FINANCIAL

STATEMENTS AND NOTES AS OF DECEMBER 31, 2012

TURKISH AIRLINES

A STAR ALLIANCE MEMBER

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

Türk Hava Yolları Anonim Ortaklığı

We have audited the accompanying consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Group Management's Responsibility for the Consolidated Financial Statements

Group Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with financial reporting standards announced by the Capital Markets Board. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards announced by the Capital Markets Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with the financial reporting standards announced by the Capital Markets Board.

Istanbul, 14 March 2013

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

Berkman Özata
Partner

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Audited Consolidated Balance Sheet

As Of 31 December 2012

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

ASSETS	Notes	Current Period 31 December 2012	Prior Period 31 December 2011
Current Assets		3.899.761.429	4.042.735.398
Cash and cash equivalents	6	1.355.542.536	1.549.524.710
Short term financial investments	7	551.820.443	213.899.678
Trade receivables	10	777.402.622	764.775.891
Other receivables	11	754.126.100	792.699.876
Inventories	13	259.199.763	251.785.807
Other current assets	26	201.669.965	190.577.236
Non-current assets held for sale	34	-	279.472.200
Non-current Assets		14.881.141.034	12.362.211.730
Other receivables	11	1.553.830.754	614.598.106
Financial assets	7	2.049.244	1.767.872
Investments accounted by using the equity method	16	269.069.545	294.960.592
Investment property	17	57.985.000	54.720.000
Property and equipment	18	12.693.339.589	11.092.594.872
Intangible assets	19	51.183.767	46.962.939
Other non-current assets	26	253.683.135	256.607.349
TOTAL ASSETS		18.780.902.463	16.404.947.128

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
Audited Consolidated Balance Sheet
As Of 31 December 2012
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

LIABILITIES	Notes	Current Period 31 December 2012	Prior Period 31 December 2011
Current Liabilities		**4.533.667.538**	**3.951.410.407**
Financial debt	8	866.011.394	790.159.337
Other financial liabilities	9	192.700.698	158.358.545
Trade payables	10	912.324.274	870.440.470
Other payables	11	153.494.125	151.332.850
Current tax provision	35	-	5.368.643
Provisions	22	35.516.181	26.224.798
Provisions for employee benefits	24	188.123.923	249.623.497
Passenger flight liabilites	26	1.668.475.819	1.279.313.640
Other current liabilities	26	517.021.124	420.588.627
Non- current Liabilitites		**8.842.191.336**	**7.954.609.080**
Financial debt	8	7.800.982.204	7.122.723.496
Other payables	11	15.659.634	11.439.394
Provisions for employee benefits	24	234.019.405	191.632.448
Deferred tax liability	35	744.083.660	574.679.843
Other non- current liabilities	26	47.446.433	54.133.899
SHAREHOLDERS' EQUITY			
Equity Attributable to Shareholders' of Parent		**5.405.043.589**	**4.498.927.641**
Share capital	27	1.200.000.000	1.200.000.000
Inflation difference on shareholders' equity	27	1.123.808.032	1.123.808.032
Restricted profit reserves	27	39.326.341	39.326.341
Currency translation adjustments	27	570.111.018	798.590.878
Cash flow hedge reserves	27	(45.384.871)	(46.613.446)
Retained earnings	27	1.383.815.836	1.365.299.204
Net profit for the year	27	1.133.367.233	18.516.632
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**18.780.902.463**	**16.404.947.128**

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

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Audited Consolidated Statement Of Comprehensive Income

For The Year Ended 31 December 2012

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

	Notes	Current Period 1 January 31 December 2012	Prior Period 1 January 31 December 2011
Sales revenue	28	14.909.003.818	11.812.549.908
Cost of sales (-)	28	(11.893.596.710)	(9.803.269.512)
GROSS PROFIT		3.015.407.108	2.009.280.396
Marketing and sales expenses (-)	29	(1.593.367.677)	(1.284.859.256)
Administrative expenses (-)	29	(374.221.814)	(365.283.678)
Other operating income	31	600.682.892	160.190.646
Other operating expenses (-)	31	(43.666.621)	(396.680.737)
OPERATING PROFIT		1.604.833.888	122.647.371
Share of investments' profit accounted byusing the equity method	16	5.149.234	10.074.016
Financial income	32	162.136.645	264.238.277
Financial expenses (-)	33	(414.741.611)	(251.070.672)
PROFIT BEFORE TAX		1.357.378.156	145.888.992
Tax expense		(224.010.923)	(127.372.360)
Current tax expense (-)	35	(32.616.486)	(16.770.183)
Deferred tax expense (-)	35	(191.394.437)	(110.602.177)
PROFIT FOR THE YEAR		1.133.367.233	18.516.632
OTHER COMPREHENSIVE INCOME / (EXPENSE)			
Change in currency translation adjustment		(228.479.860)	795.001.243
Change in cash flow hedge reserves		1.535.719	(77.496.523)
Tax expense (-)/income (+) on items in other comprehensive income		(307.144)	15.499.305
OTHER COMPREHENSIVE (LOSS)/ INCOME (AFTER TAX)		(227.251.285)	733.004.025
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		906.115.948	751.520.657
Earnings per share (Kr)	36	0,94	0,02

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

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Audited Consolidated Statement Of Changes In Shareholders' Equity

