

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL  
STATEMENTS ORIGINALLY ISSUED IN TURKISH

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2007

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 SEPTEMBER 2007 AND 31 DECEMBER 2006**  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

ASSETS	Note	Current Period	Prior Period
		Not Audited 30 September 2007	(Audited) 31 December 2006
<b>Current Assets</b>		<b>1.297.237.651</b>	<b>852.035.107</b>
Cash and Cash Equivalents	4	768.819.033	365.057.959
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	340.443.800	271.755.418
Finance Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	1.279.437	22.967.266
Other Receivables (net)	10	8.357.695	8.611.835
Biological Assets (net)	11	-	-
Inventories (net)	12	109.814.800	135.643.567
Receivables from Construction Contracts in Progress (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	68.522.886	47.999.062
<b>Non-Current Assets</b>		<b>3.757.044.006</b>	<b>3.741.767.286</b>
Accounts Receivable (net)	7	4.569.726	6.439.102
Finance Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	14.417.408	14.812.000
Other Receivables (net)	10	1.902.950	1.971.731
Financial Assets (net)	16	44.518.243	29.327.501
Positive / Negative Goodwill (net)	17	-	-
Investment Property	18	-	-
Tangible Assets (net)	19	3.526.502.042	3.503.076.666
Intangible Assets (net)	20	9.487.402	7.508.620
Deferred Tax Assets	14	135.871.607	158.971.576
Other Non-current Assets	15	19.774.628	19.660.090
<b>Total Assets</b>		<b>5.054.281.657</b>	<b>4.593.802.393</b>

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

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**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 SEPTEMBER 2007 AND 31 DECEMBER 2006**

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

	Note	Current Period Not Audited 30 September 2007	Prior Period (Audited) 31 December 2006
<b>LIABILITIES</b>			
<b>Short Term Liabilities</b>		<b>1.350.679.488</b>	<b>1.068.505.356</b>
Bank Borrowings (net)	6	-	-
Short-term Portion of Long-term Bank Borrowings (net)	6	3.892.337	4.481.158
Finance Lease Obligations (net)	8	218.563.149	218.720.799
Other Financial Liabilities (net)	10	1.864.715	373.497
Accounts Payable (net)	7	376.095.896	318.114.700
Due to Related Parties (net)	9	25.301.725	14.869.046
Advances Received	21	68.378.969	45.665.631
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	164.407.635	29.321.077
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	15	492.175.062	436.959.448
<b>Long Term Liabilities</b>		<b>1.900.927.638</b>	<b>1.915.578.585</b>
Bank Borrowings (net)	6	28.526.844	36.401.442
Finance Lease Obligations (net)	8	1.470.827.156	1.443.932.862
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	7.748.746	8.988.621
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	138.899.987	117.304.910
Deferred Tax Liabilities	14	254.924.905	308.950.750
Other Liabilities (net)	15	-	-
<b>MINORITY INTERESTS</b>	24	-	-
<b>SHAREHOLDERS' EQUITY</b>		<b>1.802.674.531</b>	<b>1.609.718.452</b>
<b>Share Capital</b>	25	<b>175.000.000</b>	<b>175.000.000</b>
<b>Adjustment to Share Capital</b>	25	-	-
<b>Capital Reserves</b>	26	<b>1.918.083.196</b>	<b>1.919.321.052</b>
- Share Premium		181.185	181.185
- Share Premium of Cancelled Shares		-	-
- Revaluation Surplus on Tangible Assets		49.179.160	49.179.160
- Financial Assets Fair Value Reserve		(3.934.338)	(2.696.482)
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
<b>Profit Reserves</b>	27	<b>8.223.909</b>	<b>8.223.909</b>
- Legal Reserves		417.011	417.011
- Statutory Reserves		-	-
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		9	9
- Associate Shares and Gain on Sale of Investment		-	-
Property to be added to Capital		-	-
- Foreign Currency Translation Differences		-	-
<b>Net Profit for the Year</b>		<b>194.193.935</b>	<b>181.381.671</b>
<b>Accumulated Losses</b>	28	<b>(492.826.509)</b>	<b>(674.208.180)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>5.054.281.657</b>	<b>4.593.802.393</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 PERIODS ENDED

30 SEPTEMBER 2007 AND 30 SEPTEMBER 2006

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

		<b>Not Audited</b> 01 January- 30 September 2007	<b>Not Audited</b> 01 July-30 September 2007	<b>Not Audited</b> 01 January- 30 September 2006	<b>Not Audited</b> 01 July -30 September 2006
	<b>Note</b>				
<b>MAIN OPERATING REVENUES</b>					
Sales Revenues (net)	36	3.384.103.341	1.366.573.505	2.807.890.951	1.266.756.157
Cost of Sales (-)	36	(2.557.156.975)	(940.590.529)	(2.395.177.178)	(959.006.962)
Service Revenues (net)		-	-	-	-
Other Revenues from Main Operations /Interest + Dividend + Rent (net)	36	<u>183.157.994</u>	<u>74.089.512</u>	<u>144.954.836</u>	<u>57.707.662</u>
<b>GROSS OPERATING PROFIT</b>		<b>1.010.104.360</b>	<b>500.072.488</b>	<b>557.668.609</b>	<b>365.456.857</b>
Operating Expenses (-)	37	<u>(591.761.236)</u>	<u>(207.225.726)</u>	<u>(526.245.533)</u>	<u>(206.363.494)</u>
<b>NET OPERATING PROFIT /(LOSS)</b>		<b>418.343.124</b>	<b>292.846.762</b>	<b>31.423.076</b>	<b>159.093.363</b>
Income from Other Operations	38	83.885.791	33.797.307	400.604.017	(127.994.971)
Losses from Other Operations (-)	38	(382.041.696)	(252.638.949)	(49.365.593)	(21.130.905)
Financial Income (Expenses)	39	<u>152.346.443</u>	<u>82.080.423</u>	<u>(193.233.857)</u>	<u>78.068.325</u>
<b>OPERATING PROFIT</b>		<b>272.533.662</b>	<b>156.085.543</b>	<b>189.427.643</b>	<b>88.035.812</b>
Minority Gain / (Loss)	24	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>PROFIT BEFORE TAXATION</b>		<b><u>272.533.662</u></b>	<b><u>156.085.543</u></b>	<b><u>189.427.643</u></b>	<b><u>88.035.812</u></b>
Taxes	41	<u>(78.339.727)</u>	<u>(51.162.183)</u>	<u>(61.887.744)</u>	<u>2.252.192</u>
<b>NET PROFIT FOR THE YEAR</b>		<b><u>194.193.935</u></b>	<b><u>104.923.360</u></b>	<b><u>127.539.899</u></b>	<b><u>90.288.004</u></b>
<b>EARNINGS PER SHARE (Ykr)</b>	42	<b>0,111</b>	<b>0,060</b>	<b>0,073</b>	<b>0,052</b>

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIODS ENDED 30 SEPTEMBER 2007 AND 2006

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

	Share Capital	Share Premium	Revaluation Surplus on Tangible Assets	Financial Assets Fair Value Reserve	Restatement Effect on Shareholders' Equity	Legal Reserves	Extraordinary Reserves	Special Funds	Net Profit / (Loss) for the Period	Accumulated Losses	Total
Balances at 31 December 2005-Previously Reported	175.000.000	181.185	-	-	1.872.657.189	417.011	7.806.889	9	138.227.837	(819.500.254)	1.374.789.866
Measurement of Financial Assets-IAS 39 (Note 2)	-	-	-	(7.064.236)	-	-	-	-	4.045.841	3.018.395	-
Balances at 31 December 2005-Restated	175.000.000	181.185	-	(7.064.236)	1.872.657.189	417.011	7.806.889	9	142.273.678	(816.481.859)	1.374.789.866
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	-	-	(142.273.678)	142.273.678	-
Measurement of Financial Assets-IAS 39	-	-	-	4.000.979	-	-	-	-	-	-	4.000.979
Revaluation Surplus on Tangible Assets	-	-	47.894.567	-	-	-	-	-	-	-	47.894.567
Net Profit for the Year	-	-	-	-	-	-	-	-	127.539.899	-	127.539.899
Balances at 30 September 2006-Restated	175.000.000	181.185	47.894.567	(3.063.257)	1.872.657.189	417.011	7.806.889	9	127.539.899	(674.208.181)	1.554.225.311
Balances at 31 December 2006-Previously Reported	175.000.000	181.185	49.179.160	-	1.872.657.189	417.011	7.806.889	9	185.749.426	(681.272.417)	1.609.718.452
Measurement of Financial Assets-IAS 39 (Note 2)	-	-	-	(2.696.482)	-	-	-	-	(4.367.755)	7.064.237	-
Balances at 31 December 2006-Restated	175.000.000	181.185	49.179.160	(2.696.482)	1.872.657.189	417.011	7.806.889	9	181.381.671	(674.208.180)	1.609.718.452
Transfer of Previous Year's Profit to Accumulated Losses	-	-	-	-	-	-	-	-	(181.381.671)	181.381.671	-
Measurement of Financial Assets-IAS 39	-	-	-	(1.237.856)	-	-	-	-	-	-	(1.237.856)
Net Profit for the Year	-	-	-	-	-	-	-	-	194.193.935	-	194.193.935
Balances at 30 September 2007	175.000.000	181.185	49.179.160	(3.934.338)	1.872.657.189	417.011	7.806.889	9	194.193.935	(492.826.509)	1.802.674.531

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 CASH FLOWS FOR THE PERIODS**  
**1 JANUARY - 30 SEPTEMBER 2007 AND 2006**

