

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2007

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

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

ASSETS	Note	Not Audited 31 March 2007	Audited 31 December 2006
Current Assets		831.188.586	857.257.447
Cash and Cash Equivalents	4	289.109.794	365.057.959
Marketable Securities (net)	5	-	-
Accounts Receivable (net)	7	337.200.097	273.400.852
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	15.382.872	21.318.613
Other Receivables (net)	10	5.286.375	8.571.133
Biological Assets (net)	11	-	-
Inventories (net)	12	119.463.040	135.643.567
Receivables from Construction Contracts in Progress (net)	13	-	-
Deferred Tax Assets	14	-	-
Other Current Assets	15	64.746.408	53.265.323
Non-Current Assets		3.884.660.194	3.741.767.286
Accounts Receivable (net)	7	-	-
Financial Lease Receivables (net)	8	-	-
Due from Related Parties (net)	9	14.706.400	14.812.000
Other Receivables (net)	10	2.065.129	1.971.731
Financial Assets (net)	16	23.378.340	29.327.501
Positive / Negative Goodwill (net)	17	-	-
Investment Property	18	-	-
Tangible Assets (net)	19	3.652.255.561	3.503.076.666
Intangible Assets (net)	20	7.017.130	7.508.620
Deferred Tax Assets	14	158.297.953	158.971.576
Other Non-current Assets	15	26.939.681	26.099.192
Total Assets		4.715.848.780	4.599.024.733

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEETS

AS AT 31 MARCH 2007 AND 31 DECEMBER 2006

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

	Note	Not Audited 31 March 2007	Audited 31 December 2006
LIABILITIES			
Short Term Liabilities		1.086.130.961	1.073.727.696
Bank Borrowings (net)	6	-	-
Short-term Portion of Long-term Bank Borrowings (net)	6	4.465.016	4.481.158
Financial Lease Obligations (net)	8	227.727.015	218.720.799
Other Financial Liabilities (net)	10	568.433	373.497
Accounts Payable (net)	7	318.280.578	318.114.700
Due to Related Parties (net)	9	16.324.530	14.869.046
Advances Received	21	39.077.035	45.665.631
Billings on Construction Contracts in Progress (net)	13	-	-
Provisions for Liabilities	23	34.398.524	27.369.058
Deferred Tax Liabilities	14	-	-
Other Liabilities (net)	15	445.289.830	444.133.807
Long Term Liabilities		1.978.504.678	1.915.578.585
Bank Borrowings (net)	6	34.719.884	36.401.442
Financial Lease Obligations (net)	8	1.486.440.612	1.443.932.862
Other Financial Liabilities (net)	10	-	-
Accounts Payable (net)	7	8.703.087	8.988.621
Due to Related Parties (net)	9	-	-
Advances Received	21	-	-
Provisions for Liabilities	23	139.325.939	117.304.910
Deferred Tax Liabilities	14	309.315.156	308.950.750
Other Liabilities (net)	15	-	-
MINORITY INTERESTS	24	-	-
SHAREHOLDERS' EQUITY		1.651.213.141	1.609.718.452
Share Capital	25	175.000.000	175.000.000
Adjustment to Share Capital	25		
Capital Reserves	26	1.920.207.517	1.919.321.052
- 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		(1.810.017)	(2.696.482)
- Restatement Effect on Shareholders' Equity		1.872.657.189	1.872.657.189
Profit Reserves	27	8.223.909	8.223.909
- Legal Reserves		417.011	417.011
- Statutory Reserves		-	-
- Extraordinary Reserves		7.806.889	7.806.889
- Special Funds		9	9
- Associate Shares and Gain on Sale of Investment			
Property to be added to Capital		-	-
- Foreign Currency Translation Differences		-	-
Net Profit for the Year		40.608.224	181.381.671
Accumulated Losses	28	(492.826.509)	(674.208.180)
Total Liabilities and Shareholders' Equity		4.715.848.780	4.599.024.733

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 YEARS ENDED
31 MARCH 2007 AND 31 DECEMBER 2006
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

		Not Audited 1 January – 31 March 2007	Not Audited 1 January – 31 March 2006
MAIN OPERATING REVENUES			
Sales Revenues (net)	36	919.639.006	617.852.892
Cost of Sales (-)	36	(768.360.394)	(635.108.871)
Service Revenues (net)	36	-	
Other Revenues from Main Operations /Interest +Dividend+Rent (net)	36	40.705.983	35.945.703
GROSS OPERATING PROFIT		191.984.595	18.689.724
Operating Expenses (-)	37	(186.710.783)	(159.589.029)
NET OPERATING PROFIT /(LOSS)		5.273.812	(140.899.305)
Income from Other Operations	38	162.242.368	205.180.411
Losses from Other Operations (-)	38	(128.567.239)	(241.057.942)
Financial Income (Expenses)	39	2.610.215	(16.397.606)
OPERATING PROFIT /(LOSS)		41.559.156	(193.174.442)
Net Monetary Gain / (Loss)	40	-	-
MINORITY INTEREST	24	-	-
PROFIT/ (LOSS) BEFORE TAXATION		41.559.156	(193.174.442)
Taxes	41	(950.932)	7.418.839
NET PROFIT / (LOSS) FOR THE YEAR		40.608.224	(185.755.603)
EARNINGS/ (LOSS) PER SHARE (Ykr)	42	0,023	(0,106)

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 31 MARCH 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 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-IFRS 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-IFRS 39	-	-	-	(3.573.759)	-	-	-	-	-	-	(3.573.759)
Net Profit for the Year	-	-	-	-	-	-	-	-	(185.755.603)	-	(185.755.603)
Balances at 31 March 2006-Restated	175.000.000	181.185	-	(10.637.995)	1.872.657.189	417.011	7.806.889	9	(185.755.603)	(674.208.181)	1.185.460.504
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-IFRS 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-IFRS 39	-	-	-	886.465	-	-	-	-	-	-	886.465
Net Profit for the Year	-	-	-	-	-	-	-	-	40.608.224	-	40.608.224
Balances at 31 March 2007	175.000.000	181.185	49.179.160	(1.810.017)	1.872.657.189	417.011	7.806.889	9	40.608.224	(492.826.509)	1.651.213.141