For The Year Ended 31 December 2012

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

	Notes	Share capital	Inflation difference on shareholders' equity	Restricted profit reserves	Currency translation adjustment	Cash flow hedge reserves	Net profit for the year	Retained earnings	Total
As of 31 December 2010		1.000.000.000	1.123.808.032	39.326.341	3.589.635	15.383.772	286.443.361	1.278.855.843	3.747.406.984
Increase in share capital	27	200.000.000	-	-	-	-	(200.000.000)	-	-
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	(86.443.361)	86.443.361	-
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	-	-	-
Total comprehensive income/(loss)	-	-	-	795.001.243	(61.997.218)	18.516.632	-	751.520.657	
As of 31 December 2011		1.200.000.000	1.123.808.032	39.326.341	798.590.878	(46.613.446)	18.516.632	1.365.299.204	4.498.927.641
As of 31 December 2011		1.200.000.000	1.123.808.032	39.326.341	798.590.878	(46.613.446)	18.516.632	1.365.299.204	4.498.927.641
Transfer of previous years' profit to retained earnings	27	-	-	-	-	-	(18.516.632)	18.516.632	-
Total comprehensive income		-	-	-	(228.479.860)	1.228.575	1.133.367.233	-	906.115.948
As of 31 December 2012		1.200.000.000	1.123.808.032	39.326.341	570.111.018	(45.384.871)	1.133.367.233	1.383.815.836	5.405.043.589

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

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TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Notes	Current Period 1 January- 31 December 2012	Prior Period 1 January- 31 December 2011
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before taxes		1.357.378.156	145.888.992
Adjustments to obtain net cash flow generated from operating activities:			
Depreciation and amortization	18-19	1.029.762.920	811.848.621
Provision for retirement pay liability	24	51.071.434	43.712.634
Provisions, net	22	8.336.506	5.654.965
Interest income	32	(129.243.516)	(77.277.018)
Gain on sales of fixed assets		(3.717.189)	(5.400.013)
Increase in provision for impairment	31	(351.142.323)	329.671.432
Gain on equity investments accounted by using the equity method	16	(5.149.234)	(10.074.016)
Interest expense on finance leases	33	208.066.460	204.097.145
Change in manufacturers' credit		(1.572.071)	(3.746.701)
Unrealized foreign exchange loss and translation adjustment		58.946.716	17.436.691
Increase in provision for doubtful receivables	10	13.362.362	25.733.253
(Increase)/Decrease in value of investment property	17	(6.333.810)	5.169.703
Change in fair value of derivative instruments	32-33	(25.503.133)	8.879.487
Operating profit before working capital changes		2.204.263.278	1.501.595.175
Increase in trade receivables		(65.444.030)	(74.080.593)
Increase in other short and long term receivables		(396.249.212)	(149.193.114)
Increase in inventories		(21.699.604)	(36.746.558)
(Increase)/Decrease in other current assets		(21.935.054)	27.370.907
(Increase)/Decrease in other non-current assets		(11.578.616)	11.918.075
Increase in trade payables		91.357.686	90.682.688
Increase in other short-term and long-term payables		15.625.319	15.065.985
Increase in other short and long term liabilities		104.570.655	39.474.917
(Decrease)/Increase in short-term employee benefits		(47.707.008)	111.816.923
Increase in passenger flight liabilities		463.637.936	224.050.649
Cash flow from operating activities		2.314.841.350	1.761.955.054
Payment of retirement pay liability	24	(21.791.662)	(27.610.424)
Interest paid		(212.951.730)	(168.515.067)
Taxes paid		(40.264.472)	(13.587.608)
Net cash generated from investing activities		2.039.833.486	1.552.241.955
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment and intangible fixed assets		38.780.303	20.246.527
Interest received		172.834.230	94.039.511
Purchase of property and equipment and intangible fixed assets (*)	18-19	(759.657.869)	(1.088.704.104)
Prepayments for the purchase of aircrafts		(588.878.369)	929.467.323
Increase in short term financial investments		(353.211.312)	(117.786.293)
Cash outflow resulting from purchase of joint ventures		(9.603.468)	(11.681.249)
Net cash used in investing activities		(1.499.736.485)	(174.418.285)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal in finance lease liabilitites		(762.001.461)	(628.472.899)
Increase in financial borrowings		-	(15.750.096)
Increase in other financial liabilities		27.922.286	1.987.483
Net cash used in financing activities		(734.079.175)	(642.235.512)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(193.982.174)	735.588.158
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1.549.524.710	813.936.552
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1.355.542.536	1.549.524.710

(*) TL 1,869,587,363 portion of property and equipment and intangible assets purchases in total of TL 2,629,245,232 for the year ended 31 December 2012 was financed through finance leases. (31 December 2011: TL 3,236,232,943 portion of property and equipment and intangible assets purchases in total of TL 4,324,937,047 was financed through leases.)