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

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>1 January- 30 September 2007</b>	<b>1 January- 30 September 2006</b>
<b>Profit/ (Loss) before taxation</b>	272.533.662	189.427.643
<b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b>		
Depreciation	270.600.462	247.177.497
Provision for retirement pay liability	26.345.066	15.884.953
Interest income	(28.811.981)	(19.377.702)
(Profit) / loss on sale of fixed asset	(23.310)	321.145
Change in provision for diminution in value of fixed assets	261.656.381	(229.350.129)
(Gain) / loss from financial investment accounted per equity method	(17.555.763)	8.952.689
Interest expense	67.152.871	58.794.380
Movement in manufacturers' credit	(1.242.319)	7.420.772
Foreign exchange (gain) / loss on finance leases	(219.514.555)	133.698.259
Amortization of deferred income from USAŞ shares transfer	-	(3.025.017)
Increase in provision for doubtful receivables	3.578.062	1.225.181
<b>Operating profit before working capital change</b>	<b>634.718.576</b>	<b>411.149.671</b>
Increase in accounts receivable	(70.397.068)	(113.615.331)
Decrease in due from related parties (short term)	22.082.421	945.264
(Increase)/decrease in other short and long term receivables	322.921	(21.851.269)
(Increase)/decrease in inventories	25.828.767	(13.890.538)
Increase in other current assets	(20.523.824)	(17.376.017)
Increase in other non-current assets	(114.538)	(5.304.927)
Increase in accounts payable	56.741.321	124.624.745
Increase in due to related parties	10.432.679	18.509.040
Increase/(decrease) in advances received	22.713.338	(13.293.071)
Increase/(decrease) in provision for short term liabilities	51.934.286	(10.355.216)
Increase in other short and long term liabilities	56.457.933	78.728.192
Retirement benefits paid	(4.749.988)	(15.325.619)
Interest paid	(65.164.708)	(56.708.038)
Prepaid taxes	(25.803.867)	9.755.182
<b>Cash generated from operations</b>	<b>694.478.249</b>	<b>375.992.068</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash inflow sale of financial fixed assets	817.700	20.189.236
Cash inflow from sale of tangible and intangible assets	6.880.742	688.755
Interest received	28.811.981	19.377.702
Acquisition of tangible & intangible assets (*)	(177.540.756)	(140.397.926)
Change in advances given for aircrafts and other tangible assets	5.348.233	166.480.432
<b>Net cash used in investing activities</b>	<b>(135.682.100)</b>	<b>66.338.199</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment of finance leases	(153.550.463)	(144.131.571)
Decrease in financial obligations	(2.975.830)	(380.433.000)
Increase in other financial liabilities	1.491.218	66.003
<b>Net cash used in financing activities</b>	<b>(155.035.075)</b>	<b>(524.498.568)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>403.761.074</b>	<b>(82.168.301)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>365.057.959</b>	<b>482.910.555</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>768.819.033</b>	<b>400.742.254</b>

(\*) The portion amounted 380.126.482 YTL of the total purchases of tangible and intangible assets amounted 569.866.667 YTL for the nine months period ended 30 September 2007 was made through finance lease. (The portion amounted 880.346.442 YTL of the total purchases amounted 987.881.393 YTL for the nine-months-period ended 30 September 2006 was made through finance lease.)

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 2007  
(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 2007, the shareholders and their respective shareholdings in the Company are as follows:

Republic of Turkey Prime Ministry Privatization Administration	49,12 %
Others (Offered to Public)	<u>50,88 %</u>
Total	<u>100,00 %</u>

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary ("Group") as of 30 September 2007 is 13.319 (30 September 2006: 12.795). The average number of employees working for the Group as of 30 September 2007 and 2006 is 13.042 and 12.765, respectively.

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

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

### 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

#### 2.1 Accounting Standards Applied

The consolidated financial statements of the Group are prepared in accordance with the accounting and reporting principles of the Capital Markets Board ("CMB"), namely "CMB Accounting Standards". CMB published a comprehensive set of accounting principles in Communiqué Serial XI No: 25 "The Accounting Standards in the Capital Markets". On the other hand, in the Supplementary Article 1 which is added into Communiqué Serial XI No: 25 Accounting Standards in the Capital Markets by the issuance of Communiqué Serial XI No: 27 Changes in Communiqué About The Accounting Standards in the Capital Markets, it is stated that application of International Financial Reporting Standards is deemed as the fulfillment of preparation and announcement responsibilities required by Communiqué Serial XI No: 25. Taking this into account, in the General Assembly of the Group held on 24 April 2007, it is decided that accounting set of International Financial Reporting Standards will be applied starting from 1 January 2007 instead of set applying of accounting standards in Communiqué Serial XI No: 25. The Group started to apply IFRS compliant with the alternative provision stated above in the nine months period ended as of 30 September 2007 and restated the comparative financial statements.

In the preparation of consolidated financial statements and notes as of 30 September 2007, the principles stated in the "Guide about the Formats of Financial Statements and Notes" announced by the CMB decision dated 10 December 2004 and numbered 1604, were applied.

The Group and its Subsidiary and Associates registered in Turkey keep their books of account and prepare their statutory financial statements in accordance with the principles and obligations published by the CMB, Turkish Commercial Code (the "TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

(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

The Group ended inflation accounting application starting from 1 January 2005 in accordance with the decision of CMB dated 17 March 2005.

#### 2.3 Basis of Consolidation

a) The consolidated financial statements include the accounts of the parent company, Türk Hava Yolları A.O., its Subsidiary and its Associates 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 financial statements and have been prepared in accordance with CMB Accounting Standards applying uniform accounting policies and presentation. The results of Subsidiary and Associates are included or excluded from their effective dates of acquisition or disposal respectively.

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

The table below sets out the consolidated Subsidiary and participation rate of the Group in this subsidiary at 30 September 2007:

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

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

c) The Group has two associates. The associates to which the participation rate of the Group is 50% are controlled by the Group jointly, and are valued by equity method.

The table below sets out consolidated associates and indicates the proportion of ownership interest of the Company in these associates at 30 September 2007:

<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 İkram Hizmetleri A.Ş.	Catering Services	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 Group's income statement.



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

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

#### 2.3 Basis of Consolidation (cont'd)

d) Other investments in which the Company 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 consolidated financial statements are prepared comparatively with the prior period's financial statements. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period so that the reclassification will result in a more appropriate presentation of events and transactions.

As stated in Note 2.1, the Group decided to apply accounting set of International Financial Reporting Standards starting from 1 January 2007 instead of applying set of accounting standards in Communiqué Serial XI No: 25 in the General Assembly of the Group held on 24 April 2007. Therefore, the financial statements of the nine-months-period ended as of 30 September 2006 and of the year ended 31 December 2006 are restated in accordance with IFRS. In this sense, the Group disclosed the gains and losses on available-for-sale financial assets which are included in income statement previously, directly under the shareholders' equity until the derecognition of those assets, taking into consideration the International Financial Reporting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

#### 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Revenue Recognition and Commission Expenses

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

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

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

#### 3.2 Inventories

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

#### 3.3 Tangible Assets

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

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

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25-50	-
- Aircraft	15-20	10%-30%
- Engines	15-20	10%-30%
- Components	4-10	-
- Repairable Spare Parts	2-3	-
- Simulators	10-20	0%-10%
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-

#### 3.4 Intangible Assets

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 3.5 Impairment on Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted at the consolidated income statement.

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

As of 30 September 2007, an examination is made of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts. Recoverable amount is determined as, higher of the present value of cash flows expected from the usage of an asset and its net selling price. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations account. Changes in value due to exchange rate changes and real changes are disclosed separately.

#### 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 recognized 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.

#### 3.7 Manufacturers' Credits

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

#### 3.8 Financial Instruments

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

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

#### 3.8 Financial Instruments (cont'd)

##### (a) Financial assets

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

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

##### Financial assets at fair value through profit or loss

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

##### Effective interest method

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

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

##### Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 3.8 Financial Instruments (cont'd)

##### (a) Financial assets (cont'd)

###### Available for sale financial assets

Certain shares and redeemable notes held by the Company are classified as being available for sale and are stated at fair value.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available for sale equity instruments are recognized in profit and loss when the Group's right to receive payments is established.

The fair value of available for sale monetary assets denominated in a foreign currency determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

###### Loans and receivables

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

###### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

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

#### 3.8 Financial Instruments (cont'd)

##### (a) Financial assets (cont'd)

###### Impairment of financial assets (cont'd)

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

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

###### Cash and cash equivalents

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

##### (b) Financial liabilities

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

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities.

###### Financial liabilities at fair value through profit or loss

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

###### Other financial liabilities

Other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 3.8 Financial Instruments (cont'd)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### 3.9 Foreign Currency Transactions:

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

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

	<u>Closing rate</u>	<u>Average rate</u>
30 September 2007	1,2048	1,3397
31 December 2006	1,4056	1,4297
30 September 2006	1,4971	1,4262
31 December 2005	1,3418	1,3405

#### 3.10 Earnings Per Share

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to share holders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

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

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

#### 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, and vehicles by finance leases or operating leases. Finance 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 useful lives. Operating leases are accounted for as operating expense when incurred.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

#### 3.14 Related Parties

The associates, shareholders, top managers and Board Members of the Company, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties in the accompanying financial statements.

#### 3.15 Deferred Income Taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax at the balance sheet date.

The principal temporary differences arise from the differences between book values of property, plant and equipment and tax bases, income and expense not included in current tax base, provision for employment termination benefits and unused tax allowances and exemptions.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized.

In case there is a legal enforceable right to set off current tax assets against current tax liabilities, deferred tax assets and deferred tax liabilities are offset accordingly.

#### 3.16 Employment Termination Benefits

In accordance with applicable law, the Group is obliged to make lump-sum payments to retiring employees or to employees whose employment is terminated without resignation or causes defined in labor law. The calculation was based upon the retirement pay ceiling announced by the government. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees.

#### 3.17 Use of Estimates

The preparation of financial statements in conformity with IFRS 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 amount 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 operating leased aircraft are accrued on a periodical basis.