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 YEARS ENDED
1 JANUARY - 31 MARCH 2007 AND 2006
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

	<u>31 March 2007</u>	<u>31 March 2006</u>
Cash flows from operating activities		
Profit/ (Loss) before taxation	41.559.156	(193.174.442)
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	88.835.288	86.280.652
Provision for retirement pay liability	23.961.096	12.909.369
Interest income	(5.047.015)	(9.483.086)
(Profit) / loss on sale of fixed asset	(27.769)	194.687
Taxes	5.267.664	-
Change in provision for diminution in value of fixed assets	(21.110.399)	46.144.912
Loss from financial investment accounted per equity method	7.057.241	10.898.079
Interest expense	22.889.612	16.421.745
Movement in manufacturers' credit	(2.621.513)	891.464
Foreign exchange gain on financial leases	(25.230.263)	(5.443.211)
Provision for diminution in value of financial assets	(1.108.080)	5.080.271
Amortization of deferred income from USAŞ shares transfer	-	958.161
Increase in provision for doubtful receivables	3.600.392	3.228.330
Change in special reserves	1.108.080	(5.105.373)
Operating profit before working capital change	139.133.490	(30.198.442)
Increase in accounts receivable	(67.399.637)	(7.202.556)
Decrease in due from related parties (short term)	6.041.341	588.203
(Increase)/decrease in other short and long term receivables	3.191.360	(406.871)
(Increase)/decrease in inventories	16.180.527	(23.190.282)
(Increase)/decrease in other current assets	(11.481.085)	4.799.746
Increase in other non-current assets	(840.489)	(985.321)
Decrease in accounts payable	(119.656)	(13.188.641)
Increase in due to related parties	1.455.484	398.715
Decrease in advances received	(6.588.596)	(15.881.790)
Increase in provision for short term liabilities	7.029.466	3.147.689
Increase/(decrease) in other short and long term liabilities	3.777.535	(20.435.290)
Retirement benefits paid	(1.940.067)	(13.036.905)
Interest paid	(22.447.065)	(14.191.001)
Prepaid taxes	(5.402.181)	-
Cash generated from operations	60.590.427	(129.782.746)
Cash flows from investing activities		
Cash inflow from sale of financial assets	-	-
Cash inflow from sale of tangible and intangible assets	80.322	552.001
Interest received	5.047.015	9.483.086
Acquisition of tangible assets	(157.931.258)	(44.514.576)
Change in advances given for aircrafts and other tangible assets	(58.533.589)	(30.119.781)
Net cash used in investing activities	(211.337.510)	(64.599.270)
Cash flows from financing activities		
Principal payment of financial leases	(52.416.706)	(94.278.241)
Increase in financial lease obligations	128.718.388	-
Decrease in bank borrowings	(1.697.700)	(62.104)
Increase in other financial liabilities	194.936	34.585
Net cash provided by/(used in) financing activities	74.798.918	(94.305.760)
Net increase/(decrease) in cash and cash equivalents	(75.948.165)	(288.687.776)
Cash and cash equivalents at the beginning of period	365.057.959	482.910.555
Cash and cash equivalents at the end of period	289.109.794	194.222.779

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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 31 March 2007, the shareholders and their respective shareholdings in the Company were as follows:

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

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary as of 31 March 2007 is 12.897 (31 December 2006: 10.928). The average number of employees working for the Group in 31 March 2007 and 2006 is 12.815 and 10.890, respectively. Financial assets of the Company are stated at Note 16.

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

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 Company 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 Company held on 24 April 2007, it is decided that accounting set of International Financial Reporting Standards will be applied starting from 1.1.2007 instead of set applying of accounting standards in Communiqué Serial XI No: 25. The Company started to apply IFRS compliant with the alternative provision stated above in the quarter ended as of 31 March 2007 and restated the comparative financial statements. Consolidated financial statements were approved by the Company's Board of Directors on 1 June 2007.

In the preparation of consolidated financial statements and notes as of 31 March 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 Company 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 31 March 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 Company 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 Company in this subsidiary at 31 March 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 Company and its Subsidiary were eliminated against the related shareholders' equity. Intercompany transactions and balances between the Company and its Subsidiary were eliminated during consolidation process.

c) The Company has two associates. The participation rate of the Company is 50%, and the associates are not controlled by the Company. The entities 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 31 March 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 Company from its operations is added to the income statement.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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 Company decided to apply accounting set of International Financial Reporting Standards starting from 1.1.2007 instead of applying set of accounting standards in Communiqué Serial XI No: 25 in the General Assembly of the Company held on 24 April 2007. Therefore, the financial statements of the quarter ended as of 31 March 2007 and comparative financial statements are restated compliant with IFRS. In this sense, the Company disclosed the gains and losses on available-for-sale financial assets 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" revised effective after 1 January 2005.

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 31 March 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 are recorded as passenger flight liabilities.

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

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	5-10	-
- Repairables	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	-

The Company has its lands appraised by real estate appraisal companies certificated by CMB. The differences between book values and appraised values are directly recorded into the revaluation surplus under the shareholders' equity accounts.

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 31 March 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 recognised 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 recognised 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 31 March 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 Company 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 operational leases are recorded as deferred revenue and amortized over the lease term.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial Instruments and Financial Risk Management

a) Classification and Accounting

The Company classifies and accounts for financial instruments as follows:

Securities Held for Trading:

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

Investments Held to Maturity:

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

Investments Available for Sale:

Investments available-for-sale are those investments that the ownership rate is less than or equivalent to 20% and are not held for trading. Subsequent to acquisition, available for sale investments which are traded at stock markets are valued at market rate on balance sheet date. Those whose market value cannot be measured reliably are valued at cost. Gains or losses on available for sale investments are recognized in the financial assets fair value reserve under the shareholders' equity.

Investments At Equity:

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

b) Measurement

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

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

Güneş Ekspres Havacılık A.Ş. (“Sun Express”) and THY DO&CO İkrâm Hizmetleri A.Ş. (“THY DO&CO”) are accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. (“USAŞ”) is classified as available for sale investments and changes in their fair values are recognized in financial assets fair value reserve.

