 351.049                  | 456.107                 |
| Expense accruals                                  | 19.687.055               | 17.283.762              |
| Provision for advance ticket sales                | (24.944.000)             | (21.609.699)            |
| Deferred income                                   | 597.473                  | 1.504.979               |
| Fixed assets                                      | (475.194.986)            | (365.532.429)           |
| Long term lease obligations                       | 170.001.220              | 185.266.465             |
| Retirement pay liability                          | 34.246.785               | 34.092.373              |
| Manufacturers' credit                             | 8.387.711                | 1.392.681               |
| Discount on receivables                           | 902.087                  | 772.994                 |
| Discount on payables                              | (1.458.966)              | (811.742)               |
| Unused investment incentives                      | 13.349.371               | 20.048.657              |
| Unused tax losses                                 | 6.768.284                | 630.034                 |
| Deferred tax liability                            | <u>(211.463.120)</u>     | <u>(90.051.647)</u>     |

Movement in deferred tax liability is as follows:

|  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--|--------------------------|-------------------------|
| Net deferred tax charge related to temporary differences | (63.336.012)             | 43.566.905              |
| Net change in deferred tax                               | <u>(63.336.012)</u>      | <u>43.566.905</u>       |

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

|  | <b>30 September 2006</b> |
|--|--------------------------|
| 31 December 2005 opening value of deferred tax liability                             | 90.051.647               |
| As a result of accounting policy change, the effect on previous years deferred taxes | 54.192.117               |
| Total deferred tax liability from previous periods                                   | <u>144.243.764</u>       |
| Current period deferred tax expense  | 63.336.012               |
| Deferred taxes netted off from special reserves                                      | <u>3.883.344</u>         |
| Current period deferred tax liability  | <u>211.463.120</u>       |

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### 15 OTHER CURRENT/NON-CURRENT ASSETS

i) Other current assets comprised the following:

|   | <u>30 September 2006</u> | <u>31 December 2005</u> |
|---|--------------------------|-------------------------|
| Prepaid sales commissions                       | 14.213.912               | 11.149.101              |
| Prepaid operating lease expenses                | 10.258.409               | 5.314.180               |
| Interline passenger income accruals             | 2.273.685                | 3.843.430               |
| Maintenance service income accruals             | 16.740.895               | 10.127.094              |
| Tax to be refunded                              | 6.923.688                | 2.965.389               |
| Prepaid taxes and funds                         | 3.608.705                | 13.363.884              |
| VAT deductible                                  | 1.017.353                | 437.170                 |
| Income accruals relating to financial leasing   | 13.528.090               | -                       |
| Prepaid Eximbank USA guarantee and exposure fee | 1.092.408                | 1.092.408               |
| Prepaid rent expenses                           | 2.680.639                | 574.125                 |
| Deferred insurance expenses                     | 453.857                  | 6.787.420               |
| Prepaid aircraft financing expense              | 449.143                  | 487.846                 |
| Receivables from tax office                     | 31.390                   | 13.194                  |
| Prepaid financial expense of bank borrowing     | -                        | 740.124                 |
| Other prepaid expenses                          | 3.725.496                | 2.726.288               |
|   | <u>76.997.670</u>        | <u>59.621.653</u>       |

ii) Other non-current assets comprised the following:

|   | <u>30 September 2006</u> | <u>31 December 2005</u> |
|---|--------------------------|-------------------------|
| Prepaid Eximbank USA guarantee and exposure fee | 5.070.067                | 5.889.372               |
| Advances given for operating leases             | 4.642.922                | 2.637.672               |
| Prepaid operating lease expenses                | 4.005.626                | 374.744                 |
| Deposits given                                  | 2.035.882                | 1.325.066               |
| Prepaid aircraft financing expense              | 1.844.435                | 2.067.151               |
|   | <u>17.598.932</u>        | <u>12.294.005</u>       |

### 16 FINANCIAL ASSETS (NET)

i) The associates accounted for using the equity method are as follows:

|  | <u>30 September 2006</u> | <u>31 December 2005</u> |
|--|--------------------------|-------------------------|
| Güneş Ekspres Havacılık A.Ş. (Sun Express) | 8.537.593                | 17.490.282              |
| THY DO&CO İkrâm Hizmetleri A.Ş.            | 30.000.000               | -                       |
| THY DO&CO İkrâm Hizmetleri A.Ş.            | -                        | -                       |
| Capital Commitment                         | (30.000.000)             | -                       |
|  | <u>8.537.593</u>         | <u>17.490.282</u>       |

ii) Financial assets available for sale are as follows:

|   | <u>30 September 2006</u> | <u>31 December 2005</u> |
|---|--------------------------|-------------------------|
| France Telecom shares                             | -                        | 20.214.336              |
| Diminution in value of France Telecom shares      | -                        | (13.458.870)            |
| Uçak Servisi A.Ş. (USAŞ)                          | 8.110.722                | 8.085.622               |
| Appreciation/(diminution) in value of USAŞ shares | (4.376.082)              | 3.367.104               |
| Sita Inc.   | 1.679.619                | 1.679.619               |
| Emek İnşaat ve İşletme A.Ş.                       | 26.859                   | 26.859                  |
| Other financial assets                            | 1.426                    | 1.426                   |
|   | <u>5.442.544</u>         | <u>19.916.096</u>       |
|   | 13.980.137               | 37.406.378              |

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### 16 FINANCIAL ASSETS (NET) (cont'd)

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

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

Sun Express's total assets and equity are YTL 114.476.186 and YTL 17.075.186 respectively at 30 September 2006. (31 December 2005: YTL 69.014.975 and YTL 34.980.564).

THY DO&CO was established on 27 September 2006 with a capital of YTL 60.000.000, which was all committed. There has been no operations by 30 September 2006.