#### 3.19 Frequent Flyer Program

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



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

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

#### 3.19 Frequent Flyer Program (cont'd)

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

### 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Cash	486.620	503.956
Cheques received	205.498	309.601
Banks	756.066.775	354.192.254
Other liquid assets	12.060.140	10.052.148
	<u>768.819.033</u>	<u>365.057.959</u>

Foreign currency bank balances are YTL 535.196.378 at 30 September 2007 (31 December 2006: YTL 317.154.164).

#### Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 September 2007</u>
		20.08.2007-		01.10.2007-	
215.200.000	YTL	28.09.2007	% 14,96 - 16,24	05.10.2007	215.200.000
		28.07.2007-		01.10.2007-	
237.970.000	Euro	21.09.2007	% 3,74 - % 4,48	27.11.2007	406.595.542
		27.09.2007-			
35.041.484	US Dollar	28.09.2007	% 4,42- %4,85	01.10.2007	42.217.980
					<u>664.013.522</u>
<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2006</u>
		04.12.2006-			
33.582.312	YTL	29.12.2006	19,00% -21,30%	04.01.2007	33.582.312
		11.12.2006-		04.01.2007-	
112.392.082	Euro	29.12.2006	4,00%	12.01.2007	208.093.940
7.443.256	US Dollar	29.12.2006	5,25%	04.01.2007	10.462.241
					<u>252.138.493</u>

### 5 MARKETABLE SECURITIES (NET)

None (31 December 2006: None).

### 6 BANK BORROWINGS (NET)

Short-term portion of long-term bank borrowing at 30September 2007 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
15.08.2009	Libor + 1,25%	2.959.707 US Dollars	270.984 US Dollars	3.892.337

Long-term bank borrowing at 30 September 2007 is as follow:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
15.08.2009	Libor + 1,25%	23.677.659 US Dollars	-	28.526.844

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 6 BANK BORROWINGS (NET) (cont'd)

Short-term portion of long-term bank borrowing at 31 December 2006 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
15.08.2009	Libor + 1,25%	2.959.707 US Dollars	228.368 US Dollars	4.481.158

Long-term bank borrowing at 31.12.2006 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
15.08.2009	Libor + 1,25%	25.897.440 US Dollars	-	36.401.442

### 7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

Short-term accounts receivable comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Trade receivables	365.626.333	293.561.757
Discount on receivables (-)	(3.555.701)	(3.361.677)
Allowance for doubtful receivables	(22.025.943)	(18.447.881)
Deposits and Guarantees Given	399.111	3.219
	<u>340.443.800</u>	<u>271.755.418</u>

The Group's total short-term accounts receivable is 365.626.333 YTL. The Group's average days in receivables is 30 days, total receivables due over 30 days is 43.747.060 YTL as of 30 September 2007. (31 December 2006: 35.797.902 YTL). The Group provided provision amounted 15.312.274 YTL for the receivables that are carried to legal proceedings, and 6.713.669 YTL for the others by making historical statistical calculations, totally 22.025.943 YTL. (31 December 2006: 18.447.881 YTL). Movement of the doubtful receivables for the nine months periods ended 30 September 2007 and 2006 is as follows:

	<u>30 September 2007</u>	<u>30 September 2006</u>
Opening Balance	18.447.881	16.516.720
Current period expense	5.482.797	3.489.627
Collected amount	(1.479.881)	(2.264.423)
Write-off	(424.854)	(23)
Closing Balance	<u>22.025.943</u>	<u>17.741.901</u>

The amount of guarantees in the form of cash equivalent taken for accounts receivable is 12.570.207 YTL (31 December 2006: 12.823.888 YTL) and the amount of guarantee letters taken is 87.664.121 YTL (31 December 2006: 80.741.419 YTL).

Long-term accounts receivable comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Advances given for the operating lease	2.671.666	4.414.740
Deposits given	1.898.060	2.024.362
	<u>4.569.726</u>	<u>6.439.102</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

Short-term accounts payable comprised the following:

	<b>30 September 2007</b>	<b>31 December 2006</b>
Trade payables	372.710.440	317.204.325
Discount on payables (-)	(3.368.362)	(4.941.179)
Deposits and guarantees received	6.742.436	4.349.529
Other	11.382	1.502.025
	<u>376.095.896</u>	<u>318.114.700</u>

Long-term accounts payable comprised the following:

	<b>30 September 2007</b>	<b>31 December 2006</b>
Deposits and guarantees received	<u>7.748.746</u>	<u>8.988.621</u>

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

Finance lease obligations are as follows:

	<b>30 September 2007</b>	<b>31 December 2006</b>
Not later than 1 month	33.745.681	27.449.554
Between 1-3 months	40.295.415	46.960.074
Between 3 months-1 year	217.225.879	218.835.629
Between 1-4 years	795.353.672	824.972.080
Over 4 years	1.012.769.031	930.144.100
	<u>2.099.389.678</u>	<u>2.048.361.437</u>
Less: Future interest expense	<u>(409.999.373)</u>	<u>(385.707.776)</u>
Principal value of future rentals shown in the balance sheets	<u>1.689.390.305</u>	<u>1.662.653.661</u>
Represented by:		
Current liabilities	218.563.149	218.720.799
Long-term liabilities	1.470.827.156	1.443.932.862
	<u>1.689.390.305</u>	<u>1.662.653.661</u>
Interest Range:		
Floating rate obligations	1.247.931.393	1.530.403.463
Fixed rate obligations	441.458.912	132.250.198
	<u>1.689.390.305</u>	<u>1.662.653.661</u>

As of 30 September 2007, the US Dollar and Euro denominated lease obligations' interest rates for the fixed rate obligations are between 4,075% and 6,14%; and for the floating rate obligations are EURIBOR minus 0,01% and on a margin ranging between LIBOR minus 0,057% and LIBOR plus 3,0%.

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

	<b>30 September 2007</b>	<b>31 December 2006</b>
Not later than one year	134.993.276	170.991.574
Between 1 - 4 years	372.636.690	357.227.317
Over 4 years	576.274.425	611.303.660
	<u>1.083.904.391</u>	<u>1.139.522.551</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

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

	<b>30 September 2007</b>	<b>31 December 2006</b>
THY DO&CO İkrâm Hizmetleri A.Ş.	-	19.833.398
Güneş Ekspres Havacılık A.Ş. (Sun Express)	1.279.437	3.133.868
	<u>1.279.437</u>	<u>22.967.266</u>

Due from related parties (long-term) comprised the following:

	<b>30 September 2007</b>	<b>31 December 2006</b>
THY DO&CO İkrâm Hizmetleri A.Ş.	14.417.408	14.812.000
	<u>14.417.408</u>	<u>14.812.000</u>

Due from THY DO&CO İkrâm Hizmetleri A.Ş. comprised of long term credits amounting Euro 8.000.000. The Group accrues Euribor + 4,0 % interest on these debts.

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

	<b>30 September 2007</b>	<b>31 December 2006</b>
THY DO&CO İkrâm Hizmetleri A.Ş.	12.348.796	-
Sun Express	9.551.291	3.372.538
Uçak Servisi A.Ş. (USAŞ)	3.401.639	11.496.508
	<u>25.301.725</u>	<u>14.869.046</u>

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

	<b>30 September 2007</b>	<b>30 September 2006</b>
Services rendered to Sun Express	5.549.767	4.871.866
Services rendered to THY DO&CO	1.751.187	-
Services rendered to USAŞ	-	320.029
	<u>7.300.954</u>	<u>5.191.895</u>

	<b>30 September 2007</b>	<b>30 September 2006</b>
Services received from THY DO&CO	79.079.298	-
Services received from Sun Express	18.017.415	8.807.958
Services received from USAŞ	705.379	72.784.803
	<u>97.802.092</u>	<u>81.592.761</u>

Dividends received from the related parties as of 30 September are as follows:

	<b>30 September 2007</b>	<b>30 September 2006</b>
Uçak Servisi A.Ş. (USAŞ)	2.539.966	409.135
Sun Express	-	14.350.919
France Telecom	-	342.741
	<u>2.539.966</u>	<u>15.102.795</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 10 OTHER RECEIVABLES AND LIABILITIES (NET)

Other short-term receivables comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
VAT Deductible	821.992	27.545
Receivables from aircraft manufacturers	2.212.171	-
Receivables from foreign technical suppliers	1.596.695	2.194.204
Business advances	1.152.272	771.160
Receivables from Tax Office	762.092	13.157
Personnel salary advances	654.605	556.804
Due from personnel	250.364	312.489
Receivable from SITA deposit certificate	102.932	188.675
Due from insurance firms	-	3.688.278
Other receivables	804.572	859.523
	<u>8.357.695</u>	<u>8.611.835</u>

Other long-term receivables comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Receivable from SITA deposit certificates	1.020.519	985.359
Due from personnel	882.431	986.372
	<u>1.902.950</u>	<u>1.971.731</u>

Other short-term financial liabilities comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Debt to banks (*)	1.864.715	373.497

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

### 11 BIOLOGICAL ASSETS (NET)

None (31 December 2006: None).

### 12 INVENTORIES (NET)

	<u>30 September 2007</u>	<u>31 December 2006</u>
Spare parts, flight equipments	92.500.272	119.132.823
Other inventories	27.703.978	21.421.432
	<u>120.204.250</u>	<u>140.554.255</u>
Provision for impairment (-)	<u>(10.389.450)</u>	<u>(4.910.688)</u>
	<u>109.814.800</u>	<u>135.643.567</u>

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

None (31 December 2006: None).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 14 DEFERRED TAX ASSETS AND LIABILITIES

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements prepared in accordance with IFRS and its statutory financial statements. Tax rates used for the calculation of deferred tax assets and liabilities calculated for temporary differences expected to be realized in future under the liability method are disclosed in Note 41.