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

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

1. COMPANY ORGANIZATION AND ITS OPERATIONS

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

	31 December 2012	31 December 2011
Republic of Turkey Prime Ministry Privatization Administration	49.12 %	49.12 %
Other (publicly held)	50.88 %	50.88 %
Total	100.00 %	100.00 %

The total number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 December 2012 is 19,109. (31 December 2011: 18,489). The average number of employees working for the Group for the year ended 31 December 2012 and 2011 are 18,789 and 18,104, respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL. The Company’s stocks are traded on the Istanbul Stock Exchange since 1990.Subsidiaries of the Company are THY Teknik A.Ş. (THY Teknik), HABOM Havacılık Bakım Onarım ve Modifikasyon Merkezi A.Ş. (HABOM), and THY Aydın Çıldır Havalimanı İşletme A.Ş..

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

Air Transport (“Aviation”)

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

Technical Maintenance Services (“Technical”)

The Company’s main activity is giving repair and maintenance service on civil aviation sector and giving all kinds of technical and infrastructure support related to airline industry.

Approval of Financial Statements

Board of Directors has approved the consolidated financial statements as of 31 December 2012 and delegated authority for publishing it on 14 March 2013. General shareholders’ meeting has the authority to modify the financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Preparation for Financial Statements and Significant Accounting Policies

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

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

The accompanying consolidated financial statements have been prepared in accordance with IFRS and comply with CMB's decree announce on 17 April 2008 and 9 January 2009 regarding the format of the financial statements and footnotes since at the date of the issuance of these financial statements the differences of IAS/IFRS accepted by the European Union are not declared by the TASB that are accounted at fair value.

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

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

Currency Used In Financial Statements

Change in the functional currency

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

Translation to the prensentation currency

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

(a) Assets and liabilities in the balance sheet as of 31 December 2012 are translated into TL at the prevailing exchange rates of the Central Bank of Turkish Republic (31 December 2012: TL 1,7826 = US Dollar 1).
(31 December 2011:TL 1,8889 = US Dollar 1);

(b) The income statement prepared for the year ended as of 31 December 2012 and 2011 is translated into TL by using 2012 and 2011 average US Dollar exchange rates; and

(c) All differences are recognized as a separate equity item under exchange differences.

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

Adjustment of Financial Statements in Hyperinflationary Periods

As per the 17 March 2005 dated, 11/367 numbered decree of CMB, companies engaged in Turkey and those of which prepare their financial statements in accordance with the CMB Accounting Standards (including IAS/IFRS exercisers), use of inflationary accounting standards have been discontinued effective 1 January 2005. Pursuant effectuation, "Financial Reporting Standards in Hyperinflationary Economies" issued by the International Accounting Standards Committee (IASC), ("IAS 29") was no longer applied henceforward.

Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current year, the Group has made several reclassifications in the prior year consolidated financial statements in order to maintain consistency, with current year consolidated financial statements. Nature, cause and amounts of classifications are explained in Note 41.

Basis of the Consolidation

a) The consolidated financial statements include the accounts of the parent company, THY, its Subsidiaries and its Affiliates on the basis set out in sections (b) and (c) below. Financial statements of the subsidiaries and affiliates are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.

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 Subsidiaries and participation rate of the Group in these subsidiaries as of 31 December 2012 and 2011:

		Participation Rate		
Name of the Company	Principal Activity	31December 2012	31 December 2011	Country of Registration
THY Teknik	Aircraft Maintenance Services	100%	100%	Turkey
HABOM	Aircraft Maintenance Services	100%	100%	Turkey
THY Aydın Çıldır	Training & Airport Operations	100%	-	Turkey

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

c) The Group has nine joint ventures. These joint ventures are economical activities that decisions about strategic finance and operating policy are jointly controlled by the consensus of the Group and other participants. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

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

The table below sets out consolidated affiliates and indicates the proportion of ownership interest of the Company in these affiliates as of 31 December 2012:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Güneş Ekspres Havacılık A.Ş.	Turkey	%50	%50	Aircraft Transportation
THY DO&CO İkram Hizmetleri A.Ş. (Turkish DO&CO) (*)	Turkey	%50	%50	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC) (*)	Turkey	%49	%49	Maintenance
TGS Yer Hizmetleri A.Ş. (TGS) (*)	Turkey	%50	%50	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet) (*)	Turkey	%50	%50	Fuel
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich) (*)	Turkey	%40	%40	Maintenance
Uçak Koltuk Sanayi ve Ticaret A.Ş(Uçak Koltuk) (*)	Turkey	%50	%50	Cabin Interior
TCI Kabin İçi Sistemleri San ve Tic. A.Ş. (TCI) (*)	Turkey	%51	%51	Cabin Interior
Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Turkbine Teknik) (*)	Turkey	%50	%50	Maintenance
Bosnia Herzegovina Airlines (Air Bosna) (**)	Bosnia Herzegovina Federation	-	-	Aircraft Transportation

(*) Share percentage and voting rights are the same in the year 2012 and 2011.
(**) Ownership is dissolved as of 2012.

According to the equity method, subsidiaries are stated as the cost value adjusted as deducting the impairment in subsidiary from the change occurred in the subsidiary's assets after the acquisition date that is calculated by the Group's share in the consolidated balance sheet. Subsidiary's losses that exceed the Group's share are not considered (actually, that contains a long term investment which composes the net investment in the subsidiary).

2.2 Changes in Accounting Policies

Significant changes in accounting policies and significant accounting errors are applied retrospectively and prior period financial statements should be restated. Changes in accounting estimates should be applied prospectively, if only for a period in which the change in current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period.

2.3 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.