Details of the Company's financial assets at 30 September 2006 are as follows:

| <u>Name of the Company</u>                 | <u>Place of Incorporation and Operation</u> | <u>Ownership Rate</u> | <u>Voting Power Rate</u> | <u>Principal Activity</u>  |
|--|---|-----------------------|--------------------------|----------------------------|
| Güneş Ekspres Havacılık A.Ş. (Sun Express) | Turkey                                      | %50                   | %50                      | Air transportation         |
| THY DO&CO İkrâm Hizmetleri A.Ş.            | Turkey                                      | %50                   | %50                      | Catering Services          |
| Emek İnşaat ve İşletme A.Ş.                | Turkey                                      | %0,3                  | %0,3                     | Construction Information & |
| Sita Inc.                                  | Holland                                     | Less than 0,1%        | Less than 0,1            | Telecommunication Services |
| Uçak Servisi A.Ş.(USAŞ)                    | Turkey                                      | %3                    | %3                       | Catering                   |

### 17 POSITIVE/NEGATIVE GOODWILL (NET)

None (31 December 2005: None).

### 18 INVESTMENT PROPERTY (NET)

None (31 December 2005: None).

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**19 TANGIBLE FIXED ASSETS (NET)**

|  | <b><u>30 September 2006</u></b> | <b><u>31 December 2005</u></b> |
|--|---------------------------------|--------------------------------|
| Tangible fixed assets (net)                    | 3.252.932.493                   | 2.051.105.815                  |
| Advances given for aircraft purchases          | 384.324.590                     | 570.531.933                    |
| Advances given for other tangible fixed assets | 29.203.142                      | 9.476.231                      |
|  | <u>3.666.460.225</u>            | <u>2.631.113.979</u>           |

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

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

|   | Land, Land<br>Improvements &<br>Buildings | Technical<br>Equipments,<br>Simulators and<br>Vehicles | Other<br>Equipments,<br>Fixtures and<br>Software | Aircraft and<br>Spare Engines | Components and<br>Repairable Spare<br>Parts | Construction<br>in Progress | Total Assets<br>Owned | Leased Aircraft      | Other Leased<br>Fixed<br>Assets & Simulator<br>s | Total Leased<br>Assets | Total                |
|---|---|--|--|-------------------------------|---|-----------------------------|-----------------------|----------------------|--|------------------------|----------------------|
| <b>Cost</b>                             |   |  |  |                               |   |                             |                       |                      |  |                        |                      |
| Opening balance 1 January 2006          | 164.394.003                               | 295.103.154  | 200.528.580                                      | 2.027.132.388                 | 309.650.653                                 | 1.670.455                   | 2.998.479.233         | 2.901.409.819        | 17.796.598                                       | 2.919.206.417          | 5.917.685.650        |
| Transfers from finance leased aircraft  | -   | 4.654.093  | -  | 522.310.296                   | -   | -                           | 526.964.389           | (509.167.791)        | (17.796.598)                                     | (526.964.389)          | -                    |
| Additions                               | -   | 3.308.999  | 4.744.007  | 22.723.844                    | 74.704.687                                  | 19.199                      | 105.500.736           | 880.346.442          | -  | 880.346.442            | 985.847.178          |
| Disposals                               | (849.287)                                 | (18.201.709)   | (18.549.881)                                     | -                             | (52.752.103)                                | (78.611)                    | (90.431.591)          | -                    | -  | -                      | (90.431.591)         |
| Revaluation                             | 51.777.910                                | -  | -  | -                             | -   | -                           | 51.777.910            | -                    | -  | -                      | 51.777.910           |
| Closing balance 30 September 2006       | 215.322.626                               | 284.864.537  | 186.722.706                                      | 2.572.166.528                 | 331.603.237                                 | 1.611.043                   | 3.592.290.677         | 3.272.588.470        | -  | 3.272.588.470          | 6.864.879.147        |
| <b>Accumulated depreciation</b>         |   |  |  |                               |   |                             |                       |                      |  |                        |                      |
| Opening balance 1 January 2006          | 48.373.526                                | 262.683.227  | 184.566.172                                      | 1.050.923.392                 | 146.892.242                                 | -                           | 1.693.438.559         | 847.858.584          | 6.646.682  | 854.505.266            | 2.547.943.825        |
| Transfers from finance leased aircraft  | -   | 4.193.412  | -  | 240.233.320                   | -   | -                           | 244.426.732           | (237.780.050)        | (6.646.682)                                      | (244.426.732)          | -                    |
| Depreciation for the period             | 2.052.416                                 | 7.415.234  | 5.727.780  | 64.604.979                    | 70.696.087                                  | -                           | 150.496.496           | 94.282.532           | -  | 94.282.532             | 244.779.028          |
| Disposals                               | (469.504)                                 | (17.612.891)   | (18.587.193)                                     | -                             | (52.752.103)                                | -                           | (89.421.691)          | -                    | -  | -                      | (89.421.691)         |
| Closing balance 30 September 2006       | 49.956.438                                | 256.678.982  | 171.706.759                                      | 1.355.761.691                 | 164.836.226                                 | -                           | 1.998.940.096         | 704.361.066          | -  | 704.361.066            | 2.703.301.162        |
| Accumulated impairment                  | -   | 3.327.525  | -  | 611.290.322                   | -   | -                           | 614.617.847           | 294.027.645          | -  | 294.027.645            | 908.645.492          |
| <b>30 September 2006 net book value</b> | <b>165.366.188</b>                        | <b>24.858.030</b>                                      | <b>15.015.947</b>                                | <b>605.114.515</b>            | <b>166.767.011</b>                          | <b>1.611.043</b>            | <b>978.732.734</b>    | <b>2.274.199.759</b> | <b>-</b>   | <b>2.274.199.759</b>   | <b>3.252.932.493</b> |
| <b>31 December 2005 net book value</b>  | <b>116.020.477</b>                        | <b>26.709.444</b>                                      | <b>15.962.408</b>                                | <b>442.349.451</b>            | <b>162.758.411</b>                          | <b>1.670.455</b>            | <b>765.470.646</b>    | <b>1.278.899.340</b> | <b>6.735.829</b>                                 | <b>1.285.635.169</b>   | <b>2.051.105.815</b> |