The deferred tax assets and liabilities as of 30 September 2007 and 31 December 2006, computed by applicable tax rate are as follows:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Long term lease obligations	69.479.352	100.292.302
Retirement pay liability	27.779.997	23.460.981
Short term lease obligations	17.429.254	25.180.043
Expense accruals	15.545.516	6.698.855
Provisions for diminution in value of inventories	2.077.890	982.138
Allowance for doubtful receivables	1.259.793	494.424
Diminution in value of investments	983.584	576.407
Discount on receivables	763.375	672.335
Income and expenses relating to future periods	114.786	220.206
Other	438.060	393.885
Discount on payables	(673.672)	(988.236)
Provision for advance ticket sales	(21.175.271)	(18.437.485)
Fixed assets	(233.075.962)	(289.525.029)
	<u>(119.053.298)</u>	<u>(149.979.174)</u>
	<u>30 September 2007</u>	<u>31 December 2006</u>
Deferred tax assets	135.871.607	158.971.576
Deferred tax liabilities	(254.924.905)	(308.950.750)
Deferred tax assets / (liabilities), net	<u>(119.053.298)</u>	<u>(149.979.174)</u>

Movement in deferred tax liability as of 30 September 2007 is as follows:

	<u>30 September 2007</u>	<u>30 September 2006</u>
1 January opening value of deferred tax	149.979.174	90.051.647
As a result of accounting policy change, the effect on previous years deferred taxes	-	54.192.117
Total deferred tax liability	149.979.174	144.243.764
Current period deferred tax expense / (income)	(30.616.412)	61.621.308
Deferred taxes netted off from revaluation surplus on tangible assets	-	3.883.343
Deferred taxes netted off from financial assets fair value reserve	(309.464)	1.714.705
Current period deferred tax liability, net	<u>(119.053.298)</u>	<u>211.463.120</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

Other current assets comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Prepaid sales commissions	13.142.510	14.173.900
Income accruals	12.887.291	1.356.703
Maintenance service income accruals	11.383.153	5.792.001
Prepaid operating lease expenses	9.022.494	11.356.882
Interline passenger income accruals	7.174.939	3.886.502
Prepaid insurance expenses	4.059.541	283.404
VAT to be refunded	3.671.150	7.025.462
Prepaid rent expenses	2.934.331	666.760
Other prepaid expenses	2.466.207	1.919.767
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Prepaid aircraft financing expense	667.170	423.583
Prepaid financial expense of bank borrowing	21.692	21.690
	<u>68.522.886</u>	<u>47.999.062</u>

Other non-current assets comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Maintenance reserve for engines	7.023.383	5.707.606
Prepaid aircraft financing expenses	4.966.292	1.723.667
Prepaid Eximbank USA guarantee and exposure fee	3.977.660	4.796.966
Prepaid operating lease expenses	2.915.323	3.670.910
Prepaid expenses	515.664	13.511
Income accruals	376.306	3.747.430
	<u>19.774.628</u>	<u>19.660.090</u>

Other short-term liabilities comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Flight liability resulting from ticket sales	233.874.180	218.668.355
Flight liability resulting from mileage sales	66.059.360	60.789.528
Frequent flyer program liability	51.602.568	42.285.285
Social security premiums payable	30.322.437	16.898.094
Gross manufacturers' credits	28.802.072	28.394.376
Accumulated amortization on manufacturers' credits(-)	(3.246.548)	(1.596.533)
Taxes and funds payable	34.142.076	18.419.181
Accruals for sales incentive premiums	19.464.339	19.226.521
Accruals for maintenance costs	7.341.658	13.271.328
Expense accruals for insurance premiums	-	10.613.244
Accruals for other expenses	17.687.793	6.909.507
Unearned income	902.853	-
Debt to personnel	167.527	375.941
Other liabilities	5.054.747	2.704.621
	<u>492.175.062</u>	<u>436.959.448</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 16 FINANCIAL ASSETS (NET)

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

	<u>30 September 2007</u>	<u>31 December 2006</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	18.977.420	7.681.874
THY DO&CO İkrâm Hizmetleri A.Ş.	21.459.245	15.199.029
	<u>40.436.665</u>	<u>22.880.903</u>

Financial assets available for sale are as follows:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Uçak Servisi A.Ş. (USAŞ)	7.293.022	8.110.722
Diminution in value of USAŞ shares	(4.917.922)	(3.370.602)
Sita Inc.	1.679.619	1.679.619
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
	<u>4.081.578</u>	<u>6.446.598</u>
	<u>44.518.243</u>	<u>29.327.501</u>

Sun Express's total assets and equity are YTL 111.137.596 and YTL 37.954.840 respectively at 30 September 2007 (31 December 2006: YTL 85.513.379 and YTL 15.363.747). Sun Express's net sales and net profit for the year are 402.332.585 YTL and 23.858.890 YTL respectively at 30 September 2007 (30 September 2006: 351.169.663 YTL and 1.014.574 YTL).

THY DO&CO İkrâm Hizmetleri A.Ş.'s total assets and equity are YTL 117.302.659 and YTL 42.918.490 respectively at 30 September 2007. (31 December 2006: YTL 107.915.720 and YTL 30.398.058). THY DO&CO İkrâm Hizmetleri A.Ş.'s net sales and net profit for the year are 114.266.334 YTL and 12.520.432 YTL respectively. (30 September 2006: None).

Details of the Group's financial assets at 30 September 2007 are as follows:

Name of the Company	Place of Incorporation and Operation	Ownership Rate	Voting Power Rate	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transportation
THY DO&CO İkrâm Hizmetleri A.Ş.	Turkey	50%	50%	Catering services
Uçak Servisi A.Ş.(USAŞ)	Turkey	2,4%	2,4%	Catering
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

### 17 POSITIVE / NEGATIVE GOODWILL (NET)

None (31 December 2006: None).



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

**18 INVESTMENT PROPERTY (NET)**

None (31 December 2006: None).

**19 TANGIBLE ASSETS (NET)**

	<b>30 September 2007</b>	<b>31 December 2006</b>
Tangible assets (net)	3.166.802.578	3.138.028.969
Advances given for aircraft purchases	331.992.330	358.335.473
Other advances given for tangible assets	27.707.134	6.712.224
	<u>3.526.502.042</u>	<u>3.503.076.666</u>

(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 2007

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

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

	Land, Land Improvements & Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Total
<b>Cost</b>									
Opening balance 1 January 2007	216.559.014	299.032.332	184.022.713	2.594.142.676	348.240.451	889.470	3.642.886.656	3.264.215.075	6.907.101.731
Additions	-	11.717.567	11.855.084	20.905.770	72.494.611	67.747.466	184.720.498	380.126.482	564.846.980
Disposals	-	(1.306.921)	(14.967.334)	-	(63.192.260)	(1.787.112)	(81.253.627)	-	(81.253.627)
Closing balance 30 September 2007	216.559.014	309.442.978	180.910.463	2.615.048.446	357.542.802	66.849.824	3.746.353.527	3.644.341.557	7.390.695.084
<b>Accumulated Depreciation</b>									
Opening balance 1 January 2007	50.636.378	249.655.257	167.630.870	1.377.629.493	168.324.320	-	2.013.876.318	742.326.360	2.756.202.678
Depreciation for the period	2.055.120	9.551.528	4.773.869	60.826.031	75.002.087	-	152.208.635	115.380.239	267.588.874
Disposals	-	(1.288.815)	(14.752.693)	-	(58.384.004)	-	(74.425.512)	-	(74.425.512)
Closing balance 30 September 2007	52.691.498	257.917.970	157.652.046	1.438.455.524	184.942.403	-	2.091.659.441	857.706.599	2.949.366.040
Accumulated impairment	-	4.480.776	-	602.569.967	-	-	607.050.743	667.475.723	1.274.526.466
<b>30 September 2007 net book value</b>	<b>163.867.516</b>	<b>47.044.232</b>	<b>23.258.417</b>	<b>574.022.955</b>	<b>172.600.399</b>	<b>66.849.824</b>	<b>1.047.643.343</b>	<b>2.119.159.235</b>	<b>3.166.802.578</b>
<b>31 December 2006 net book value</b>	<b>165.922.636</b>	<b>46.281.627</b>	<b>16.391.843</b>	<b>587.302.935</b>	<b>179.916.131</b>	<b>889.470</b>	<b>996.704.642</b>	<b>2.141.324.327</b>	<b>3.138.028.969</b>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

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

	Land, Land Improvements & Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Other Leased Fixed Assets and Simulators	Total Leased Assets	Total
<b>Cost</b>											
Opening balance 1 January 2006	164.394.003	295.103.154	200.528.580	2.027.132.388	309.650.653	1.670.455	2.998.479.233	2.901.409.819	17.796.598 (17.796.59	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)	8)	(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>	165.366.188	24.858.030	15.015.947	605.114.515	166.767.011	1.611.043	978.732.734	2.274.199.759	-	2.274.199.759	3.252.932.493
<b>31 December 2005 net book value</b>	116.020.477	26.709.444	15.962.408	442.349.451	162.758.411	1.670.455	765.470.646	1.278.899.340	6.735.829	1.285.635.169	2.051.105.815

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

### 20 INTANGIBLE ASSETS (NET)

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Cost</u></b>			
Opening balance 1 January 2007	65.652.323	19.848.969	85.501.292
Additions	2.405.958	2.613.729	5.019.687
Disposals	(33.654)	-	(33.654)
Closing balance 30 September 2007	<u>68.024.627</u>	<u>22.462.698</u>	<u>90.487.325</u>
<b><u>Accumulated Depreciation</u></b>			
Opening balance 1 January 2007	58.966.832	19.025.840	77.992.672
Amortization charge for the period	2.294.860	716.728	3.011.588
Disposals	(4.337)	-	(4.337)
Closing balance 30 September 2007	<u>61.257.355</u>	<u>19.742.568</u>	<u>80.999.923</u>
<b>30 September 2007 net book value</b>	<u>6.767.272</u>	<u>2.720.130</u>	<u>9.487.402</u>
<b>31 December 2006 net book value</b>	<u>6.685.491</u>	<u>823.129</u>	<u>7.508.620</u>