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

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

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

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

Credit Risk

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

Price Risk

- Currency Risk

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

- Interest Risk

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

- Market Risk

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

- Liquidity Risk

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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>
31 December 2005	1,3418	1,3405
31 March 2006	1,3427	1,3253
31 December 2006	1,4056	1,4297
31 March 2007	1,3801	1,4039

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

3.12 Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when there exists a legal liability as a result of the Company's transactions in the past and it is necessary to settle the liability for flow of resources out of the Company 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 Company leases aircraft, engines, simulators, computer equipments and vehicles by financial leases or operational leases. Financial leases are reflected in the Company'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.

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. Transactions with related parties for ordinary operations have taken place at prices compliant with market conditions.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

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 Company 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 reserve has been calculated by estimating the present value of future probable obligation of the Company arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the government.

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 amounts of revenue and expenses during the period. Actual results could differ from those estimations.

3.18 Maintenance and Repair Costs

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

3.19 Frequent Flyer Program

The Company provides a frequent flyer program named “Miles 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.

The Company 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<u>31 March 2007</u>	<u>31 December 2006</u>
Cash	462.406	503.956
Cheques received	153.712	309.601
Banks	270.636.275	354.192.254
Other liquid assets	17.857.401	10.052.148
	<u>289.109.794</u>	<u>365.057.959</u>

Foreign currency bank balances are YTL 243.496.433 at 31 March 2007 (31 December 2006: YTL 317.154.164).

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>31 March 2007</u>
23.000.000	YTL	30.03.2007	02.04.2007	23.000.000
88.370.000	Euro	16.03.2007-30.03.2007	02.04.2007-27.04.2007	162.450.571
9.654.021	US Dollar	14.03.2007-30.03.2007	02.04.2007-13.04.2007	13.323.515
				<u>198.774.086</u>

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>31 December 2006</u>
33.582.312	YTL	04.12.2006-29.12.2006	04.01.2007	33.582.312
112.392.082	Euro	11.12.2006-29.12.2006	04.01.2007-12.01.2007	208.093.940
7.443.256	US Dollar	29.12.2006	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 is as follows at 31 March 2007:

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
Akbank	15.08.2009	2.959.707 US Dollar	275.577 US Dollar	4.465.016

Long-term bank borrowing is as follows at 31 March 2007:

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
Akbank	15.08.2009	25.157.513 US Dollar	-	34.719.884

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

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
Akbank	15.08.2009	2.959.707 US Dollar	228.368 US Dollar	4.481.158

Long-term bank borrowing is as follows at 31 December 2006:

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
Akbank	15.08.2009	25.897.440 US Dollar	-	36.401.442

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

7 ACCOUNTS RECEIVABLE AND PAYABLE (NET)

Short-term accounts receivable comprised the following:

	31 March 2007	31 December 2006
Trade receivables	363.566.584	295.210.410
Discount on receivables (-)	(4.318.214)	(3.361.677)
Provision for doubtful receivables	(22.048.273)	(18.447.881)
	<u>337.200.097</u>	<u>273.400.852</u>

Short-term accounts payable comprised the following:

	31 March 2007	31 December 2006
Trade payables	317.826.879	317.204.325
Discount on payables (-)	(3.671.445)	(4.941.179)
Deposits and guarantees received	4.021.308	4.349.529
Other	103.836	1.502.025
	<u>318.280.578</u>	<u>318.114.700</u>

Long-term accounts payable comprised the following:

	31 March 2007	31 December 2006
Deposits and guarantees received	<u>8.703.087</u>	<u>8.988.621</u>

8 FINANCE LEASE RECEIVABLES AND OBLIGATIONS (NET)

Finance lease obligations are as follows:

	31 March 2007	31 December 2006
Not later than one year	303.718.431	293.245.257
Between 1 - 4 years	845.239.119	824.972.080
Over 4 years	959.201.073	930.144.100
	<u>2.108.158.623</u>	<u>2.048.361.437</u>
Less: Future interest expense	(393.990.996)	(385.707.776)
Principal value of future rentals shown in the balance sheets	<u>1.714.167.627</u>	<u>1.662.653.661</u>
Represented by :		
Current liabilities	227.727.015	218.720.799
Long term liabilities	1.486.440.612	1.443.932.862
	<u>1.714.167.627</u>	<u>1.662.653.661</u>
Interest range:		
Floating rate obligations	1.455.960.775	1.530.403.463
Fixed rate obligations	258.206.852	132.250.198
	<u>1.714.167.627</u>	<u>1.662.653.661</u>

As of 31 March 2007, the US Dollar and Euro denominated lease obligations' interest rates for the fixed rate obligations are between 4,075% and 5,59%; and for the floating rate obligations are on a margin ranging between EURIBOR minus 0,01% and LIBOR minus %0,057 and LIBOR plus %3,0.

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

	31 March 2007	31 December 2006
Not later than one year	165.841.112	170.991.574
Between 1 - 4 years	353.411.825	357.227.317
Over 4 years	614.201.597	611.303.660
	<u>1.133.454.534</u>	<u>1.139.522.551</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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:

	31 March 2007	31 December 2006
THY DO&CO İkrām Hizmetleri A.Ş.	13.899.071	19.833.398
Güneş Ekspres Havacılık A.Ş. (Sun Express)	1.483.801	1.485.215
	<u>15.382.872</u>	<u>21.318.613</u>

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

	31 March 2007	31 December 2006
THY DO&CO İkrām Hizmetleri A.Ş.	14.706.400	14.812.000
	<u>14.706.400</u>	<u>14.812.000</u>

Due from THY DO&CO İkrām Hizmetleri A.Ş. comprised of short and long term credits at amounts of Euro 7.200.000, Euro 8.000.000 respectively, in total Euro 15.200.000.