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### 20 INTANGIBLE FIXED ASSETS (NET)

|   | <b>Rights</b>     | <b>Leasehold<br/>Improvements</b> | <b>Total</b>      |
|---|-------------------|-----------------------------------|-------------------|
| <b>Cost</b>                             |                   |                                   |                   |
| Opening balance 1 January 2006          | 61.631.745        | 19.233.061                        | 80.864.806        |
| Additions                               | 1.566.204         | 468.011                           | 2.034.215         |
| Disposals                               | (4.200)           | -                                 | (4.200)           |
| Closing balance 30 September 2006       | <u>63.193.749</u> | <u>19.701.072</u>                 | <u>82.894.821</u> |
| <b>Accumulated depreciation</b>         |                   |                                   |                   |
| Opening balance 1 January 2006          | 56.095.307        | 18.615.366                        | 74.710.673        |
| Amortization charge for the period      | 2.067.115         | 331.354                           | 2.398.469         |
| Disposals                               | (4.200)           | -                                 | (4.200)           |
| Closing balance 30 September 2006       | <u>58.158.222</u> | <u>18.946.720</u>                 | <u>77.104.942</u> |
| Accumulated impairment                  | -                 | -                                 | -                 |
| <b>30 September 2006 net book value</b> | <u>5.035.527</u>  | <u>754.352</u>                    | <u>5.789.879</u>  |
| <b>31 December 2005 net book value</b>  | <u>5.536.438</u>  | <u>617.695</u>                    | <u>6.154.133</u>  |

### 21 ADVANCES RECEIVED

i) Short-term advances received comprised the following:

|  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--|--------------------------|-------------------------|
| MCO advances                               | 20.221.572               | 15.962.740              |
| Charter advances                           | 11.861.237               | 3.413.900               |
| Advances received for financial leases     | 6.620.775                | 1.151.059               |
| Advances received for mileage credit sales | 27.920                   | 21.649.478              |
| E-pos ticket advances                      | 805                      | 9.675.611               |
| Other advances received                    | 372.034                  | 544.626                 |
|  | <u>39.104.343</u>        | <u>52.397.414</u>       |

### 22 RETIREMENT PLANS

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

### 23 PROVISIONS FOR LIABILITIES

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

|                             | <b>30 September 2006</b> | <b>31 December 2005</b> |
|-----------------------------|--------------------------|-------------------------|
| Accrued salaries            | 21.186.332               | 17.993.508              |
| Provisions for legal claims | 5.757.275                | 9.202.870               |
| Other provisions            | -                        | 347.266                 |
|                             | <u>26.943.607</u>        | <u>27.543.644</u>       |

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

|  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--|--------------------------|-------------------------|
| Provision for retirement pay liability | <u>114.200.576</u>       | <u>113.641.242</u>      |



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

Provision for Retirement Pay Liability is recognized as explained below:

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), or are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to an upper limit of YTL 1.857 as at 30 September 2006 (31 December 2005: YTL 1.727). The number of service years required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described here can be named as an unfunded defined benefit system. The total provision recognised in the financial statements represents the estimated present value of the vested benefit obligation.

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

|                      | <u>30 September 2006</u> | <u>31 December 2005</u> |
|----------------------|--------------------------|-------------------------|
| Current service cost | 10.461.166               | 15.330.828              |
| Interest cost        | 5.423.787                | 4.081.802               |
|                      | <u>15.884.953</u>        | <u>19.412.630</u>       |

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

|                            | <u>30 September 2006</u> | <u>31 December 2005</u> |
|----------------------------|--------------------------|-------------------------|
| Provision at 1 January     | 113.641.242              | 99.777.377              |
| Charge for the period      | 15.884.953               | 20.751.280              |
| Payments during the period | (15.325.619)             | (6.887.415)             |
| Provision at 30 September  | <u>114.200.576</u>       | <u>113.641.242</u>      |

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

### 24 MINORITY INTERESTS

None (31 December 2005: None).

### 25 SHARE CAPITAL/RECIPROCAL ASSOCIATE CAPITAL ADJUSTMENT

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

|   | <u>Group</u> | <u>%</u>  | <u>30 September 2006</u> | <u>%</u> | <u>31 December 2005</u> |
|---|--------------|-----------|--------------------------|----------|-------------------------|
| Republic of Turkey Prime<br>Ministry Privatization<br>Administration(*) | A, C         | 49,00(**) | 85.751.408               | 75,18    | 131.565.696             |
| Others  | A            | 51,00(**) | 89.248.592               | 24,82    | 43.434.304              |
| Share capital (historic)  |              |           | 175.000.000              |          | 175.000.000             |
| Restatement effect (Note:26-27-28)                                      |              |           | 1.739.005.871            |          | 1.739.005.871           |
| Restated share capital  |              |           | <u>1.914.005.871</u>     |          | <u>1.914.005.871</u>    |

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

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

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

As at 30 September 2006, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

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

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

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

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

|   | <b>30 September 2006</b> | <b>31 December 2005</b> |
|---|--------------------------|-------------------------|
| Share Capital   | 175.000.000              | 175.000.000             |
| Share Premium   | 181.185                  | 181.185                 |
| Legal Reserves  | 417.011                  | 417.011                 |
| Extraordinary Reserves                                    | 7.806.889                | 7.806.889               |
| Special funds   | 47.894.576               | 9                       |
| Shareholders' Equity Inflation Adjustment Differences (*) | 1.872.657.189            | 1.872.657.189           |
| Net Profit for the Year                                   | 131.540.879              | 138.227.837             |
| Accumulated Losses  | (681.272.417)            | (945.948.527)           |
|   | <u>1.554.225.312</u>     | <u>1.248.341.593</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              |
| Special funds   | 5.313.341                | 5.313.341               |
|   | <u>1.872.657.189</u>     | <u>1.872.657.189</u>    |

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

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

### 29 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Group has a foreign currency risk because of the foreign currency denominated debts. As of 30 September 2006, the Group does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Group.