2.4 New and Revised International Financial Reporting Standards

(a) Amendments to IFRSs affecting amounts reported in the financial statements

None.

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

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

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

Amendments to IAS 12 Deferred Taxes – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The investment properties of the Group are carried at fair value, and the deferred tax relating to these assets is measured with the presumption that the recovery of the carrying amount will be through sale. Hence, the amendment did not have any effect on the consolidated financial statements.

(c) New and revised IFRSs in issue but not yet effective

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

Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income1*
Amendments to IAS 1	*Clarification of the Requirements for Comparative Information2*
IFRS 9	*Financial Instruments5*
IFRS 10	*Consolidated Financial Statements3*
IFRS 11	*Joint Arrangements3*
IFRS 12	*Disclosure of Interests in Other Entities3*
IFRS 13	*Fair Value Measurement3*
Amendments to IFRS 7	*Disclosures – Offsetting Financial Assets and Financial Liabilities3*
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures5*
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide3*
IAS 19 (as revised in 2012)	*Employee Benefits3*
IAS 27 (as revised in 2012)	*Separate Financial Statements3*
IAS 28 (as revised in 2012)	*Investments in Associates and Joint Ventures3*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities4*
Amendments to IFRSs	*Annual Improvements to IFRSs 2009-2012 Cycle except for the amendment to IAS 13*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine3*

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013 as part of the Annual Improvements to IFRSs 2009-2012 Cycle issued in May 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2014.
[5] Effective for annual periods beginning on or after 1 January 2015.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income is effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements
(as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012)

The amendments to IAS 1 as part of the Annual Improvements to IFRSs 2009-2011 Cycle are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 F*inancial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management anticipates that the application of these five standards may not have any significant impact on amounts reported in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may not affect the amounts reported in the financial statements.

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. However, the Group management has not yet performed a detailed analysis of the impact of the application of the amendments and hence has not yet quantified the extent of the impact.

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment; and*
- Amendments to IAS 32 *Financial Instruments: Presentation.*

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

2.5 Summary of Significant Accounting Policies

Significant accounting policies applied in the preparation of accompanying consolidated financial statements are as follows

2.5.1 Revenue

Rendering of services:

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (unflown) are recorded as passenger flight liabilities.

The Group develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions to relating to the passenger revenue are recognized as expense when the transportation service is provided.

Aircraft maintenance and infrastructure support services are accrued with regard to invoices prepared subsequent to the services.

Dividend and interest income:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income generated from equity investments is registered as shareholders gain the dividend rights.

2.5.2 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Average cost method is applied in the calculation of cost of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

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

2.5.3 Property and Equipment Assets

Tangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction that are held for rental or any other administrative or undefined purposes are carried at cost less any impairment loss, if any. Legal fees are also included in cost. Borrowing costs are capitalized for assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

Assets acquired under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The Group has classified the cost of assets that are acquired directly or through finance leases into the following three parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; fuselage, overhaul maintenance for the fuselage, engine and overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life. They are capitalized subsequent to overhaul maintenance for the fuselage and engines and are depreciated over the shorter of the next maintenance period or the remaining period of the aircraft's useful life.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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

	Useful Life (Years)	Residual Value
- Buildings	25-50	-
- Aircrafts and Engines	15-20	10-30%
- Cargo Aircraft and Engines	30	10%
- Overhaul maintenance for aircrafts' fuselage	6	-
- Overhaul maintenance for engines	3-8	-
- Components	7	-
- Repairable Spare Parts	3-7	-
- Simulators	10-20	10%
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-
- Leasehold improvements	Lease period/5 years	-

2.5.4 Leasing Transactions

Leasing - the Group as the lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.5.5 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. Other intangible assets are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with infinite useful life, once there are no time restrictions on them time.

2.5.6 Non-current Assets Held For Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Such assets can be a separate line of business, a disposal group or a single non-current asset.

2.5.7 Impairment on Assets

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

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

Group determined aircrafts, spare engines and simulators together ("Aircrafts") as lower-line cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively. In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used for determination of recoverable amounts. Net selling price for the aircrafts is determined according to second hand prices in international price guides.

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.

2.5.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2.5.9 Financial Instruments

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

a) Financial assets

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

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets at amortized cost, the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

Cash and cash equivalents

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

b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below.

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The major source of interest rate risk is finance lease liabilities. The Group's policy is to convert some financial liabilities with fixed interest rates into financial liabilities with variable interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in USD. The derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments is directly accounted in the income statement. The Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments.

Also, the Group began to obtain derivative financial instruments to hedge against jet fuel price risks beginning from 2009. The Group accounts for those transactions as hedging against cash flow risks arising from jet fuel prices.

Use of derivative financial instruments is managed according to the Group policy which is written principles approved by the Board of Directors and compliant with the risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivative financial instruments are calculated according to the fair value and again calculated for the next reporting period at fair value base. If the changes in the fair value of derivatives which are determined as the hedge of future cash flows are the ineffective, then they are recorded directly under income statement.

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

2.5.10 Foreign Currency Transactions

Transactions in foreign currencies are translated into US Dollar 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 TL - US Dollar exchange rates for the periods are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2012	1,7826	1,7922
Year ended 31 December 2011	1,8889	1,6708
Year ended 31 December 2010	1,5460	1,4990

The closing and average US Dollar - Euro exchange rates for the periods are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2012	1,3193	1,2856
Year ended 31 December 2011	1,2938	1,3912
Year ended 31 December 2010	1,3254	1,3266

2.5.11 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.