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Cost</u></b>			
Opening balance 1 January 2006	61.631.745	19.233.061	80.864.806
Additions	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><u>Accumulated Depreciation</u></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 Diminution	<u>5.035.527</u>	<u>754.352</u>	<u>5.789.879</u>
<b>30 September 2006 net book value</b>	<u>5.536.438</u>	<u>617.695</u>	<u>6.154.133</u>
<b>31 December 2005 net book value</b>	<u>61.631.745</u>	<u>19.233.061</u>	<u>80.864.806</u>

### 21 ADVANCES RECEIVED

Short-term advances received comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Advances related to aircraft purchases	28.534.409	4.669.162
MCO advances	24.487.657	18.976.134
E-pos ticket advances	7.305.835	701.462
Charter advances	7.008.486	2.087.449
Advances received for mileage credit sales	-	18.396.195
Other advances received	1.042.582	835.229
	<u>68.378.969</u>	<u>45.665.631</u>

### 22 RETIREMENT PLANS

The Group does not have any obligations regarding the retirement plans. (31 December 2006: None).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 23 PROVISIONS FOR LIABILITIES

Provisions for short-term liabilities comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Tax provision	85.104.291	1.952.019
Accrued salaries	73.640.496	21.773.788
Provisions for legal claims	5.272.993	5.544.394
Other provisions	389.855	50.876
	<u>164.407.635</u>	<u>29.321.077</u>

Provisions for long-term liabilities comprised the following:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Provision for retirement pay liability	138.899.987	117.304.910

Provision for retirement pay liability is recognized as explained below:

Under labor laws effective in Turkey, employees who worked for at least one year 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), are called up for military service or die. 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 2.030 as at 30 September 2007 (31 December 2006: YTL 1.857). The number of service years required before retirement is rising according to a sliding scale (60 for men, 58 for women) based on new legislation enacted in 1999. Provision for retirement pay liability is not subject to any kind of funding and no funding is required. The total provision recognized 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 2007</u>	<u>30 September 2006</u>
Current service cost	21.403.232	10.461.166
Interest cost	4.941.834	5.423.787
	<u>26.345.066</u>	<u>15.884.953</u>

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

	<u>01 January- 30 September 2007</u>	<u>01 January- 30 September 2006</u>
Provision at 1 January	117.304.909	113.641.242
Charge for the period	26.345.066	15.884.953
Payments during the period	(4.749.988)	(15.325.619)
Provision at the end of the period	<u>138.899.987</u>	<u>114.200.576</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,71% (31 December 2006: 5,71 %) per annum considering the effect of increase in eligible pay and its limit.

### 24 MINORITY INTERESTS

None (31 December 2006: None).

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 25 SHARE CAPITAL/ ADJUSTMENT TO SHARE CAPITAL

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

	Group	%	30 September 2007	%	31 December 2006
Republic of Turkey					
Prime					
Ministry Privatization	A, C	49,12(**)	85.963.662	49,12(**)	85.963.662
Administration(*)					
Others (Publicly Held)	A	50,88(**)	89.036.338	50,88(**)	89.036.338
Share capital (historic)			175.000.000		175.000.000
Restatement effect					
(Note:26)			1.739.005.871		1.739.005.871
Restated share capital			1.914.005.871		1.914.005.871

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

(\*\*) 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. The Privatization Administration's share on capital approached to 49,12% after Privatization Administration had acquired the 212.254 THY shares which are returned from credit sales.

As at 30 September 2007, the Group'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:

- As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- Making decisions or taking actions which will put the Company under commitment over 5% of its total assets considering the latest annual financial statements prepared for Capital Market Board per agreement (this statement will expire when the Company's shares held by Turkish State is below 20%),

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 25 SHARE CAPITAL/ ADJUSTMENT TO SHARE CAPITAL (cont'd)

- 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.

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

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

	<u>30 September 2007</u>	<u>31 December 2006</u>
Share capital	175.000.000	175.000.000
Share premium	181.185	181.185
Revaluation surplus on tangible assets	49.179.160	49.179.160
Financial assets fair value reserve	(3.934.338)	(2.696.482)
Legal reserves	417.011	417.011
Extraordinary reserves	7.806.889	7.806.889
Special funds	9	9
Shareholders' equity inflation adjustment differences (*)	1.872.657.189	1.872.657.189
Net profit for the year	194.193.935	181.381.671
Accumulated losses	(492.826.509)	(674.208.180)
	<u>1.802.674.531</u>	<u>1.609.718.452</u>
<b>(*) Shareholders' Equity Inflation Adjustment Differences</b>		
Share capital	1.739.005.871	1.739.005.871
Share premium	714.307	714.307
Legal reserves	60.597.395	60.597.395
Extraordinary reserves	67.026.275	67.026.275
Special funds	5.313.341	5.313.341
	<u>1.872.657.189</u>	<u>1.872.657.189</u>

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 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 2007, the Group does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Group.

The foreign currency position of the Company as of 30 September 2007 and 31 December 2006 in terms of YTL is as follows:

30 September 2007	US Dollar	Euro	Sterling	Other	Total
<b>Foreign currency denominated assets</b>					
Cash and cash equivalents	52.246.130	425.030.790	4.988.095	65.486.704	547.751.719
Accounts receivable (net) (short-term)	78.844.610	57.852.166	7.479.242	64.156.987	208.333.005
Due from related parties (net)	1.136.146	14.461.158	-	-	15.597.304
Other receivables (short term)	3.174.300	955.198	654.879	385.232	5.169.609
Inventory-advances	1.319.206	943.076	58.937	305.041	2.626.260
Other current assets	24.991.741	3.340.358	193.631	2.921.440	31.447.170
Accounts receivable (net) (long-term)	3.213.415	634.440	75.883	602.813	4.526.551
Other receivables (long term) (net)	1.902.950	-	-	-	1.902.950
Tangible assets (advances)	356.672.363	-	493.010	-	357.165.373
Other non-current assets	18.882.659	90.012	-	-	18.972.671
	542.383.520	503.307.198	13.943.677	133.858.217	1.193.492.612
<b>Foreign currency denominated liabilities</b>					
Bank borrowings (short-term) (net)	3.892.337	-	-	-	3.892.337
Finance lease obligations (short term) (net)	166.373.609	52.189.540	-	-	218.563.149
Accounts payable (short term) (net)	142.426.494	59.290.028	25.542.822	40.403.550	267.662.894
Due to related parties (net)	2.209.290	3.143.654	-	-	5.352.944
Bank borrowings (long term) (net)	28.526.844	-	-	-	28.526.844
Deposits and advances received	29.503.993	361.483	7.305.835	322.429	37.493.740
Other accrued liabilities (short term)	5.311	1.441	-	-	6.752
Other liabilities (net)	128.087.500	93.359.317	13.798.530	54.813.705	290.059.052
Finance lease obligations (long term) (net)	870.622.711	600.204.445	-	-	1.470.827.156
Accounts payable (long-term) (net)	735.312	5.730.525	4.693	1.278.216	7.748.746
	1.372.383.401	814.280.433	46.651.880	96.817.900	2.330.133.614
<b>Net foreign currency position (*)</b>	<b>(829.999.881)</b>	<b>(310.973.235)</b>	<b>(32.708.203)</b>	<b>37.040.317</b>	<b>(1.136.641.002)</b>

(\*) Although the Group seems to be in an open position based on its monetary assets and liabilities, the Group values its aircraft, spare engines and simulators according to their US Dollar selling prices as explained in Note 3.5. In this respect, the Group's management has 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 2007, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices, is 2.714.510.494 YTL (31 December 2006: YTL 2.747.836.474).



## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

31 December 2006	US Dollar	Euro	Sterling	Other	Total
<b>Foreign currency denominated assets</b>					
Cash and cash equivalents	52.188.763	224.456.764	1.196.876	49.621.686	327.464.089
Accounts receivable (net) (short-term)	55.945.872	45.509.655	6.622.176	63.170.691	171.248.394
Due from related parties (net)	1.267.560	36.511.706	-	-	37.779.266
Other receivables (short term)	4.456.074	420.952	27.145	669.436	5.573.607
Inventory-advances	258.862	646.499	2.208	-	907.569
Other current assets	17.739.763	5.504.877	364.685	2.736.520	26.345.845
Accounts receivable (net) (long-term)	5.032.537	649.703	85.602	630.406	6.398.248
Other receivables (long term) (net)	1.971.731	-	-	-	1.971.731
Tangible assets (advances)	364.049.207	851.424	142.857	-	365.043.488
Other non-current assets	10.191.542	13.511	-	-	10.205.053
	<u>513.101.911</u>	<u>314.565.091</u>	<u>8.441.549</u>	<u>116.828.739</u>	<u>952.937.290</u>
<b>Foreign currency denominated liabilities</b>					
Bank borrowings (short-term) (net)	4.481.158	-	-	-	4.481.158
Finance lease obligations (short term) (net)	188.669.421	30.051.378	-	-	218.720.799
Accounts payable (short term) (net)	137.662.365	60.824.377	3.445.186	52.079.242	254.011.170
Due to related parties (net)	35.939	3.334.160	-	-	3.370.099
Bank borrowings (long term) (net)	36.401.442	-	-	-	36.401.442
Deposits and advances received	23.510.779	515.497	182.317	360.572	24.569.165
Other accrued liabilities (short term)	523.718	6.414	-	852	530.984
Other liabilities (net)	140.898.534	63.047.313	10.776.911	50.085.735	264.808.493
Finance lease obligations (long term) (net)	1.099.716.929	344.215.933	-	-	1.443.932.862
Accounts payable (long-term) (net)	468.075	6.876.034	65.036	1.579.476	8.988.621
	<u>1.632.368.360</u>	<u>508.871.106</u>	<u>14.469.450</u>	<u>104.105.877</u>	<u>2.259.814.793</u>
<b>Net foreign currency position</b>	<u>(1.119.266.449)</u>	<u>(194.306.015)</u>	<u>(6.027.901)</u>	<u>12.722.862</u>	<u>(1.306.877.503)</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 2.201.729.000 and dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2008 at amount of YTL 122.989.467. 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.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 31 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is YTL 41.175.076 as of 30 September 2007 (31 December 2006: YTL 55.363.981).

b) Purchase Commitments:

The Group has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered in 2005, 23 of these aircrafts are delivered in 2006 and 8 of these aircrafts are delivered in the first nine months of 2007. Total value of aircrafts is approximately US Dollar 4,7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Group paid a deposit of US Dollar 276 million as of 30 September 2007 related to aircrafts to be purchased.

c) Letters of comfort:

	<u>30 September 2007</u>	<u>31 December 2006</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 138.899.987. The Group's liability for retirement pay would be approximately YTL 234.112.565 as of 30 September 2007, 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 2006: None).