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

The YTL equivalents of the items that comprise the foreign currency position of the Group as of 30 September 2006 and 31 December 2005 are as follows:

| <b>30 September 2006</b>                               | US Dollar              | Euro                 | Sterling          | Other              | Total                  |
|--|------------------------|----------------------|-------------------|--------------------|------------------------|
| <b><i>Foreign currency denominated assets</i></b>      |                        |                      |                   |                    |                        |
| Cash and cash equivalents                              | 21.327.911             | 285.288.663          | 1.667.248         | 55.223.906         | 363.507.728            |
| Accounts receivable (net)                              | 25.490.398             | 68.522.426           | 14.360.939        | 77.387.920         | 185.761.683            |
| Due from related parties (net)                         | -                      | -                    | -                 | -                  | -                      |
| Other receivables (short term) (net)                   | 19.513.380             | 740.269              | 75.369            | 405.560            | 20.734.578             |
| Inventory-advances                                     | 550.967                | 469.765              | 22.419            | 56.978             | 1.100.129              |
| Other current assets                                   | 34.411.074             | 5.515.618            | 190.578           | 1.594.987          | 41.712.257             |
| Other receivables (long term) (net)                    | 2.230.239              | -                    | -                 | -                  | 2.230.239              |
| Tangibles fixed assets (advances)                      | 408.356.994            | -                    | 5.088.512         | -                  | 413.445.506            |
| Other non-current assets                               | 16.186.615             | 736.404              | 86.831            | 521.435            | 17.531.285             |
|  | <u>528.067.578</u>     | <u>361.273.145</u>   | <u>21.491.896</u> | <u>135.190.786</u> | <u>1.046.023.405</u>   |
| <b><i>Foreign currency denominated liabilities</i></b> |                        |                      |                   |                    |                        |
| Bank borrowings (net)                                  | 4.704.882              | -                    | -                 | -                  | 4.704.882              |
| Financial lease obligations<br>(short term) (net)      | 200.799.113            | 30.767.455           | -                 | -                  | 231.566.568            |
| Accounts payable (short term) (net)                    | 158.055.918            | 76.812.868           | 2.555.791         | 47.087.893         | 284.512.470            |
| Due to related parties (net)                           | -                      | 9.204.579            | -                 | -                  | 9.204.579              |
| Deposits and advances received                         | 7.020.729              | 232.060              | 110.655           | 313.635            | 7.677.079              |
| Bank borrowings (long term) (net)                      | 39.878.802             | -                    | -                 | -                  | 39.878.802             |
| Other liabilities (net)                                | 122.854.201            | 52.538.743           | 12.023.399        | 50.269.595         | 237.685.938            |
| Financial lease obligations<br>(long term) (net)       | 1.219.780.087          | 361.766.500          | -                 | -                  | 1.581.546.587          |
| Accounts payable (long-term) (net)                     | 542.722                | 7.576.479            | 149.865           | 1.649.956          | 9.919.022              |
|  | <u>1.753.636.454</u>   | <u>538.898.684</u>   | <u>14.839.710</u> | <u>99.321.079</u>  | <u>2.406.695.927</u>   |
| <b><i>Net foreign currency position (*)</i></b>        | <u>(1.225.568.876)</u> | <u>(177.625.539)</u> | <u>6.652.186</u>  | <u>35.869.707</u>  | <u>(1.360.672.522)</u> |

(\*) Whereas, the Group seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Group values its aircraft, spare engines and simulators according to their US Dollar selling prices. In this respect, the Group's management is of the opinion that the Group's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Group's assets and liabilities against the changes in foreign exchange rates. As of 30 September 2006, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices is YTL 2.886.106.494 (31 December 2005: YTL 1.916.522.751).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

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

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

### 30 GOVERNMENT GRANTS

The Group has investment incentive certificates; dated 23 May 2003 covering the period of 22.04.2003 – 22.10.2007 at amount of YTL 2.660.640.000 and dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2007 at amount of YTL 152.816.530. The investment incentive certificates provide benefits for the exemption of Value Added Tax regarding domestic and international purchases of goods and exemption of customs duty for investment goods imported from countries other than European Union members.

In addition, of investment spending by 30 September 2006, YTL 42.099.806 is subject to 100% investment allowance and YTL 30.183.971 is subject to 40% investment allowance.

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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### 31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is YTL 51.330.906 as of 30 September 2006 (31 December 2005: YTL 38.040.225).

b) Purchase Commitments:

The Company has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered in 2005 and 19 of these aircrafts are delivered during first 9 months of 2006. Total value of these aircrafts is approximately US Dollar 4,7 billions according to the list prices before any discounts applicable by aircraft manufacturers. The Company paid a deposit of US Dollar 257 millions as of 30 September 2006 related to these aircrafts.

c) Letters of comfort:

|   | <u>30 September 2006</u> | <u>31 December 2005</u> |
|---|--------------------------|-------------------------|
| Letters of comfort given to Sun Express | US Dollar 2.900.000      | US Dollar 2.900.000     |
|   | Euro 2.556.459           | Euro 2.556.459          |

d) The Group's discounted retirement pay provision is YTL 114.200.576. The Group's undiscounted liability for retirement pay would be approximately YTL 196.492.082 as of 30 September 2006, if all employees were dismissed on that date.

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

### 32 BUSINESS COMBINATIONS

None (31 December 2005: None).

### 33 SEGMENTAL REPORTING

#### *Business Segments*

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

#### *Geographical Segments*

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

**33 SEGMENTAL REPORTING (cont'd)****33.1. Total Assets and Shareholders' Equity**

| <b>Total Assets</b>  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--|--------------------------|-------------------------|
| Aviation   | 4.627.982.509            | 3.514.792.667           |
| Technical service  | 360.559.706              | -                       |
| <b>Total</b>   | <b>4.988.542.215</b>     | <b>3.514.792.667</b>    |
| Less: Eliminations of consolidation                                | (374.494.461)            | -                       |
| <b>Total assets according to consolidated financial statements</b> | <b>4.614.047.754</b>     | <b>3.514.792.667</b>    |

| <b>Shareholders' Equity</b>  | <b>30 September 2006</b> | <b>31 December 2005</b> |
|--|--------------------------|-------------------------|
| Aviation   | 1.555.271.154            | 1.248.341.593           |
| Technical service  | 271.078.505              | -                       |
| <b>Total</b>   | <b>1.826.349.659</b>     | <b>1.248.341.593</b>    |
| Less: Eliminations of consolidation  | (272.124.347)            | -                       |
| <b>Total shareholders' equity according to consolidated financial statements</b> | <b>1.554.225.312</b>     | <b>1.248.341.593</b>    |