2.5.12 Events After to the Balance Sheet Date

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Group (should any evidence come about events that were prior to the balance sheet date or should new events come about) they will be explained in the relevant footnote.

If such an event were to arise, the Group restates its financial statements accordingly.

2.5.13 Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous Contracts

Present liabilities arising from onerous contracts are calculated and accounted for as provision.

It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract.

2.5.14 Segmental Information

There are two operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Company management uses the operating profit calculated according to financial reporting standards issued by the Capital Markets Board while evaluating the performances of the segments.

2.5.15 Investment Property

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

2.5.16 Taxation and Deferred Tax

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

2.5.17 Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

2.5.18 Employee Benefits / Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard 19 (revised) “Employee Benefits” (“IAS 19”). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

2.5.19 Statement of Cash flows

In statement of cash flows, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities reflect cash flows generated from sales of the Group.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

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

2.5.20 Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.5.21 Manufacturers’ Credits

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

2.5.22 Maintenance and Repair Costs

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and finance leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft and delivery maintenance checks of operating leased aircraft are accrued on a periodical basis.The maintenance expenses for the operational leased aircrafts are accrued on a periodical basis.

2.5.23 Frequent Flyer Program

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s). A portion of the fair value of the consideration received in respect of the initial sale shall be allocated to the award credits and the consideration allocated to award credits should be recognized as revenue when awards credits are redeemed.

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

2.6 Changes and Errors in Accounting Estimates

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively.

Changes in accounting policies or accounting errors applied retroactively and the financial statements of the previous periods were adjusted.

2.7 Important Accounting Estimates and Assumptions

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period were given below:

The Determination of Impairment on Long Term Assets:

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Disclosure 2.5.7.

Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.5.23, Group has programs called "Miles and Smiles" and "Shop & Miles" which are applied for its members. In the calculations of the liability related with concerned programs, the rate of use and mile values which are determined by using statistical methods over the historical data were used.

Useful Lives and Salvage Values of Tangible Assets:

Group has allocated depreciation over tangible assets by taking into consideration the useful lives and salvage values which were explained in Note 2.5.3.

Deferred Tax:

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. There are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future in the Group. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. As a result of the assessment made, the Group has recognized deferred tax assets because it is probable that taxable profit will be available sufficient to recognize deferred tax assets.

Corporate Tax Law 32/A and the effects of Resolution issued on "Government Assistance for Investments" by the Council of Ministers:

A new incentive standard that reconstitutes government assistance for investments has been developed with the addition to the clause 32/A of the Corporate Tax Law to be effective from 28 February 2009 with the 9th article of the 5838 numbered Law in order to support investments through taxes on income. The new investment system becomes effective upon the issuance of the Council of Ministers' resolution "Government Assistance for Investments" No:2009/15199 on 14 July 2009. Apart from the previous "investment incentive" application, which provides the deduction of certain portion of investment expenditures against corporate tax base, the new support system aims to provide incentive support to companies by deducting "contribution amount", which is calculated by applying the "contribution rate" prescribed in the Council of Ministers' resolution over the related investment expenditure, against the corporate tax imposed on the related investment to the extent the amount reaches to the corresponding "contribution amount".

The Group has obtained an Incentive Certificate dated 28 December 2010 and numbered 99256 from Turkish Treasury. For the related 89 aircrafts to be obtained in 2011-2015, 20% of investment assistance and 50% of reduction in the corporate tax rate will be used. The contribution amount that will be deducted from the corporate tax calculated over the earnings arising from the related investment, which will be used in the following years for the aircrafts delivered as of 31 December 2012 is TL 1,927,613,595.

There is no clear guidance in regards to the accounting for government tax incentives on investments in IAS 12 "Income Tax" and IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". Since "contribution amount" exemption as explained in the new investment support system depends on the earnings from the related investment and the recovery of the related asset and utilization of contribution amount will be over many years, the Group management considers that the accounting for the related investment assistance will be more appropriate if the grant is classified as deferred income which is recognized as income on a systematic and rational basis over the useful life of the related assets, as explained in the paragraphs 24 and 26 of IAS 20.

3. BUSINESS COMBINATIONS

None.

4. JOINT VENTURES

See Note 16.

5. SEGMENTAL REPORTING

The management of the Group investigates the results and operations based on air transportation and aircraft technical maintenance services in order to determine in which resources to be allocated to segments and to evaluate the performances of segments. The detailed information on the sales data of the Group is given in Note 28.