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

	31 March 2007	31 December 2006
THY DO&CO İkrām Hizmetleri A.Ş.	9.875.352	-
Uçak Servisi A.Ş. (USAŞ)	3.318.443	11.496.508
Sun Express	3.130.735	3.372.538
	<u>16.324.530</u>	<u>14.869.046</u>

Transactions with related parties in the periods ended as of 31 March are as follows:

	31 March 2007	31 March 2006
Services rendered to THY DO&CO	112.714	-
Services rendered to Sun Express	106.043	862.878
Services rendered to USAŞ	-	103.330
	<u>218.757</u>	<u>966.208</u>

	31 March 2007	31 March 2006
Services received from THY DO&CO	21.233.403	-
Services received from Sun Express	2.537.635	411.431
Services received from USAŞ	130.081	18.070.618
	<u>23.901.119</u>	<u>18.482.049</u>

As of 31 March 2007, no dividend has been received from related parties (31 March 2006: None).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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:

	31 March 2007	31 December 2006
Foreign receivables from technical suppliers	2.619.673	2.194.204
Business advances	1.054.337	771.160
Personnel salary advances	947.726	556.804
Due from personnel	275.902	312.489
Receivable from SITA deposit certificate	185.252	188.675
Due from insurance firms	-	3.688.278
Other receivables	203.485	859.523
	<u>5.286.375</u>	<u>8.571.133</u>

Other long-term receivables comprised the following:

	31 March 2007	31 December 2006
Receivable from SITA deposit certificates	1.068.245	985.359
Due from personnel	996.884	986.372
	<u>2.065.129</u>	<u>1.971.731</u>

Other short-term financial liabilities comprised the following:

	31 March 2007	31 December 2006
Debt to banks (*)	568.433	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)

	31 March 2007	31 December 2006
Spare parts, flight equipments	96.472.740	119.132.823
Other inventories	32.028.790	21.421.432
	<u>128.501.530</u>	<u>140.554.255</u>
Provision for impairment (-)	(9.038.490)	(4.910.688)
	<u>119.463.040</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 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

14 DEFERRED TAX ASSETS AND LIABILITIES

The Company 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 31 March 2007 and 31 December 2006, computed by applicable tax rate are as follows:

	<u>31 March 2007</u>	<u>31 December 2006</u>
Long term lease obligations	92.395.471	100.292.302
Retirement pay liability	27.865.188	23.460.981
Short term lease obligations	24.761.478	25.180.043
Expense accruals	8.247.797	6.698.855
Change in inventories	1.807.698	982.138
Allowance for doubtful receivables	1.565.964	494.424
Discount on receivables	863.643	672.335
Income and expenses relating to future periods	209.615	220.206
Diminution in value of investments	354.791	576.407
Other	226.308	393.885
Discount on payables	(734.289)	(988.236)
Provision for advance ticket sales	(19.032.469)	(18.437.485)
Fixed assets	(289.548.398)	(289.525.029)
	<u>(151.017.203)</u>	<u>(149.979.174)</u>
	<u>31 March 2007</u>	<u>31 December 2006</u>
Deferred tax assets	158.297.953	158.971.576
Deferred tax liabilities	(309.315.156)	(308.950.750)
Deferred tax assets / (liabilities), net	<u>(151.017.203)</u>	<u>(149.979.174)</u>

Movement in deferred tax liability as of 31 March 2007 is as follows:

	<u>31 March 2007</u>	<u>31 December 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	816.415	2.044.721
Deferred taxes netted off from revaluation surplus	221.614	3.690.689
Current period deferred tax liability, net	<u>151.017.203</u>	<u>149.979.174</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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:

	31 March 2007	31 December 2006
Prepaid sales commissions	16.805.128	14.173.900
Prepaid operating lease expenses	10.648.418	11.356.882
Maintenance service income accruals	9.391.569	5.792.001
Prepaid taxes and funds	5.402.181	5.222.340
Receivables from tax office	4.392.903	13.157
Tax to be refunded	4.133.644	7.025.462
Prepaid rent expenses	3.088.323	666.760
VAT deductible	1.897.077	27.545
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Deferred insurance expenses	788.973	283.404
Income accruals	3.027.946	1.356.703
Prepaid aircraft financing expense	639.129	423.583
Interline passenger income accruals	625.649	3.886.502
Prepaid financial expense of bank borrowing	21.690	21.690
Other prepaid expenses	2.791.370	1.922.986
	<u>64.746.408</u>	<u>53.265.323</u>

Other non-current assets comprised the following:

	31 March 2007	31 December 2006
Maintenance reserve for engines	5.707.606	5.707.606
Income accruals	2.680.881	3.747.430
Prepaid Eximbank USA guarantee and exposure fee	4.523.864	4.796.966
Advances given for operating leases	4.380.515	4.414.740
Prepaid aircraft financing expenses	3.999.039	1.723.667
Prepaid operating lease expenses	3.516.044	3.670.910
Deposits given	2.131.732	2.037.873
	<u>26.939.681</u>	<u>26.099.192</u>

Other short-term liabilities comprised the following:

	31 March 2007	31 December 2006
Flight liability resulting from ticket sales	223.974.404	218.668.355
Flight liability resulting from mileage sales	57.957.693	60.789.528
Frequent flyer program liability	42.012.538	42.285.285
Gross manufacturers' credits	29.556.212	28.394.376
Accumulated amortization on manufacturers' credits(-)	(2.186.815)	(1.596.533)
Accruals for sales incentive premiums	24.743.018	19.226.521
Social security premiums payable	17.171.212	16.898.094
Taxes and funds payable	15.909.761	25.593.540
Accruals for maintenance costs	14.266.592	13.271.328
Expense accruals for insurance premiums	10.851.629	10.613.244
Debt to personnel	735.407	375.941
Other liabilities	7.162.542	2.704.621
Accruals for other expenses	3.135.637	6.909.507
	<u>445.289.830</u>	<u>444.133.807</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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>31 March 2007</u>	<u>31 December 2006</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	-	7.681.874
THY DO&CO İkrâm Hizmetleri A.Ş.	15.823.662	15.199.029
	<u>15.823.662</u>	<u>22.880.903</u>

Financial assets available for sale are as follows:

	<u>31 March 2007</u>	<u>31 December 2006</u>
Uçak Servisi A.Ş. (USAŞ)	8.110.722	8.110.722
Diminution in value of USAŞ shares	(2.262.522)	(3.370.602)
Sita Inc.	1.679.619	1.679.619
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
	<u>7.554.678</u>	<u>6.446.598</u>
	<u>23.378.340</u>	<u>29.327.501</u>

The shareholders' equity of Sun Express which is accounted for using equity method has a negative balance as of 31 March 2007 due to the loss for the period and accumulated losses in the financial statements. Since the Company has no guarantee for the debts and liabilities of Sun Express, loss is disclosed as nil in the "loss from financial instrument accounted per equity method" section.