**33.2. Sales Revenues**

|  | <b>01 January 2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> |
|--|---|--|
| Aviation   | 2.807.890.951                                     | 1.266.756.157                                  |
| Technical service  | 155.679.904                                       | 116.925.335                                    |
| <b>Total</b>   | <b>2.963.570.855</b>                              | <b>1.383.681.492</b>                           |
| Less: Eliminations of consolidation  | (155.679.904)                                     | (116.925.335)                                  |
| <b>Total sales revenues according to consolidated financial statements</b> | <b>2.807.890.951</b>                              | <b>1.266.756.157</b>                           |

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

| <b>01 January 2006-30 September 2006</b> | <b>Aviation</b> | <b>Technical<br/>service</b> | <b>Eliminations<br/>between<br/>segments</b> | <b>Total</b>    |
|--|-----------------|------------------------------|--|-----------------|
| Sales revenues                           | 2.807.890.951   | 155.679.904                  | (155.679.904)                                | 2.807.890.951   |
| Other revenues from<br>main operations   | 151.118.893     | 167.305                      | (6.331.362)                                  | 144.954.836     |
| Cost of sales                            | (2.393.371.699) | (168.419.935)                | 166.614.456                                  | (2.395.177.178) |
| Gross operating profit / (loss)          | 565.638.145     | (12.572.726)                 | 4.603.190                                    | 557.668.609     |
| Operating expenses                       | (520.664.671)   | (5.580.862)                  | -  | (526.245.533)   |
| Net operating profit/ (loss)             | 44.973.474      | (18.153.588)                 | 4.603.190                                    | 31.423.076      |

| <b>01 July 2006- 30 September 2006</b> | <b>Aviation</b> | <b>Technical<br/>service</b> | <b>Eliminations<br/>between<br/>segments</b> | <b>Total</b>  |
|--|-----------------|------------------------------|--|---------------|
| Sales revenues                         | 1.266.756.157   | 116.925.335                  | (116.925.335)                                | 1.266.756.157 |
| Other revenues from<br>main operations | 59.126.658      | 157.511                      | (1.576.507)                                  | 57.707.662    |
| Cost of sales                          | (963.460.320)   | (118.651.675)                | 123.105.032                                  | (959.006.963) |
| Gross operating profit / (loss)        | 362.422.495     | (1.568.829)                  | 4.603.190                                    | 365.456.856   |
| Operating expenses                     | (202.231.226)   | (4.132.265)                  | -  | (206.363.491) |
| Net operating profit / (loss)          | 160.191.269     | (5.701.094)                  | 4.603.190                                    | 159.093.365   |

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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### 34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a) Market price of 1.026.000.000 USAŞ shares, which are traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of 30 September 2006, has increased from YTL 3,64 at 30 September 2006 to YTL 4,64 at 30 November 2006. Hence, the total market value of these shares increased by YTL 1.026.000 as of 30 November 2006 compared to balance sheet date.
- b) The Company has taken the delivery of 3 aircrafts on October 2006 and November 2006 of which the purchase deal were done.
- c) Previously, MoU/Memorandum of Understanding was signed between the Company and Singapore Technologies Aerospace (ST Aerospace) to initiate detailed partnership negotiations for the HABOM (Maintenance Repair&Overhaul Center) Project which was intended to be built at İstanbul Sabiha Gökçen Airport. Any agreement could not be set between the Company and ST Aerospace within the time period (12 months after signing MoU) determined by MoU. Hence, MoU has become ineffective.
- d) Aiming to constitute effective communication among units in the central organization of the Company and the affiliated companies and to strengthen corporate governance, Board of Directors has decided to set Executive Committee composed of Candan Karlitekin, Chairman, as the President of the Committee, Hamdi Topçu, Vice-Chairman, as the Vice-President of the Committee and Temel Kotil, Board Member and General Manager, in accordance with the Articles of Association item 15 and Article 319 of Turkish Commercial Code, decisions to be made by the majority of votes.
- e) Board of Directors of the Company decided to sign the Aggrement for the Transfer of Assets between THY DO&CO İkrâm Hizmetleri A.Ş. and USAŞ as the guarantor and the agreement was signed. The amount payable by THY DO&CO İkrâm Hizmetleri A.Ş. in accordance with the Agreement for the Transfer of Assets is YTL 68.000.000, not including VAT.

### 35 DISCONTINUED OPERATIONS

None (31 December 2005: None).



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**36 MAIN OPERATING REVENUES**

Main operating revenues comprised the following:

|                                   | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|-----------------------------------|---|--|---|--|
| Scheduled flights                 |   |  |   |  |
| - Passenger                       | 2.576.298.384   | 1.180.518.956                                  | 2.060.084.045   | 853.551.946                                    |
| - Cargo and mail                  | 231.592.567   | 86.237.201                                     | 190.525.907   | 68.633.842                                     |
| Non-scheduled flights             | 34.715.851  | 18.315.063                                     | 25.959.121  | 6.752.523                                      |
| Other revenues                    | 110.250.440   | 39.397.431                                     | 88.265.245  | 30.702.459                                     |
| <b>Total revenues</b>             | <b>2.952.857.242</b>                                  | <b>1.324.468.651</b>                           | <b>2.364.834.318</b>                                  | <b>959.640.770</b>                             |
| Less: Discounts and sales returns | (11.455)  | (4.832)  | (12.520)  | (6.978)  |
| <b>Net Sales</b>                  | <b>2.952.845.787</b>                                  | <b>1.324.463.819</b>                           | <b>2.364.821.798</b>                                  | <b>959.633.792</b>                             |
| Cost of Sales (-)                 | (2.395.177.178)                                       | (959.006.963)                                  | (1.791.013.050)                                       | (689.070.126)                                  |
| <b>Gross Operating Profit</b>     | <b>557.668.609</b>                                    | <b>365.456.856</b>                             | <b>573.808.748</b>                                    | <b>270.563.666</b>                             |