### 33 SEGMENTAL REPORTING

#### *Business Segments*

The Group predominantly operates in one industry segment as of 30 September 2007, 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 Group 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 2007

*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )***33 SEGMENTAL REPORTING (cont'd)****33.1. Total Assets and Liabilities**

<b>Total Assets</b>	<b>30 September 2007</b>	<b>31 December 2006</b>
Aviation	5.036.021.885	4.538.512.317
Technical service	399.999.820	382.668.873
<b>Total</b>	<b>5.436.021.705</b>	<b>4.921.181.190</b>
Less: Eliminations of consolidation	(381.740.048)	(327.378.797)
<b>Total assets according to consolidated financial statements</b>	<b>5.054.281.657</b>	<b>4.593.802.393</b>
<b>Total Liabilities</b>	<b>30 September 2007</b>	<b>31 December 2006</b>
Aviation	3.233.347.354	2.956.475.087
Technical service	89.382.419	63.371.102
<b>Total</b>	<b>3.322.729.773</b>	<b>3.019.846.189</b>
Less: Eliminations of consolidation	(71.122.647)	(35.762.248)
<b>Total liabilities according to consolidated financial statements</b>	<b>3.251.607.126</b>	<b>2.984.083.941</b>

**33.2. Net Operating Profit / (Loss)**

	<b>Aviation</b>	<b>Technical service</b>	<b>Eliminations between segments</b>	<b>Total</b>
<b>01 January 2007-30 September 2007</b>				
Sales Revenues (net)	3.384.103.341	-	-	3.384.103.341
Other revenue from main Operations	143.005.134	446.761.559	(406.608.699)	183.157.994
Cost of sales	(2.527.881.571)	(430.405.340)	401.129.936	(2.557.156.975)
Gross operating profit	999.226.904	16.356.219	(5.478.763)	1.010.104.360
Operating expenses	(568.063.112)	(23.698.124)	-	(591.761.236)
Net operating profit/(loss)	431.163.792	(7.341.905)	(5.478.763)	418.343.124
<b>01 January 2007-30 September 2006</b>				
Sales Revenues (net)	2.807.890.951	-	-	2.807.890.951
Other revenue from main Operations	139.969.900	155.847.209	(150.862.273)	144.954.836
Cost of sales	(2.377.619.515)	(168.419.936)	150.862.273	(2.395.177.178)
Gross operating profit	570.241.336	(12.572.727)	-	(557.668.609)
Operating expenses	(520.664.671)	(5.580.862)	-	(526.245.533)
Net operating profit/(loss)	49.576.665	(18.153.589)	-	31.423.076

**33.3 Investment Operations**

	<b>Aviation</b>	<b>Technical service</b>	<b>Eliminations between segments</b>	<b>Total</b>
<b>01 January 2007-30 September 2007</b>				
Purchases of tangible and intangible assets	488.949.489	80.917.178	-	569.866.667
Current period amortization expense	192.790.443	77.810.021	-	270.600.462
<b>01 January 2006-30 September 2006</b>				
Purchases of tangible and intangible assets	961.140.502	26.740.891	-	987.881.393
Current period amortization expense	213.849.234	33.328.263	-	247.177.497

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

### 34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a) The Group decided to purchase a Gulfstream G550 aircraft from Aerospace Corporation, the producer company, for delivery on the first quarter of 2009.
- b) The Group decided to extend the leasing term of one B737 aircraft, which has been leased for 6 months in ACMI wet lease for the use in 2007 summer schedule, for 6 months.
- c) The Group, within the context of HABOM project, signed a MOU (Memorandum of Understanding) on 08 November 2007 with Goodrich Aerostructures, the subsidiary of Goodrich Corporation, for the establishment of a joint venture (JV) which is going to provide Nacelle and Thrust Reverser maintenance and repairment services.
- d) The Group sold Uçak Servisi A.Ş. (USAŞ) shares in its portfolio which account for 2,36 percent of USAŞ shares and have a nominal value of 807.857 YTL with a total selling value of 2.915.361 YTL between 05.10.2007 – 15.11.2007 on Istanbul Stock Exchange. Following the transaction The Group no longer has any USAŞ shares.

### 35 DISCONTINUED OPERATIONS

None (31 December 2006: None).

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

**36 MAIN OPERATING REVENUES**

Main operating revenues comprised the following:

	<b>01 January 2007- 30 September 2007</b>	<b>01 July 2007- 30 September 2007</b>	<b>01 January 2006- 30 September 2006</b>	<b>01 July 2006- 30 September 2006</b>
Scheduled flights				
- Passenger	3.150.119.551	1.288.335.809	2.576.298.384	1.180.518.956
- Cargo and mail	<u>233.983.790</u>	<u>78.237.696</u>	<u>231.592.567</u>	<u>86.237.201</u>
Total scheduled flights	3.384.103.341	1.366.573.505	2.807.890.951	1.266.756.157
Non-scheduled flights	43.747.852	24.462.080	34.715.851	18.315.063
Other revenues	<u>139.417.614</u>	<u>49.631.356</u>	<u>110.250.440</u>	<u>39.397.431</u>
<b>Total revenues</b>	<b>3.567.268.807</b>	<b>1.440.666.941</b>	<b>2.952.857.242</b>	<b>1.324.468.651</b>
Less: Discounts and sales Returns	<u>(7.472)</u>	<u>(3.924)</u>	<u>(11.455)</u>	<u>(4.832)</u>
<b>Net Sales</b>	<b>3.567.261.335</b>	<b>1.440.663.017</b>	<b>2.952.845.787</b>	<b>1.324.463.819</b>
Cost of Sales (-)	<u>(2.557.156.975)</u>	<u>(940.590.529)</u>	<u>(2.395.177.178)</u>	<u>(959.006.962)</u>
<b>Gross Operating Profit</b>	<b><u>1.010.104.360</u></b>	<b><u>500.072.488</u></b>	<b><u>557.668.609</u></b>	<b><u>365.456.857</u></b>

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

	<b>01 January 2007- 30 September 2007</b>	<b>01 July 2007- 30 September 2007</b>	<b>01 January 2006- 30 September 2006</b>	<b>01 July 2006- 30 September 2006</b>
- Europe	1.386.463.044	581.590.558	1.220.408.994	592.143.778
- Far East	619.497.870	240.315.478	475.067.439	198.909.510
- Middle East	314.775.380	111.984.043	229.746.134	79.076.221
- North America	163.192.429	72.380.769	150.683.374	73.093.824
- North Africa	75.336.320	28.242.097	68.515.076	27.596.962
- Middle Africa	13.363.495	5.269.737	6.203.846	4.776.204
- West Africa	11.233.381	5.768.954	1.493.113	1.493.113
- South Africa	<u>1.375.687</u>	<u>1.375.687</u>	-	-
	<u>2.585.237.606</u>	<u>1.046.927.323</u>	<u>2.152.117.976</u>	<u>977.089.612</u>
Domestic	<u>798.865.735</u>	<u>319.646.182</u>	<u>655.772.975</u>	<u>289.666.545</u>
Total revenue from the scheduled flights	<b><u>3.384.103.341</u></b>	<b><u>1.366.573.505</u></b>	<b><u>2.807.890.951</u></b>	<b><u>1.266.756.157</u></b>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

Cost of sales consists of the following:

	<b>01 January 2007- 30 September 2007</b>	<b>01 July 2007- 30 September 2007</b>	<b>01 January 2006- 30 September 2006</b>	<b>01 July 2006- 30 September 2006</b>
Fuel expenses	850.456.948	331.672.359	839.162.639	367.086.832
Staff expenses	553.286.182	199.319.479	425.951.945	156.366.241
Depreciation expenses	257.600.592	86.796.550	238.083.953	85.757.277
Landing and navigation expenses	249.878.374	96.752.981	252.162.920	108.677.917
Handling expenses	175.428.335	62.911.284	148.122.194	59.354.816
Passenger service and catering expenses	152.522.189	58.255.231	131.596.037	56.942.885
Operating lease expenses	130.182.077	40.421.528	124.428.728	51.320.483
Maintenance expenses	108.084.024	40.618.405	146.856.802	44.658.136
Insurance expenses	25.769.279	6.347.653	32.974.151	12.430.550
Other renting expenses	15.350.855	5.992.345	9.012.203	3.069.732
Service expenses	6.940.054	1.142.307	7.593.536	2.904.724
Transportation expenses	5.259.146	1.880.271	2.944.978	1.350.709
Aircraft wet-lease expenses	4.927.768	2.050.146	10.339.924	588.186
Communication expenses	4.640.616	1.714.194	7.219.577	2.591.164
Other taxes	3.782.604	2.484.943	4.603.117	1.401.189
Lighting, heating, energy and water expenses	2.934.374	918.347	2.782.180	533.726
Cost of other sales	10.113.558	1.312.506	11.342.294	3.972.395
	<u>2.557.156.975</u>	<u>940.590.529</u>	<u>2.395.177.178</u>	<u>959.006.962</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