Sun Express's total assets and equity are YTL 82.344.810 and YTL (2.323.611) respectively at 31 March 2007 (31 December 2006: YTL 85.513.379 and YTL 15.363.747).

THY DO&CO İkrâm Hizmetleri A.Ş.'s total assets and equity are YTL 110.596.269 and YTL 31.647.323 respectively at 31 March 2007. (31 December 2006: YTL 107.915.720 and YTL 30.398.058).

Details of the Company's financial assets at 31 March 2007 are as follows:

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

17 POSITIVE / NEGATIVE GOODWILL (NET)

None (31 December 2006: None).

18 INVESTMENT PROPERTY (NET)

None (31 December 2006: None).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

19 TANGIBLE ASSETS (NET)

	31 March 2007	31 December 2006
Tangible assets (net)	3.228.674.274	3.138.028.969
Advances given for aircraft purchases	370.445.762	358.335.473
Other advances given for tangible assets	53.135.525	6.712.224
	<u>3.652.255.561</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 31 March 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
Cost									
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
Transfers from finance leases	-	-	-	-	-	-	-	-	-
Additions	-	1.468.589	433.744	-	28.792.838	532.571	31.227.742	126.261.123	157.488.865
Disposals	-	(2.406.729)	(9.935.767)	-	(18.625.518)	-	(30.968.014)	-	(30.968.014)
Closing balance 31 March 2007	216.559.014	298.094.192	174.520.690	2.594.142.676	358.407.771	1.422.041	3.643.146.384	3.390.476.198	7.033.622.582
Accumulated Depreciation									
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
Transfers from finance leases	-	-	-	-	-	-	-	-	-
Depreciation for the period	684.061	3.323.290	1.535.263	20.123.954	24.879.400	-	50.545.968	37.384.753	87.930.721
Disposals	-	(2.400.967)	(9.918.292)	-	(18.625.518)	-	(30.944.777)	-	(30.944.777)
Closing balance 31 March 2007	51.320.439	250.577.580	159.247.841	1.397.753.447	174.578.202	-	2.033.477.509	779.711.113	2.813.188.622
Accumulated impairment	-	2.924.711	-	564.006.587	-	-	566.931.298	424.828.388	991.759.686
31 March 2007 net book value	165.238.575	44.591.901	15.272.849	632.382.642	183.829.569	1.422.041	1.042.737.577	2.185.936.697	3.228.674.274
31 December 2006 net book value	165.922.636	46.281.627	16.391.843	587.302.935	179.916.131	889.470	996.704.642	2.141.324.327	3.138.028.969

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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>
<u>Cost</u>			
Opening balance 1 January 2007	65.652.323	19.848.969	85.501.292
Additions	89.666	352.726	442.392
Disposals	(34.200)	-	(34.200)
Closing balance 31 March 2007	<u>65.707.789</u>	<u>20.201.695</u>	<u>85.909.484</u>
<u>Accumulated Depreciation</u>			
Opening balance 1 January 2007	58.966.832	19.025.840	77.992.672
Amortization charge for the period	778.606	125.961	904.567
Disposals	(4.885)	-	(4.885)
Closing balance 31 March 2007	<u>59.740.553</u>	<u>19.151.801</u>	<u>78.892.354</u>
31 March 2007 net book value	<u>5.967.236</u>	<u>1.049.894</u>	<u>7.017.130</u>
31 December 2006 net book value	<u>6.685.491</u>	<u>823.129</u>	<u>7.508.620</u>

21 ADVANCES RECEIVED

Short-term advances received comprised the following:

	<u>31 March 2007</u>	<u>31 December 2006</u>
MCO advances	24.885.347	18.976.134
Advances received for mileage credit sales	5.735.284	18.396.195
Advances received for operating and financial leases	2.996.116	4.669.162
Charter advances	2.331.277	2.087.449
E-pos ticket advances	2.043.718	701.462
Other advances received	1.085.293	835.229
	<u>39.077.035</u>	<u>45.665.631</u>

22 RETIREMENT PLANS

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

23 PROVISIONS FOR LIABILITIES

Provisions for short-term liabilities comprised the following:

	<u>31 March 2007</u>	<u>31 December 2006</u>
Accrued salaries	27.392.140	21.773.788
Provisions for legal claims	5.815.855	5.544.394
Other provisions	1.190.529	50.876
	<u>34.398.524</u>	<u>27.369.058</u>

Provisions for long-term liabilities comprised the following:

	<u>31 March 2007</u>	<u>31 December 2006</u>
Provision for retirement pay liability	<u>139.325.939</u>	<u>117.304.910</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

23 PROVISIONS FOR LIABILITIES (cont'd)

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 1.961 as at 31 March 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>31 March 2007</u>	<u>31 March 2006</u>
Current service cost	22.313.819	11.316.267
Interest cost	1.647.277	1.593.102
	<u>23.961.096</u>	<u>12.909.369</u>

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

	<u>31 March 2007</u>	<u>31 December 2006</u>
Provision at 1 January	117.304.910	113.641.242
Charge for the period	23.961.096	19.943.672
Payments during the period	(1.940.067)	(16.280.004)
Provision at the end of the period	<u>139.325.939</u>	<u>117.304.910</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).

25 SHARE CAPITAL/ ADJUSTMENT TO SHARE CAPITAL

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

	Group	%	31 March 2007	%	31 December 2006
Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	49,12(**)	85.963.662	49,12(**)	85.963.662
Others	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			<u>1.914.005.871</u>		<u>1.914.005.871</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

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

(**) The shares of the stock owned by Turkish Republic Privatization Administration are offered to the public between 16-18.05.2006 with the 12.05.2006 dated and 22/569 numbered allowance of CMB. The A group registered shares with the total of YTL 50.312.500 (28,75% of the issued capital) which were sold in İstanbul Stock Exchange Whole Sales Market in 24.05.2006 with the nominal value of YTL 1 consists of the 43.750.000 YTL amount of shares which is 25% of the total amount of the issued capital which is YTL 175.000.000 and the rest of the A Group registered shares consist of the additional selling amount of shares which is 15% of the total amount of the public offering as well as which comes out to the 3,75% of the issued capital which is YTL 6.562.500. The Privatization Administration's share on capital approached to 49,12 percent after Privatization Administration had acquired the 212.254 THY shares which are returned from credit sales.