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

|   | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|---|---|--|---|--|
| - Europe                                    | 1.220.408.994   | 592.143.778                                    | 979.889.975   | 431.377.328                                    |
| - Middle East                               | 229.746.134   | 79.076.221                                     | 207.648.672   | 64.853.039                                     |
| - North Africa                              | 68.515.076  | 27.596.962                                     | 66.685.765  | 26.966.105                                     |
| - North America                             | 150.683.374   | 73.093.824                                     | 119.115.525   | 49.283.792                                     |
| - Far East                                  | 475.067.439   | 198.909.510                                    | 344.905.535   | 129.110.827                                    |
| - Middle Africa                             | 6.203.846   | 4.776.204                                      | -   | -  |
| - West Africa                               | 1.493.113   | 1.493.113                                      | -   | -  |
|   | <b>2.152.117.976</b>                                  | <b>977.089.612</b>                             | <b>1.718.245.472</b>                                  | <b>701.591.091</b>                             |
| Domestic                                    | 655.772.975   | 289.666.545                                    | 532.364.480   | 220.594.697                                    |
| Total revenue from the<br>Scheduled flights | <b>2.807.890.951</b>                                  | <b>1.266.756.157</b>                           | <b>2.250.609.952</b>                                  | <b>922.185.788</b>                             |

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

Cost of sales consists of the following:

|   | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|---|---|--|---|--|
| Fuel expenses                                   | 839.162.639   | 367.086.832                                    | 526.455.341   | 220.651.637                                    |
| Staff expenses                                  | 425.979.139   | 156.448.256                                    | 373.492.566   | 151.032.111                                    |
| Landing and overflight expenses                 | 252.162.920   | 108.677.917                                    | 185.689.968   | 74.986.957                                     |
| Depreciation expenses                           | 238.083.953   | 85.757.280                                     | 212.213.216   | 70.205.396                                     |
| Handling expenses                               | 148.122.194   | 59.354.816                                     | 119.212.254   | 37.217.234                                     |
| Maintenance expenses                            | 146.861.627   | 44.693.596                                     | 107.156.407   | 40.294.469                                     |
| Passenger service and catering<br>expenses      | 131.596.037   | 56.942.885                                     | 111.485.368   | 43.243.344                                     |
| Operating lease expenses                        | 124.428.728   | 51.320.483                                     | 72.293.380  | 27.828.197                                     |
| Insurance expenses                              | 32.529.304  | 11.985.703                                     | 40.849.084  | 10.444.256                                     |
| Aircraft wet-lease expenses                     | 10.339.924  | 588.186  | 6.844.268   | 213.403  |
| Other renting expenses                          | 9.012.203   | 3.069.732                                      | 7.516.088   | 282.388  |
| Communication expenses                          | 7.199.774   | 2.571.361                                      | 5.759.534   | 2.380.079                                      |
| Service expenses                                | 7.080.726   | 2.391.914                                      | 5.132.382   | 1.564.809                                      |
| Other taxes                                     | 5.047.964   | 2.026.778                                      | 3.882.560   | 1.913.169                                      |
| Transportation expenses                         | 2.944.978   | 1.350.709                                      | 1.671.528   | 645.363  |
| Lighting, heating, energy and<br>water expenses | 2.782.180   | 533.726  | 2.551.191   | 668.750  |
| Cost of other sales                             | 11.842.888  | 4.206.789                                      | 8.807.915   | 5.498.564                                      |
|   | <u>2.395.177.178</u>                                  | <u>959.006.963</u>                             | <u>1.791.013.050</u>                                  | <u>689.070.126</u>                             |

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**37. OPERATING EXPENSES (-)**

Operating expenses comprised the following:

|  | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|--|---|--|---|--|
| <b>Sales and marketing expenses (</b>        |   |  |   |  |
| Commission and promotion expenses            | 189.485.947   | 82.712.687                                     | 162.052.832   | 67.384.586                                     |
| Staff expenses                               | 109.491.054   | 39.650.898                                     | 92.527.408  | 35.504.130                                     |
| Reservation system expenses                  | 55.098.451  | 18.649.713                                     | 43.492.308  | 12.422.041                                     |
| Other renting expenses                       | 12.422.677  | 4.542.068                                      | 9.388.506   | 3.304.551                                      |
| Communication expenses                       | 11.364.829  | 4.041.666                                      | 10.360.749  | 3.550.075                                      |
| Advertisement expenses                       | 11.110.728  | 1.675.025                                      | 4.584.117   | 1.136.709                                      |
| Code share expenses                          | 10.027.125  | 5.503.465                                      | 1.590.119   | 689.976  |
| Service expenses                             | 6.789.109   | 2.320.958                                      | 5.656.800   | 1.845.439                                      |
| Passenger service and catering expenses      | 3.835.822   | 1.564.213                                      | 3.127.442   | 1.118.902                                      |
| Transportation expenses                      | 3.334.429   | 1.275.319                                      | 3.429.757   | 1.387.236                                      |
| Other taxes                                  | 3.241.855   | 881.806  | 2.923.952   | 1.505.919                                      |
| Lighting, heating, energy and water expenses | 1.376.942   | 481.551  | 1.087.478   | 420.602  |
| Maintenance expenses                         | 859.659   | 310.836  | 816.982   | 192.340  |
| Fuel expenses                                | 572.040   | 289.146  | 384.304   | 135.259  |
| Software and computer equipment expenses     | 475.235   | 83.070   | 489.355   | 120.702  |
| Insurance expenses                           | 305.444   | 71.807   | 221.399   | 62.266   |
| Depreciation expenses                        | 98.871  | 25.016   | -   | -  |
| Other sales and marketing expenses           | 10.780.365  | 3.822.548                                      | 10.436.318  | 2.965.969                                      |
|  | <b>430.670.582</b>                                    | <b>167.901.792</b>                             | <b>352.569.826</b>                                    | <b>133.746.702</b>                             |