**37 OPERATING EXPENSES (-)**

Operating expenses comprised the following:

	<b>01 January 2007- 30 September 2007</b>	<b>01 July 2007- 30 September 2007</b>	<b>01 January 2006- 30 September 2006</b>	<b>01 July 2006- 30 September 2006</b>
<b>Sales and marketing expenses (-)</b>	<b>172.697.864</b>	<b>63.378.828</b>	<b>189.485.947</b>	<b>82.712.687</b>
Commission and promotion expenses	131.173.363	46.740.646	109.486.391	39.646.236
Staff expenses	64.784.066	21.190.144	55.098.451	18.649.713
Reservation system expenses	15.694.699	7.158.927	10.027.125	5.503.465
Code share expenses	13.104.883	3.941.051	12.422.677	4.542.068
Other renting expenses	9.844.508	209.364	721.990	208.361
Membership expenses	9.296.443	2.474.622	11.364.829	4.041.666
Communication expenses	8.033.864	4.015.221	11.110.728	1.675.025
Advertisement expenses	6.787.247	2.182.549	6.793.772	2.325.621
Service expenses	4.701.873	1.660.828	3.835.822	1.564.213
Passenger service and catering expenses	3.554.003	1.297.940	3.334.429	1.275.319
Transportation expenses	2.939.104	815.878	3.241.855	881.806
Other taxes	1.477.141	514.486	1.376.942	481.551
Lighting, heating, energy and water expenses	1.137.730	345.702	859.659	310.836
Maintenance expenses	595.741	216.330	572.040	289.146
Fuel expenses	470.340	140.206	475.235	83.070
Software and computer equipment expenses	423.652	112.805	305.444	71.807
Insurance expenses	364.285	216.263	98.871	25.016
Depreciation expenses	14.435.856	5.933.782	10.058.375	3.614.186
Other sales and marketing expenses	461.516.662	162.545.572	430.670.582	167.901.792
	<u>172.697.864</u>	<u>63.378.828</u>	<u>189.485.947</u>	<u>82.712.687</u>

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

	<b>01 January 2007- 30 September 2007</b>	<b>01 July 2007- 30 September 2007</b>	<b>01 January 2006- 30 September 2006</b>	<b>01 July 2006- 30 September 2006</b>
<b>General administrative expenses (-)</b>				
Staff expenses	77.185.574	26.919.538	59.762.965	23.953.881
Depreciation expenses	12.635.585	4.535.639	8.994.673	2.837.279
Maintenance expenses	5.392.391	1.627.255	4.015.525	2.255.070
Other taxes	4.817.877	1.732.458	3.999.894	1.789.245
Service expenses	4.501.593	1.734.913	2.366.137	1.369.871
Communication expenses	3.940.211	1.082.745	2.075.920	852.710
Fuel expenses	3.633.602	1.312.006	183.904	73.532
Software and computer equipment exp	2.842.158	946.208	3.618.546	1.479.975
Commission and promotion expenses	2.735.398	892.730	2.172.639	996.373
Other renting expenses	1.999.197	1.274.786	3.458.134	1.443.790
Insurance expenses	1.456.078	575.593	567.989	325.731
Lighting, heating, energy and water expenses	1.447.291	365.011	1.266.410	399.080
Other general administrative expenses	7.657.619	1.681.272	3.092.215	685.165
	<u>130.244.574</u>	<u>44.680.154</u>	<u>95.574.951</u>	<u>38.461.702</u>
Total operating expenses	<u>591.761.236</u>	<u>207.225.726</u>	<u>526.245.533</u>	<u>206.363.494</u>



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

**38 INCOME/LOSSES FROM OTHER OPERATIONS**

Income from other operations consists of the following:

	<b>01 January 2007- 30 September 2007</b>	<b>01 July 2007- 30 September 2007</b>	<b>01 January 2006- 30 September 2006</b>	<b>01 July 2006- 30 September 2006</b>
Decrease in provision for diminution in value of fixed assets due to exchange rate changes	-	-	179.634.449	(141.185.004)
Real decrease in provision for diminution in value of fixed assets	-	-	49.715.680	44.855.238
Foreign exchange gains	-	-	74.814.093	(61.016.723)
Interest income	28.811.981	15.367.788	19.377.702	6.077.713
(Loss) / Gain from financial investment accounted per equity method	17.555.763	17.555.763	-	-
Maintenance fee returns from leasing companies	9.013.303	(528.312)	-	-
Discounts received from spare parts suppliers	4.582.715	1.629.249	25.592.491	3.608.043
Indemnity and penalty income	4.563.821	(3.899.708)	5.106.837	1.751.564
Commission income	2.823.620	1.328.270	209.996	170.817
Reversal of unnecessary provision	2.598.624	1.305.764	7.689.250	2.743.081
Dividend income	2.539.966	(203)	15.102.795	11.999.998
Yapı Kredi protocol income	2.503.686	884.713	2.249.687	715.205
Maintenance fee returns from fuel, service and handling companies	1.706.835	6.291	1.831.722	438.089
Inventory count surplus	992.700	196.139	-	(2.274)
Income from other services	862.343	703.063	149.090	103.264
Cost free materials income	812.102	293.622	3.595.922	51.530
Rent income	728.871	282.735	384.760	328.262
Purchase discounts	556.496	25.528	567.053	5.761
Rent received back due to delivered aircraft	455.007	-	-	-
Gain on disposal of scrap materials	218.732	39.903	67.325	47.810
Profit on sale of fixed assets	24.328	(8.789)	9.095	30
Income from manufacturers' credit	-	-	1.506.302	342.523
Discount income	-	-	545.235	(27.639)
Other	2.534.898	(1.384.509)	12.454.533	997.741
	<u>83.885.791</u>	<u>33.797.307</u>	<u>400.604.017</u>	<u>(127.994.971)</u>

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

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

Losses from other operations consist of the following:

	01 January 2007- 30 September 2007	01 July 2007- 30 September 2007	01 January 2006- 30 September 2006	01 July 2006- 30 September 2006
Increase in provision for diminution in value of fixed assets due to exchange rate changes	408.508.597	202.196.273	-	-
Real decrease in provision for diminution in value of fixed assets	(146.852.216)	997.425	-	-
Foreign exchange losses	95.326.532	47.480.662	-	-
Provision expenses	15.328.711	5.630.276	12.465.098	5.213.199
Loss / (Gain) from financial investment accounted per equity method	-	(3.661.841)	11.303.689	(635.234)
Retirement pay interest cost	4.941.834	1.647.279	5.423.787	1.807.929
Discount expense	1.560.147	(187.240)	-	-
Indemnity and penalty expense	999.937	310.630	6.814.990	227.940
Passengers without visa expense	383.493	85.432	504.617	106.107
Loss from sale of financial assets	119.871	119.871	10.078.903	14.028.994
Loss on sales of fixed assets	1.018	1.018	330.240	130.453
Other expenses	1.723.772	(1.980.836)	2.444.269	251.517
	<u>382.041.696</u>	<u>252.638.949</u>	<u>49.365.593</u>	<u>21.130.905</u>

### 39 FINANCIAL INCOME/ (EXPENSES)

Financial income and expenses consist of the following:

	01 January 2007- 30 September 2007	01 July 2007- 30 September 2007	01 January 2006- 30 September 2006	01 July 2006- 30 September 2006
Foreign exchange gain / (loss) on finance leases	214.021.479	101.869.791	(115.551.259)	83.829.662
Finance lease interest expenses	(65.252.229)	(21.886.040)	(49.418.577)	(21.536.031)
Foreign exchange gain/loss on bank loans	5.493.076	2.667.071	(18.147.000)	17.250.000
Interest expense on bank loans	(1.900.642)	(566.991)	(9.375.803)	(1.474.240)
Other financial expenses	(15.241)	(3.408)	(741.218)	(1.066)
	<u>152.346.443</u>	<u>82.080.423</u>	<u>(193.233.857)</u>	<u>78.068.325</u>

### 40 NET MONETARY GAIN/LOSS

On 17 March 2005, CMB announced that the application of inflation accounting is no longer required effective from 1 January 2005 (Note 2). Consequently, for the period ended 30 September 2007 and 30 September 2006, there is no monetary gain / loss.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

### 41 TAX

Corporate tax payable is as follows:

	<b>30 September 2007</b>	<b>31 December 2006</b>
Provision for corporate tax payable	108.956.139	7.174.359
Prepaid taxes and funds	(23.851.848)	(5.222.340)
	<u>85.104.291</u>	<u>1.952.019</u>

Tax expense is as follows:

	<b>1 January 2007- 30 September 2007</b>	<b>1 January 2006- 30 September 2006</b>
Current period tax expense	108.956.139	(266.436)
Deferred tax expense / (income)	(30.616.412)	(61.621.308)
Tax expense / (income)	<u>78.339.727</u>	<u>(61.887.744)</u>

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

Corporate Income Tax Law numbered 5520 was published in the official gazette numbered 26205 dated 21 June 2006 and came into effect immediately. Herewith, Corporate Income Tax Law numbered 5422 has been abolished.

The corporate tax rate for the fiscal years starting from 2006 is 20% (30% those for benefiting from investment allowances in 2006, 2007 and 2008.) Corporate tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and allowances. The annual corporate income tax return is required to be filled in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year. Payments can be made up until the end of the month in which the tax return is to be filed.

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

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

The parent company preferred to deduct the investment allowances of 2005 from the earnings in 2006 and 2007. Therefore, the applicable current corporate tax rate is 30% for 2006 and 2007. Despite that, the parent company uses 20 % as deferred tax rate for deferred tax assets and liabilities which are of long-term.