As at 31 March 2007, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

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

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

	<u>31 March 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	(1.810.017)	(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	40.608.224	181.381.671
Accumulated losses	(492.826.509)	(674.208.180)
	<u>1.651.213.141</u>	<u>1.609.718.452</u>
(*) Shareholders' Equity Inflation Adjustment Differences		
Share capital	1.739.005.871	1.739.005.871
Share premium	714.307	714.307
Legal reserves	60.597.395	60.597.395
Extraordinary reserves	67.026.275	67.026.275
Special funds	5.313.341	5.313.341
	<u>1.872.657.189</u>	<u>1.872.657.189</u>

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

29 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debts. As of 31 March 2007, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

29 FOREIGN CURRENCY POSITION (cont'd)

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

31 March 2007	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency denominated assets</i>					
Cash and cash equivalents	24.888.301	180.736.574	2.308.461	53.121.949	261.055.285
Accounts receivable (net)	67.690.027	68.347.627	10.433.156	75.131.335	221.602.145
Due from related parties (net)	-	30.088.528	-	-	30.088.528
Other receivables (short term)	1.181.209	222.874	46.462	424.990	1.875.535
Inventory-advances	3.637.903	1.245.653	42.348	2.364	4.928.268
Other current assets	13.948.840	3.836.042	130.986	2.262.844	20.178.712
Other receivables (long term) (net)	2.065.129	-	-	-	2.065.129
Tangible assets (advances)	421.085.782	1.708.795	193.815	-	422.988.392
Other non-current assets	17.032.399	694.080	83.887	699.065	18.509.431
	<u>551.529.590</u>	<u>286.880.173</u>	<u>13.239.115</u>	<u>131.642.547</u>	<u>983.291.425</u>
<i>Foreign currency denominated liabilities</i>					
Bank borrowings (short term) (net)	4.465.016	-	-	-	4.465.016
Financial lease obligations (short term) (net)	185.322.612	42.404.403	-	-	227.727.015
Accounts payable (short term) (net)	169.240.062	70.472.422	3.621.927	53.298.328	296.632.739
Due to related parties (net)	14.289	3.111.666	-	-	3.125.955
Bank borrowings (long term) (net)	34.719.884	-	-	-	34.719.884
Deposits and advances received	9.199.089	1.416.067	465.582	510.422	11.591.160
Other accrued liabilities (short term)	143.031.372	71.747.782	13.693.959	55.127.074	283.600.187
Other liabilities (net)	1.034.713.279	451.727.333	-	-	1.486.440.612
Financial lease obligations (long term) (net)	857.292	6.173.561	5.188	1.667.047	8.703.088
	<u>1.581.562.895</u>	<u>647.053.234</u>	<u>17.786.656</u>	<u>110.602.871</u>	<u>2.357.005.656</u>
Net foreign currency position (*)	<u>(1.030.033.305)</u>	<u>(360.173.061)</u>	<u>(4.547.541)</u>	<u>21.039.676</u>	<u>(1.373.714.231)</u>

(*) Whereas, the Company seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Company values its aircraft, spare engines and simulators according to their US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company'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 Company's assets and liabilities against the changes in foreign exchange rates. As of 31 March 2007, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices is 2.836.153.213 YTL (31 December 2006: YTL 2.747.836.474).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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
<i>Foreign currency denominated assets</i>					
Cash and cash equivalents	52.188.763	224.456.764	1.196.876	49.621.686	327.464.089
Accounts receivable (net)	57.213.432	45.890.748	6.622.176	63.170.691	172.897.047
Due from related parties (net)	-	36.130.613	-	-	36.130.613
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
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	15.224.079	663.214	85.602	630.406	16.603.301
	513.101.911	314.565.091	8.441.549	116.828.739	952.937.290
<i>Foreign currency denominated liabilities</i>					
Bank borrowings (short term) (net)	4.481.158	-	-	-	4.481.158
Financial 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
Financial lease obligations (long term) (net)	1.099.716.929	344.215.933	-	-	1.443.932.862
Accounts payable (long-term)	468.075	6.876.034	65.036	1.579.476	8.988.621
	1.632.368.360	508.871.106	14.469.450	104.105.877	2.259.814.793
Net foreign currency position (*)	(1.119.266.449)	(194.306.015)	(6.027.901)	12.722.862	(1.306.877.503)

30 GOVERNMENT GRANTS

The Company has investment incentive certificates; dated 23 May 2003 covering the period of 22.04.2003 – 22.10.2007 at amount of YTL 2.476.950.000 and dated 9 March 2005 covering the period of 24.01.2005 – 24.01.2008 at amount of YTL 140.877.541. 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 31 March 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 55.449.416 as of 31 March 2007 (31 December 2006: YTL 55.363.981).

b) Purchase Commitments:

The Company has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered in 2005, 23 of these aircrafts are delivered in 2006 and 3 of these aircrafts are delivered in 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 Company paid a deposit of US Dollar 268 million as of 31 March 2007 related to aircrafts to be purchased.

c) Letters of comfort:

	<u>31 March 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 Company's discounted retirement pay provision is YTL 139.325.939. The Company's liability for retirement pay would be approximately YTL 214.943.683 as of 31 March 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 Company predominantly operates in one industry segment as of 31 March 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 Company serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Revenues from both scheduled and non-scheduled international flight are attributed to destinations' geographical areas.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

33 SEGMENTAL REPORTING (cont'd)

33.1. Total Assets and Shareholders' Equity

Total Assets	31 March 2007	31 December 2006
Aviation	4.701.734.372	4.543.734.657
Technical service	393.386.055	384.443.991
Total	5.095.120.427	4.928.178.648
Less: Eliminations of consolidation	(379.271.647)	(329.153.915)
Total assets according to consolidated financial statements	4.715.848.780	4.599.024.733
Shareholders' Equity	31 March 2007	31 December 2006
Aviation	1.651.213.141	1.582.037.230
Technical service	311.186.180	319.297.771
Total	1.962.399.321	1.901.335.001
Less: Eliminations of consolidation	(311.186.180)	(291.616.549)
Total shareholders' equity according to consolidated financial statements	1.651.213.141	1.609.718.452