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

|   | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|---|---|--|---|--|
| <b>General administrative expenses (-)</b>      |   |  |   |  |
| Staff expenses                                  | 59.768.322  | 23.960.278                                     | 71.584.254  | 1.221.066                                      |
| Depreciation expenses                           | 8.994.673   | 2.837.279                                      | 10.216.002  | 4.731.424                                      |
| Maintenance expenses                            | 4.008.988   | 2.175.781                                      | 2.711.855   | 938.598  |
| Other taxes                                     | 3.983.702   | 1.773.053                                      | 3.064.868   | 1.214.730                                      |
| Software and computer<br>equipment expenses     | 3.618.546   | 1.479.975                                      | 2.335.180   | 580.661  |
| Service expenses                                | 2.366.137   | 1.369.871                                      | 1.417.972   | 711.574  |
| Commission and promotion expenses               | 2.172.639   | 996.373  | 1.531.438   | 476.801  |
| Communication expenses                          | 2.075.920   | 852.710  | 2.014.288   | 397.516  |
| Lighting, heating, energy and<br>water expenses | 1.266.410   | 399.080  | 1.228.421   | 449.977  |
| Other renting expenses                          | 3.458.134   | 1.443.790                                      | 916.868   | 263.812  |
| Insurance expenses                              | 567.989   | 325.731  | 283.691   | 97.559   |
| Fuel expenses                                   | 183.904   | 73.532   | 166.016   | 52.454   |
| Other general administrative expenses           | 3.109.587   | 774.246  | 4.255.391   | 1.138.836                                      |
|   | <u>95.574.951</u>                                     | <u>38.461.699</u>                              | <u>101.726.244</u>                                    | <u>12.275.008</u>                              |
| Total operating expenses                        | <u>526.245.533</u>                                    | <u>206.363.491</u>                             | <u>454.296.070</u>                                    | <u>146.021.710</u>                             |

**38 INCOME/LOSSES FROM OTHER OPERATIONS**

Income from other operations consists of the following:

|   | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|---|---|--|---|--|
| Foreign exchange gains  | 470.055.897   | 128.084.448                                    | 182.487.824   | 56.669.248                                     |
| Change in provision for<br>diminution in value of<br>fixed assets | 229.350.129   | (96.329.767)                                   | 99.928.995  | 40.167.392                                     |
| Discounts received from spare<br>parts suppliers                  | 25.592.491  | 3.608.043                                      | 7.473.799   | 1.675.515                                      |
| Interest income   | 19.377.702  | 6.077.713                                      | 29.707.772  | 15.548.597                                     |
| Dividend income   | 15.102.795  | 11.999.998                                     | 8.351.265   | 6.999.416                                      |
| Reversal of unnecessary provision                                 | 5.660.749   | 714.581  | 7.712.281   | 1.343.375                                      |
| Profit on sale of marketable<br>securities                        | 5.490.969   | 1.540.878                                      | 152.473   | 152.473  |
| Compensation received   | 5.106.837   | 1.751.564                                      | 2.994.110   | 1.391.818                                      |
| Cost free materials income  | 3.595.922   | 51.528   | 3.729.332   | 538.446  |
| Yapı Kredi protocol income  | 2.249.687   | 715.205  | 1.447.946   | 678.028  |
| Income from manufacturers' credit                                 | 1.506.302   | 342.523  | 1.370.759   | 523.460  |
| Discount income   | 545.235   | (27.639)                                       | 1.171.830   | 125.480  |
| Profit on sale of fixed assets                                    | 55.055  | 45.990   | 787.150   | 400.852  |
| Income from financial investment<br>accounted per equity method   | -   | -  | 2.268.630   | 501.407  |
| Other   | 15.618.519  | 2.043.509                                      | 2.222.047   | 1.356.508                                      |
|   | <u>799.308.289</u>                                    | <u>60.618.574</u>                              | <u>351.806.213</u>                                    | <u>128.072.015</u>                             |

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

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

Loss from other operations consists of the following:

|   | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|---|---|--|---|--|
| Foreign exchange losses                                       | 510.793.062   | 105.271.508                                    | 207.777.007   | 55.564.725                                     |
| Provision expenses  | 18.086.916  | 3.513.018                                      | 8.210.651   | 592.572  |
| Loss from financial investment<br>accounted per equity method | 11.303.689  | (635.234)                                      | -   | -  |
| Indemnity and penalty expenses                                | 6.814.990   | 227.940  | 79.656  | 79.656   |
| Retirement pay interest cost                                  | 5.423.787   | 1.807.929                                      | 4.081.802   | (2.732)  |
| Expenses incurred for passengers<br>with no visas             | 504.617   | 106.107  | 368.496   | 175.608  |
| Loss on sale of fixed assets                                  | 330.240   | 130.453  | 937   | 937  |
| Other expenses  | 4.648.139   | 2.455.384                                      | 645.138   | 580.735  |
|   | <u>557.905.440</u>                                    | <u>112.877.105</u>                             | <u>221.163.687</u>                                    | <u>56.991.501</u>                              |

### 39 FINANCIAL EXPENSES

Financial expenses consist of the following:

|                                     | <b>01 January<br/>2006-<br/>30 September<br/>2006</b> | <b>01 July 2006-<br/>30 September<br/>2006</b> | <b>01 January<br/>2005-<br/>30 September<br/>2005</b> | <b>01 July 2005-<br/>30 September<br/>2005</b> |
|-------------------------------------|---|--|---|--|
| Finance lease interest expenses     | 49.418.577  | 21.536.031                                     | 34.976.472  | 12.167.887                                     |
| Foreign exchange loss on bank loans | 18.147.000  | (17.250.000)                                   | -   | -  |
| Interest expense on bank loans      | 9.375.803   | 1.474.240                                      | 7.817.626   | 4.340.068                                      |
| Other financial expenses            | 741.218   | 1.066  | 1.480.248   | 740.124  |
|                                     | <u>77.682.598</u>                                     | <u>5.761.337</u>                               | <u>44.274.346</u>                                     | <u>17.248.079</u>                              |