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

5.1 Total Assets and Liabilities

Total Assets	31 December 2012	31 December 2012
Aviation	18.599.417.257	16.343.318.557
Technic	1.235.350.264	1.097.317.847
Total	19.834.767.521	17.440.636.404
Less: Eliminations due to consolidation	(1.053.865.058)	(1.035.689.276)
Total assets in consolidated financial statements	18.780.902.463	16.404.947.128

Total Liabilitites	31 December 2012	31 December 2011
Aviation	13.227.597.569	11.749.418.618
Technic	309.832.394	248.997.863
Total	13.537.429.963	11.998.416.481
Less: Eliminations due to consolidation	(161.571.089)	(92.396.994)
Total liabilitites in consolidated financial statements	13.375.858.874	11.906.019.487

5.2 Net Operating Profit / (Loss)

Segment Results:

1 January-31 December 2012	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	14.757.656.302	151.347.516	-	14.909.003.818
Inter-segment sales	48.332.280	686.807.235	(735.139.515)	-
Segment revenue	14.805.988.582	838.154.751	(735.139.515)	14.909.003.818
Cost of sales (-)	(11.901.788.465)	(712.824.923)	721.016.678	(11.893.596.710)
Gross profit / (loss)	2.904.200.117	125.329.828	(14.122.837)	3.015.407.108
Marketing, sales and distribution expenses (-)	(1.584.875.506)	(9.306.890)	814.719	(1.593.367.677)
Administrative expenses (-)	(299.240.572)	(82.315.076)	7.333.834	(374.221.814)
Other operating income (-)	588.287.879	12.395.013	-	600.682.892
Other operating expense	(32.184.455)	(11.482.166)	-	(43.666.621)
Operating profit	1.576.187.463	34.620.709	(5.974.284)	1.604.833.888
Share of investment profit accounted by using the equity method	25.619.466	(20.470.232)	-	5.149.234
Financial income	162.291.396	(154.751)	-	162.136.645
Financial loss (-)	(414.704.535)	(37.076)	-	(414.741.611)
Profit before tax	1.349.393.790	13.958.650	(5.974.284)	1.357.378.156

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

1 January-31 December 2011	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	11.599.965.757	212.584.151	-	11.812.549.908
Inter-segment sales	29.362.804	614.148.458	(643.511.262)	-
Segment revenue	11.629.328.561	826.732.609	(643.511.262)	11.812.549.908
Cost of sales (-)	(9.758.673.723)	(683.918.768)	639.322.979	(9.803.269.512)
Gross profit	1.870.654.838	142.813.841	(4.188.283)	2.009.280.396
Marketing, sales and distribution expenses (-)	(1.276.690.263)	(8.653.848)	484.855	(1.284.859.256)
Administrative expenses (-)	(308.517.820)	(60.147.481)	3.381.623	(365.283.678)
Other operating income	149.421.032	17.881.114	(7.111.500)	160.190.646
Other operating expense (-)	(382.377.742)	(15.637.879)	1.334.884	(396.680.737)
Operating profit (-)	52.490.045	76.255.747	(6.098.421)	122.647.371
Share of investment profit/ (loss) accounted by using the equity method	40.112.749	(30.038.733)	-	10.074.016
Financial income	274.324.770	(3.253.302)	(6.833.191)	264.238.277
Financial loss (-)	(251.062.433)	(8.299)	60	(251.070.672)
Profit before tax	115.865.131	42.955.413	(12.931.552)	145.888.992

Income statement items related to investments accounted for equity method:

1 January-31 December 2012	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/ (loss) accounted by using the equity method	25.619.466	(20.470.232)	-	5.149.234

1 January-31 December 2011	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/ (loss) accounted by using the equity method	40.112.749	(30.038.733)	-	10.074.016

5.3 Investment Operations

1 January-31 December 2012	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible fixed assets	2.517.406.545	126.241.939	-	2.643.648.484
Current period amortization and depreciation	964.625.827	65.137.093	-	1.029.762.920
Investmensts accounted by using the equity method	206.971.401	62.098.144	-	269.069.545

1 January-31 December 2011	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible fixed assets	4.091.389.794	233.547.254	-	4.324.937.048
Current period amortization and depreciation	753.118.045	58.730.576	-	811.848.621
Investmensts accounted by using the equity method	209.705.888	85.254.704	-	294.960.592

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

6. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash	1.836.473	5.959.669
Banks – Time deposits	1.121.913.532	1.291.657.138
Banks – Demand deposits	222.290.264	213.883.414
Other liquid assets	9.502.267	38.024.489
	1.355.542.536	1.549.524.710

Time Deposits:

Amount	Currency	Interest Rate	Maturity	31 December 2012
813.916.500	TL	7.14% -9.22%	March 2013	825.411.927
125.082.952	EURO	2.81% -3.27%	March 2013	296.501.605
				1.121.913.532

Amount	Currency	Interest Rate	Maturity	31 December 2011
193.850.000	TL	6.30%-12.25%	February 2012	204.608.315
322.754.001	EUR	5.30%-6.25%	March 2012	790.619.702
153.906.163	USD	4.50%-6.25%	March 2012	296.429.121
				1.291.657.138

7. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	31 December 2012	31 December 2011
Time deposits with maturity more than 3 months	476.958.794	133.533.101
Fair values of derivative financial instruments (Note 39)	74.861.649	80.366.577
	551.820.443	213.899.678

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

Time deposits with maturity of more than 3 months:

Amount	Currency	Interest Rate	Maturity	31 December 2012
41.827.004	USD	%3.53	April 2013	75.250.687
170.000.000	TRY	%6.93-%7.27	April 2013	170.577.495
97.844.734	EUR	%3.19-%3.20	September 2013	231.130.612
				476.958.794

Amount	Currency	Interest Rate	Maturity	31 December 2011
20.000.000	TRY	%8.16-%9.60	April 2012	20.000.000
46.457.607	EUR	%4.67-%5.50	June 2012	113.533.101
				133.533.101

Long-term financial assets are as follows:

	31 December 2012	31 December 2011
Sita Inc.	1.679.619	1.679.619
Star Alliance Gmbh	44.465	44.465
UATP Inc.	16.929	16.929
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
Foreign currency translation reserve	281.372	-
	2.049.244	1.767.872

Sita Inc., Star Alliance GMBH, Emek İnşaat ve İşletme A.Ş. and UATP Inc. are disclosed at cost since they are not traded in an active market.