33.2. Net Operating Profit / (Loss)

01 January 2007-31 March 2007	Aviation	Technical service	Eliminations between segments	Total
Sales Revenues (net)	919.639.006	-	-	919.639.006
Other revenue from main operations	32.750.135	144.719.525	(136.763.677)	40.705.983
Cost of sales	(754.721.868)	(146.274.401)	132.635.875	(768.360.394)
Gross operating profit	197.667.273	(1.554.876)	(4.127.802)	191.984.595
Operating expenses	(181.034.751)	(5.676.032)	-	(186.710.783)
Net operating profit/(loss)	16.632.522	(7.230.908)	(4.127.802)	5.273.812

01 January 2006-31 March 2007	Aviation	Technical service	Eliminations between segments	Total
Sales Revenues (net)	617.852.892	-	-	617.852.892
Other revenue from main operations	35.945.703	-	-	35.945.703
Cost of sales	(635.108.871)	-	-	(635.108.871)
Gross operating profit	18.689.724	-	-	18.689.724
Operating expenses	(159.589.029)	-	-	(159.589.029)
Net operating profit/(loss)	(140.899.305)	-	-	(140.899.305)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

34 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a) Board of Directors of the Company decided to lease 1 A330-200 and 1 B738 aircraft under ACMI wet lease for a six-month period for use in 2007 summer schedule.
- b) Board of Directors of the Company decided to restart Istanbul-Johannesburg-Cape Town flights at the first stage with 3 flights in a week as of 15 September 2007.
- c) At the General Assembly held on 24 April 2007, Candan Karlıtekin (Chairman and representing group C share), Hamdi Topçu, Temel Kotil, Cemal Şanlı, Mehmet Büyükeksi, Hüseyin Atilla Öksüz (representing publicly-held group A shares) and Muzaffer Akpınar (representing publicly-held group A shares) were elected as members of Board of Directors. At the same Assembly, Naci Ağbal, Ateş Vuran (representing publicly-held group A shares) and İsmail Gerçek (representing publicly-held group A shares) were elected as members of Board of Auditors.
- d) Depending on 13th article of Articles of Association, Board of Directors of the Company decided to assign Board member Hamdi Topçu as Vice Chairman, and depending on 15th article of Articles of Association, Execution Committee composing of Candan Karlıtekin as President, Hamdi Topçu as Vice President, and CEO Temel Kotil as member to continue with the same members and conditions.
- e) Board of Directors of the Company decided to authorize the management to sell USAŞ shares which have a nominal value of YTL 1.026.000 and equal to the 3 % of shares of Uçak Servisi A.Ş.(USAŞ) at Istanbul Stock Exchange.
- f) The collective bargaining agreement between THY and Turkish Civil Aviation Labour Union ended on 31 December 2006. The collective bargaining agreement meetings which began on 16.03.2007 have been continuing within the provision of the Law numbered 2822, the 60-day period determined by the Law ended and legal proceedings were taken related to the articles which were not agreed upon.
- g) Board of Directors of the Company decided to start reciprocal flights in the lines of Antalya (AYT)-Stockholm (ARN) and Antalya (AYT)-London (STN) within the 2007 summer schedule.
- h) Market price of 1.026.000.000 USAŞ shares, which are traded in İstanbul Stock Exchange, and included in the financial assets as of 31 March 2007, has decreased from YTL 5,70 at 31 March 2007 to YTL 3,58 at 31 May 2007. Hence, the total market value of USAŞ shares decreased by YTL 2.175.120 compared to balance sheet date. On the other hand, portion of the Company from the USAŞ's profit for 2006, YTL 2.540.129 was deposited to the accounts of the Company in April 2007.

35 DISCONTINUED OPERATIONS

None (31 December 2006: None).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

36 MAIN OPERATING REVENUES

Main operating revenues comprised the following:

	31 March 2007	31 March 2006
Scheduled flights		
- Passenger	844.285.633	553.193.582
- Cargo and mail	75.353.373	64.659.310
Non-scheduled flights	3.668.941	7.231.815
Other revenues	37.040.289	28.717.067
Total revenues	960.348.236	653.801.774
Less: Discounts and sales returns	(3.247)	(3.179)
Net Sales	960.344.989	653.798.595
Cost of Sales (-)	(768.360.394)	(635.108.871)
Gross Operating Profit	191.984.595	18.689.724

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

	31 March 2007	31 March 2006
- Europe	349.270.255	240.903.963
- Far East	178.369.293	110.433.159
- Middle East	105.564.424	74.289.040
- North America	40.802.455	31.224.548
- North Africa	21.410.337	15.757.849
- Middle Africa	3.989.633	-
- West Africa	2.732.708	-
	702.139.105	472.608.559
Domestic	217.499.901	145.244.333
Total revenue from the scheduled flights	919.639.006	617.852.892

Cost of sales consists of the following:

	31 March 2007	31 March 2006
Fuel expenses	239.338.488	192.773.857
Staff expenses	172.793.603	123.801.285
Depreciation expenses	84.854.766	82.954.213
Landing and overflight expenses	72.203.190	57.628.189
Handling expenses	54.814.244	41.557.533
Operating lease expenses	47.984.577	32.472.760
Passenger service and catering expenses	41.445.739	31.686.201
Maintenance expenses	33.618.497	38.759.982
Insurance expenses	9.927.774	10.321.627
Other renting expenses	3.137.076	3.583.751
Transportation expenses	1.589.145	752.562
Communication expenses	1.323.220	1.990.788
Service expenses	1.208.895	2.330.985
Lighting, heating, energy and water expenses	1.084.766	1.338.965
Other taxes	309.207	1.915.202
Aircraft wet-lease expenses	298.849	7.730.019
Cost of other sales	2.428.358	3.510.952
	768.360.394	635.108.871

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

37 OPERATING EXPENSES (-)

Operating expenses comprised the following:

	31 March 2007	31 March 2006
Sales and marketing expenses (-)		
Commission and promotion expenses	60.178.551	44.859.388
Staff expenses	41.847.316	32.415.131
Reservation system expenses	20.395.836	14.240.433
Other renting expenses	4.808.880	4.085.624
Communication expenses	3.654.630	3.403.807
Code share expenses	3.211.212	562.965
Service expenses	2.347.814	1.693.452
Passenger service and catering expenses	1.380.914	918.683
Advertisement expenses	1.239.978	2.892.925
Other taxes	1.173.545	1.530.561
Transportation expenses	1.162.337	1.137.298
Lighting, heating, energy and water expenses	433.840	429.796
Maintenance expenses	342.967	237.158
Fuel expenses	193.576	134.769
Insurance expenses	187.169	157.357
Software and computer equipment expenses	185.335	100.601
Depreciation expenses	79.072	48.556
Other sales and marketing expenses	4.173.674	2.921.201
	<u>146.996.646</u>	<u>111.769.705</u>
	31 March 2007	31 March 2006
General administrative expenses (-)		
Staff expenses	24.408.118	37.155.860
Depreciation expenses	3.901.450	3.277.883
Software and computer equipment expenses	1.592.720	855.799
Communication expenses	1.457.348	751.297
Service expenses	1.219.237	499.450
Other taxes	1.130.509	1.005.289
Maintenance expenses	1.075.067	732.889
Commission and promotion expenses	841.327	464.937
Insurance expenses	431.207	323.819
Lighting, heating, energy and water expenses	345.180	390.914
Other renting expenses	329.672	777.086
Fuel expenses	76.205	52.919
Other general administrative expenses	2.906.097	1.531.182
	<u>39.714.137</u>	<u>47.819.324</u>
Total operating expenses	<u>186.710.783</u>	<u>159.589.029</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 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:

	31 March 2007	31 March 2006
Real change in provision for diminution in value of fixed assets	94.700.635	139.176.949
Foreign exchange gains	40.702.263	35.214.776
Compensation received	7.580.354	3.047.687
Interest income	5.047.015	9.483.086
Cost free materials income	517.176	2.843.841
Yapı Kredi protocol income	513.082	827.051
Discounts received from spare parts suppliers	511.798	5.700.402
Reversal of unnecessary provision	491.494	30.700
Profit on sale of marketable securities	-	3.950.091
Income from manufacturers' credit	-	465.046
Discount income	-	3.503.188
Profit on sale of fixed assets	27.769	5.100
Other	12.150.782	932.494
	<u>162.242.368</u>	<u>205.180.411</u>

Losses from other operations consist of the following:

	31 March 2007	31 March 2006
Increase in provision for diminution in value of fixed assets due to exchange rate changes	73.590.236	185.321.861
Foreign exchange losses	39.243.687	35.981.442
Provision expenses	4.091.317	6.004.095
Discount expense	2.170.481	-
Retirement pay interest cost	1.647.278	1.593.102
Loss from financial investment accounted per equity method	7.057.240	10.898.078
Other expenses	767.000	1.259.364
	<u>128.567.239</u>	<u>241.057.942</u>

39 FINANCIAL INCOME/ (EXPENSES)

Financial income and expenses consist of the following:

	31 March 2007	31 March 2006
Finance lease interest expenses	(22.150.581)	(11.982.792)
Foreign exchange gain on finance leases	25.671.386	1.007.263
Interest expense on bank loans	(739.031)	(4.438.953)
Foreign exchange loss on bank loans	(167.368)	(243.000)
Other financial expenses	(4.191)	(740.124)
	<u>2.610.215</u>	<u>(16.397.606)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

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 on 31 March 2007 and 31 March 2006, there is no monetary gain / loss.

41 TAX

Corporate tax payable is as follows:

	<u>31 March 2007</u>	<u>31 December 2006</u>
Provision for corporate tax payable	134.517	7.174.359
Prepaid taxes and funds	(5.402.181)	(5.222.340)
	<u>(5.267.664)</u>	<u>(1.952.019)</u>

Tax expense is as follows:

	<u>31 March 2007</u>	<u>31 March 2006</u>
Current period tax expense	(134.517)	-
Deferred tax expense	(816.415)	7.418.839
Tax expense	<u>(950.932)</u>	<u>7.418.839</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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

41 TAX (cont'd)

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.

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 as follows:

	<u>31 March 2007</u>	<u>31 March 2006</u>
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 31 March (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Weighted average number of shares outstanding during the period (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Net profit for the period	40.608.224	(185.755.603)
Earnings per share (YKr)	0,023	(0,106)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 March 2007

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

43 STATEMENTS OF CASH FLOWS

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

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

As of 31 March 2007, the Company revised the estimates of useful lives and residual values of aircrafts, spare engines and simulators by also taking into consideration the international applications. In the previous estimates, useful lives and residual values were taken as 15 years and 30 % for aircrafts and spare engines, 10-15 years and 0% for simulators. Taking into consideration the international applications and economic usages of these assets for 25-30 years, the Company revised the estimates of useful lives and residual values of those assets. After the changes, estimates of useful lives and residual values were revised as 15-20 years and 10%-30% for aircrafts and spare engines, as 10-20 years and 0%-10% for simulators. Changes in useful lives and residual values were applied prospectively starting from 1 January 2007 in the accompanying financial statements. If the Company had not revised the estimates, depreciation expense would have been YTL 3.694.485 higher, decrease in provision for impairment of tangible fixed assets would have been YTL 3.336.114 higher for the period of 1 January-31 March 2007. Net profit for the period would have been YTL 286.697 lower.

As stated in Note 3.5, the Company checks whether the carrying amounts of aircrafts, spare engines and simulators exceed the recoverable amounts. 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. 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 income statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as increase/decrease in provision for impairment of tangible fixed assets. Aircrafts, spare engines, and simulators are traded in terms of US Dollar in the international second hand market. Therefore, increase/decrease in provision for impairment is affected by both real changes in prices in the international second hand market and changes in parity of US Dollar/YTL. For a more fair presentation, real increase/decrease in provision for impairment and increase/decrease in provision for impairment due to the changes in exchange rates are disclosed in Note 38 separately.