### 40 TAX

Corporate tax payable is as follows:

|                                     | <b>30 September 2006</b> | <b>31 December 2005</b> |
|-------------------------------------|--------------------------|-------------------------|
| Provision for corporate tax payable | -                        | -                       |
| Prepaid taxes and funds             | (3.608.705)              | (13.363.884)            |
|                                     | <u>(3.608.705)</u>       | <u>(13.363.884)</u>     |

Tax expense is as follows:

|                            | <b>30 September 2006</b> | <b>30 September 2005</b> |
|----------------------------|--------------------------|--------------------------|
| Current period tax expense | (266.436)                | -                        |
| Deferred tax expense       | (63.336.012)             | (63.460.482)             |
| Tax expense                | <u>(63.602.448)</u>      | <u>(63.460.482)</u>      |

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2006

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

### 40 TAX (cont'd)

#### *Corporate tax:*

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

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

The effective tax rates are as follows:

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

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

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until 25 April following the close of the accounting period to which they relate. The tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

#### *Income withholding tax:*

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

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

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2006

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

**41 EARNINGS PER SHARE**

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

The number of shares outstanding and earnings per share as of 30 September 2006 and 30 September 2005 are as follows:

|  | <u>30 September 2006</u> | <u>30 September<br/>2005</u> |
|--|--------------------------|------------------------------|
| Number of shares outstanding on 1 January (in full)                          | 175.000.000.000          | 175.000.000.000              |
| New shares issued (cash increase) (in full)                                  | -                        | -                            |
| Number of shares outstanding on 30 September (in full)                       | <u>175.000.000.000</u>   | <u>175.000.000.000</u>       |
| Weighted average number of shares outstanding<br>during the period (in full) | <u>175.000.000.000</u>   | <u>175.000.000.000</u>       |
| Net profit for the period  | 131.540.879              | 142.420.376                  |
| Earnings per share (YKr)   | <b>0,075</b>             | <b>0,081</b>                 |

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2006

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

**42 STATEMENTS OF CASH FLOWS**

|   | <b>Not Audited</b>       | <b>Audited</b>           |
|---|--------------------------|--------------------------|
|   | <b>30 September 2006</b> | <b>30 September 2005</b> |
| <b>Cash flows from operating activities</b>   |                          |                          |
| Profit before taxation  | 195.143.327              | 205.880.858              |
| <b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b> |                          |                          |
| Depreciation  | 247.177.497              | 222.429.218              |
| Provision for retirement pay liability  | 15.884.953               | 19.412.630               |
| Interest income   | (19.922.937)             | (29.707.772)             |
| Loss/ (profit) on sale of fixed asset   | (275.185)                | (787.150)                |
| Change in provision for diminution in value of fixed assets   | (228.232.751)            | (99.928.995)             |
| Loss/ (gain) from financial investment accounted per equity method                                  | 8.952.689                | (2.268.630)              |
| Interest expense  | 58.794.380               | 42.794.098               |
| Movement in manufacturers' credit   | 7.420.772                | 3.547.487                |
| Foreign exchange gain (loss) on financial leases  | 356.790.734              | (910.165)                |
| Provision for diminution in value of financial assets   | (5.715.684)              | 5.033.361                |
| Amortization of deferred income from USAŞ shares transfer   | (3.025.017)              | (2.654.036)              |
| Increase/(Decrease) in provision for doubtful receivables   | 1.225.181                | 1.160.385                |
| <b>Operating profit before working capital change</b>   | <b>634.217.959</b>       | <b>364.001.289</b>       |
| Increase in accounts receivable   | (113.615.331)            | (62.632.733)             |
| (Increase)/ decrease in due from related parties (short term)                                       | 945.264                  | 376.381                  |
| Increase in other short and long term receivables   | (21.851.269)             | (3.522.214)              |
| Increase in inventories   | (13.890.538)             | (13.229.384)             |
| (Increase)/ decrease in other current assets  | (17.376.017)             | 55.149.415               |
| Increase in other non-current assets  | (5.304.927)              | 300.437                  |
| Increase in accounts payable  | 124.624.745              | 57.184.986               |
| Increase in due to related parties  | 18.509.040               | 4.333.970                |
| Decrease in advances received   | (13.293.071)             | (10.764.699)             |
| Increase/(decrease) in provision for short term liabilities   | (600.037)                | 5.815.234                |
| Increase in other short and long term liabilities   | 78.728.192               | 10.781.616               |
| Retirement benefits paid  | (15.325.619)             | (5.932.382)              |
| Interest paid   | (48.017.534)             | (40.589.826)             |
| Prepaid taxes   | (266.437)                | (4.612.101)              |
| <b>Cash generated from operations</b>   | <b>607.484.420</b>       | <b>356.659.989</b>       |
| <b>Cash flows from investing activities</b>   |                          |                          |
| Cash inflow from sale of financial fixed assets   | 20.189.236               | 0                        |
| Cash inflow from sale of tangible and intangible fixed assets                                       | 167.710                  | 57.429.777               |
| Interest received   | 19.922.937               | 29.707.772               |
| Acquisition of tangible and intangible fixed assets   | (987.881.393)            | (136.697.951)            |
| Advances given for aircrafts and other tangible assets  | 166.480.432              | (283.411.151)            |
| <b>Net cash used in investing activities</b>  | <b>(781.121.078)</b>     | <b>(332.971.553)</b>     |
| <b>Cash flows from financing activities</b>   |                          |                          |
| Principal payment of financial leases   | (135.835.823)            | (140.469.293)            |
| Change in financial lease obligations   | 545.557.718              | 0                        |
| Change in bank borrowings   | (318.319.541)            | 362.514.157              |
| Increase in other financial liabilities   | 66.003                   | 45.556                   |
| <b>Net cash provided by/(used in) financing activities</b>  | <b>91.468.357</b>        | <b>222.090.420</b>       |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   | <b>(82.168.301)</b>      | <b>245.778.856</b>       |
| <b>Cash and cash equivalents at the beginning of period</b>   | <b>482.910.555</b>       | <b>365.637.483</b>       |



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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2006

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

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

None (31 December 2005: None).