Details of the long-term financial investments of the Group at 31 December 2012 are as follows:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Sita Inc.	Netherlands	Less than 0.1%	Less than 0.1%	Information & Telecommunication Services
Star Alliance Gmbh	Germany	5.55 %	5.55 %	Coordination Between Star Alliance Member Airlines
UATP Inc.	USA	4%	4%	Payment Intermediation Between the Passenger and the Airlines
Emek İnşaat ve İşletme A.Ş.	Turkey	0.3%	0.3%	Construction

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

8. FINANCIAL BORROWINGS

Short-term financial borrowings are as follows:

	31 December 2012	31 December 2011
Finance lease obligations	866.011.394	790.159.337

Long-term financial borrowings are as follows:

	31 December 2012	31 December 2011
Finance lease obligations	7.800.982.204	7.122.723.496

Financial lease obligations are as follows:

	31 December 2012	31 December 2011
Less than 1 year	1.068.307.603	964.312.250
Between 1 – 5 years	4.291.572.222	3.599.737.058
Over 5 years	4.624.307.819	4.498.997.066
	9.984.187.644	9.063.046.374
Less: Future interest expenses	(1.317.194.046)	(1.150.163.541)
Principal value of future rentals stated in financial statements	8.666.993.598	7.912.882.833

	31 December 2012	31 December 2011
Interest Range:		
Floating rate obligations	3.355.700.565	3.984.803.923
Fixed rate obligations	5.311.293.033	3.928.078.910
	8.666.993.598	7.912.882.833

As of 31 December 2012, the US Dollars and Euro denominated lease obligations' weighted average interest rates are 4.14% (31 December 2011: 4.45%) for the fixed rate obligations and 0.61% (31 December 2011: 0.72%) for the floating rate obligations.

9. OTHER FINANCIAL LIABILITIES

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

	31 December 2012	31 December 2011
Fair value of derivative instruments	161.636.622	154.871.082
Borrowings to banks	31.064.076	3.487.463
	192.700.698	158.358.545

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

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

10. TRADE RECEIVABLES AND PAYABLES

Short-term trade receivables are as follows:

	31 December 2012	31 December 2011
Trade receivables	831.808.273	837.720.730
Due from related parties (Note 37)	18.975.259	6.969.060
Allowance for doubtful receivables	(73.380.910)	(79.913.899)
	777.402.622	764.775.891

The Group provided provision for the receivables carried to legal proceedings and for the others by making historical statistical calculations. Movement of the doubtful receivables for the period ended 31 December 2012 and 2011 are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Opening Balance	79.913.899	70.377.121
Charge for the period	13.362.362	25.733.253
Collections during the period	(16.012.185)	(13.071.676)
Currency translation adjustment	(3.883.166)	476.370
Receivables written-off	-	(3.601.169)
Closing Balance	73.380.910	79.913.899

Explanations about the credit risk of Group's receivables are provided in Note 38 Credit Risk.

Short-term trade payables are as follows:

	31 December 2012	31 December 2011
Trade payables	695.190.493	685.188.842
Due from related parties (Note 37)	215.000.995	180.943.942
Other	2.132.786	4.307.686
	912.324.274	870.440.470

11. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables are as follows:

	31 December 2012	31 December 2011
Prepayments made for aircrafts, to be received back in cash (net)	475.603.418	710.354.962
Restriction on transfer of funds from banks (*)	160.469.134	55.060.221
Receivables from purchasing transactions abroad	97.545.951	7.779.605
V.A.T Return	11.832.018	12.815.278
Receivables from training of captain candidates	2.751.021	2.155.594
Receivables from employees	2.511.696	2.808.754
Nontrading receivables from related parties (Note 37)	8.531	58.082
Other receivables	3.404.331	1.667.380
	754.126.100	792.699.876

(*) As of 31 December 2012, the balance of this account is related to bank balances and blocked deposits in Johannesburg, Khartum, Cidde, Bangladeş, Akra, Addis Ababa, Taşkent, Sao Paulo, Mumbai, Kazablanka, Bingazi, Misurata,and Tripoli.

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

Long-term other receivables are as follows:

	31 December 2012	31 December 2011
Prepayments made for aircrafts, to be received back in cash (net)	1.167.114.676	409.666.323
Restriction on transfer of funds from banks (*)	176.900.543	-
Receivables from investment assistance (Note 2.7)	107.714.141	44.013.416
Interest swap agreement deposits	44.677.053	31.563.519
Deposits and guarentees given	26.601.535	20.534.470
Receivables from employees	17.683.343	13.673.264
Receivables from training of captain candidates	11.496.227	28.526.223
Receivables from Sita deposit certificates	1.643.236	1.484.013
Receivables from purchasing transactions abroad	-	65.136.878
	1.553.830.754	614.598.106

(*) As of 31 December 2012, the balance of this account is related to bank balances and blocked deposits in Şam, Tahran, Şiraz, Tebriz, Kirmenşah,and Mashad.