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007

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

### 41 TAX (cont'd)

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

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

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

### 42 EARNINGS PER SHARE

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

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

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

Number of total shares and calculation of earnings per share at 30 September 2007 and 2006 are as follows:

	<b>1 January- 30 September 2007</b>	<b>1 January- 30 September 2006</b>
Number of shares outstanding on 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (in full)	-	-
Number of shares outstanding on 30 September (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the period (in full)	175.000.000.000	175.000.000.000
Net profit for the period	194.193.935	127.539.899
Earnings per share (YKr)	0,111	0,073

### 43 STATEMENTS OF CASH FLOWS

Statements of cash flows are presented together with the financial statements.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

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

Consolidated financial statements have been approved by the Group Board of Directors on 30 November 2007.

### **45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS**

#### **(a) Capital risk management**

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 6 and 8, and equity comprising issued capital, reserves and retained earnings as disclosed in notes 25, 26, 27 and 28 respectively.

The top management of the Group assesses the cost of capital and the risks associated with each class of capital. At the time of these analyses, top management assesses the risks associatible with each class of capital and gives the ones that are dependent to Board of Directors to the assessment of Board of Directors. As the results of the assessments of top management and Board of Directors, the Group provides the optimization of the capital diversification through obtaining new debts, repayment of the existing debts and/or capital increase.

Overall strategy of the Group does not differ from the previous period.

#### **(b) Significant accounting policies**

Significant accounting policies on financial instruments are disclosed in note 3 “Summary of Significant Accounting Policies”, “3.8 Financial Instruments”.

(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 2007

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

**45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)**

(c) Categories of financial instruments

<b>30 September 2007 Balance sheet</b>	<b>Financial Assets shown on amortized cost</b>	<b>Credits and receivables</b>	<b>Investments available for sale</b>	<b>Financial Liabilities shown on amortized cost</b>	<b>Book Value</b>	<b>Approximate Current value</b>	<b>Note</b>
<u>Financial assets</u>							
Cash and cash equivalents	768.819.033	-	-	-	768.819.065	768.456.065	4
Accounts receivable	-	340.443.800	-	-	340.443.800	340.443.800	7
Due from related parties	-	1.279.437	-	-	1.279.437	1.279.437	9
Financial assets	-	-	4.081.578	-	4.081.578	4.081.578	16
<u>Financial liabilities</u>							
Financial debts	-	-	-	32.419.181	32.419.181	32.419.181	6
Finance lease liabilities	-	-	-	1.689.390.305	1.689.390.305	1.689.390.305	8
Other financial liabilities	-	-	-	1.864.715	1.864.715	1.864.715	10
Accounts payable	-	-	-	383.844.642	383.844.642	383.844.642	7
Due to related parties	-	-	-	25.301.725	25.301.725	25.301.725	9
<b>31 December 2006 Balance sheet</b>	<b>Financial Assets shown on amortized cost</b>	<b>Credits and receivables</b>	<b>Investments available for sale</b>	<b>Financial Liabilities shown on amortized cost</b>	<b>Book Value</b>	<b>Approximate Current value</b>	<b>Note</b>
<u>Financial assets</u>							
Cash and cash equivalents	365.057.959	-	-	-	365.057.959	365.057.959	4
Accounts receivable	-	271.755.418	-	-	271.755.418	271.755.418	7
Due from related parties	-	22.967.266	-	-	22.967.266	22.967.266	9
Financial assets	-	-	6.446.598	-	6.446.598	6.446.598	16
<u>Financial liabilities</u>							
Financial debts	-	-	-	40.882.600	40.882.600	40.882.600	6
Finance lease liabilities	-	-	-	1.662.653.661	1.662.653.661	1.662.653.661	8
Other financial liabilities	-	-	-	373.497	373.497	373.497	10
Accounts payable	-	-	-	327.103.321	327.103.321	327.103.321	7
Due to related parties	-	-	-	14.869.046	14.869.046	14.869.046	9

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007

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

**45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)**

(d) Financial risk management objectives

A formally specified risk management model and its active application are not available within the Group. Currency risk, interest rate risk and liquidity risk are some important risks of the Group.

The Group management manages the risks through its decisions and applications. Even a formally specified risk management model is not available, corporate risk management model has been aimed and the related activities are being performed.

(e) Market risk

The Group is subject to the financial risks related to the changes in the exchange rate (Please see (f) below) and interest rate (Please see (g) below) due to its operations. Distribution of expenses and incomes based the types of exchange rates and distribution of debts based on the types of exchange rates and fixed and variable interest rates are managed by the company management.

(f) Foreign currency risk management

There is a natural balance in the foreign currency risk between the Group's incomes and expenses. This balance is tried to be kept through taking into consideration the future forecasts and market conditions.

Foreign currency sensitivity

The Group is primarily subject to US Dollar and EUR foreign currency risk.

The table below demonstrates that the sensitivity of the Group against the 10 % change in US Dollar and Euro exchange rates. Negative amount demonstrates the decrease effect of the 10 % increase in the value of US Dollar and EUR against YTL in the net profit for the year.

	US Dollar effect (i)		Euro effect (ii)	
	1 January- 30 September 2007	1 January- 30 September 2006	1 January- 30 September 2007	1 January- 30 September 2006
Income statement effect	(66.399.990)	(98.045.510)	(24.877.859)	(14.210.043)

(i) Related to the receivables and payables in US Dollar not due yet as of the end of the period

(ii) Related to the receivables and payables in Euro not due yet as of the end of the period

If US Dollar and Euro is devaluated against YTL by 10 %, the amounts are the same as the figures in the table above and its effect in the income statement will be reverse.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 September 2007  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated. )

### 45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)

#### (f) Foreign currency risk management (cont'd)

##### Foreign currency sensitivity (cont'd)

In the impairment calculation of aircrafts, motors, and simulators, US Dollar prices are used. Accordingly, the impairment provided by the Group for the tangible assets decreases when the US Dollar is evaluated against YTL, and increases when the US Dollar is devaluated against YTL. In this context, when the US Dollar is evaluated by 10 % against YTL, due to the decrease in the impairment provided for aircrafts, motors, and simulators, there would be an increase in the net profit for the year amounted 185.532.444 YTL other than the effects in the table above. (1 January-30 September 2006: 155.269.557 YTL). If US Dollar is devaluated by 10 % against YTL, these amounts remain constant but the effect in the income statement will be reverse.

#### (g) Interest rate risk management

The Group's liabilities are on fixed and variable interest rates. When the interest situations of the existing debts are being considered, it is seen that the variable interests compose the majority. In recent years, a partial balance between the debts with fixed interest and the debts with variable interest is tried to be provided through increasing the weight of the debts with fixed interest provided that the financing of the aircraft is favorable. Because the Group's debts with variable interest rate are dependent to Libor and Euribor, dependency to local risks is low.

The interest rates of the Group's financial liabilities are disclosed in notes 6 and 8.

##### Interest rate sensitivity

Sensitivity analysis below is determined according to the interest rate risk that is subject to as of the reporting date and the change in this rate and is kept constant throughout the reporting period. The Group Management calculates the effects that are arisen from the fluctuation in the Libor and Euribor rates by 0,5 % that are the interest rates of the Group's variable interest rates and reports them to the top management.

When there is an increase by 0,5 % in Libor and Euribor interest rates and the other variables remain to be constant:

The amount of the Group's interest expense for the nine months period increases by 1.280.351 YTL. (In 30 September 2006 period, it increases by 1.717.186 YTL.) When the Libor and Euribor interest rates decrease by 0,5 %, nine months interest expense decrease as the same amount.

#### (h) Credit risk management

The Group's credit risk is basically related to its receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economical conditions.

Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration. Additionally, the Group manages the risk through obtaining guarantees for its receivables.



**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

Notes to the consolidated financial statements as at 30 September 2007

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

**45 ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (cont'd)**

(i) Liquidity management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities, and these interests are shown in the adjustment columns in order to confirm with the balance sheet amounts.

	<u>Less than 1</u> <u>month</u>	<u>1 month-3</u> <u>months</u>	<u>3 months-1</u> <u>year</u>	<u>1 year-4 year</u>	<u>Over 4 years</u>	<u>Adjustments</u>	<u>Balance sheet</u> <u>amount</u>
<b>30 September 2007</b>							
Financial liabilities	572.011	865.342	4.230.081	30.365.177	-	(3.613.430)	32.419.181
Finance lease liabilities	33.745.681	40.295.415	217.225.879	795.353.672	1.012.769.031	(409.999.373)	1.689.390.305
Other financial liabilities	1.864.715	-	-	-	-	-	1.864.715
Accounts payable	291.756.253	-	87.708.005	7.748.746	-	(3.368.362)	383.844.642
Due to related parties	25.301.725	-	-	-	-	-	25.301.725
	<u>353.240.385</u>	<u>41.160.757</u>	<u>309.163.965</u>	<u>833.467.595</u>	<u>1.012.769.031</u>	<u>(416.981.165)</u>	<u>2.132.820.568</u>
<b>31 December 2006</b>							
Financial liabilities	686.069	1.037.659	5.053.037	40.316.724	-	(6.210.889)	40.882.600
Finance lease liabilities	27.449.554	46.960.074	218.835.629	824.972.080	930.144.100	(385.707.776)	1.662.653.661
Other financial liabilities	373.497	-	-	-	-	-	373.497
Accounts payable	272.442.087	-	50.613.792	8.988.621	-	(4.941.179)	327.103.321
Due to related parties	14.869.046	-	-	-	-	-	14.869.046
	<u>315.820.253</u>	<u>47.997.733</u>	<u>274.502.458</u>	<u>874.277.425</u>	<u>930.144.100</u>	<u>(396.859.844)</u>	<u>2.045.882.125</u>