Short-term other payables are as follows:

	31 December 2012	31 December 2011
Payables to insurance companies	40.187.640	24.514.696
Social security premiums payable	36.021.871	56.256.374
Taxes and funds payable	24.282.062	34.799.256
Deposits and guarantess received	21.881.619	24.359.807
Other advances received	20.187.231	5.256.463
Charter advances	1.041.539	2.202.096
Other liabilities	9.892.163	3.944.158
	153.494.125	151.332.850

Long-term other payables are as follows:

	31 December 2012	31 December 2011
Deposits and guarantees received	15.659.634	11.439.394

12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS

None (31 December 2011: None).

13. INVENTORIES

	31 December 2012	31 December 2011
Spare parts	230.339.657	224.154.746
Other inventories	46.562.105	45.186.648
	276.901.762	269.341.394
Provision for impairment (-)	(17.701.999)	(17.555.587)
	259.199.763	251.785.807

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

Movement in change of diminution in value of inventories for the periods ended 31 December 2012 and 2011.

	1 January - 31 December 2012	1 January - 31 December 2011
Provision at the beginning of the period	17.555.587	14.368.647
Foreign currency translation adjustment	(987.960)	3.186.940
Reversals	1.134.372	-
Provision at the end of the period	17.701.999	17.555.587

14. BIOLOGICAL ASSETS

None (31 December 2011: None).

15. ASSETS FROM CONSTRUCTION CONTRACTS IN PROGRESS

None (31 December 2011: None).

16. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

	31 December 2012	31 December 2011
Sun Ekspress	8.388.295	26.515.230
Turkish DO&CO	60.907.106	60.594.468
P&W T.T Uçak Bakım Merkezi	53.595.748	74.626.727
TGS	64.547.149	72.672.672
THY Opet	66.777.834	37.295.786
Uçak Koltuk	4.166.036	50.000
TCI	2.901.708	1.703.496
Türkbine Teknik	7.373.945	8.182.875
Goodrich	411.724	1.744.878
Air Bosna (Note 2.1)	-	11.574.460
	269.069.545	294.960.592

Financial information for Sun Express as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	647.916.867	714.361.841
Total liabilities	631.140.277	661.331.381
Shareholders'equity	16.776.590	53.030.460
Group's share in associate's shareholders' equity	8.388.295	26.515.230

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

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	1.735.457.511	1.519.249.857
Loss for the year	(20.926.162)	(5.563.201)
Group's share in loss for the year	(10.463.081)	(2.781.600)

Financial information for THY DO&CO Catering Services as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	248.740.873	212.403.249
Total liabilities	126.926.662	91.214.313
Shareholders'equity	121.814.211	121.188.936
Group's share in associate's shareholders' equity	60.907.106	60.594.468

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	465.279.242	410.959.134
Profit for the year	16.938.278	37.681.048
Group's share in profit for the year	8.469.139	18.840.524

Financial information for P&W T.T Uçak Bakım Merkezi Ltd. Şti as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	225.834.697	225.887.983
Total liabilities	116.455.611	73.588.541
Shareholders'equity	109.379.086	152.299.442
Group's share in associate's shareholders' equity	53.595.748	74.626.727

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	163.637.539	170.833.111
Loss for the year	(34.593.459)	(58.227.661)
Group's share loss for the year	(16.950.794)	(28.531.554)

Financial information for TGS as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	191.883.128	191.800.346
Total liabilities	62.788.835	46.455.002
Shareholders'equity	129.094.293	145.345.344
Group's share in associate's shareholders' equity	64.547.147	72.672.672

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

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	331.119.437	304.587.085
Profit for the year	12.910.948	32.819.926
Group's share in profit for the year	6.455.474	16.409.963

By the protocol and capital increase dated on 17 September 2009, 50 % of TGS' capital, which has a nominal value of 6,000,000 TL, was acquired by HAVAŞ for 119,000,000 TL and a share premium at an amount of 113,000,000 TL has arised in the TGS's capital. Because the share premium is related to the 5-year service contract between the Company and TGS, the Company's portion (50 %) of the share premium under the shareholders' equity of TGS was recognized as 'Deferred Income' (Note 26) to be amortized during the contract period.

Financial information for THY Opet Havacılık Yakıtları A.Ş. as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	578.119.047	415.486.059
Total liabilities	444.563.380	340.894.488
Shareholders'equity	133.555.667	74.591.571
Group's share in associate's shareholders' equity	66.777.834	37.295.786

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	3.856.846.373	2.271.152.114
Profit for the year	60.380.095	27.352.122
Group's share in profit for the year	30.190.048	13.676.061

Financial information for Uçak Koltuk Üretimi A.Ş. as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	10.920.448	5.489.742
Total assets	9.626.260	100.000
Total liabilities	1.294.188	-
Shareholders'equity	8.332.072	100.000
Group's share in associate's shareholders' equity	4.166.036	50.000

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	21.602	-
Profit for the year	8.195.892	-
Group's share in profit for the year	4.097.946	-

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

Financial information for TCI Kabin İçi Sistemleri San. ve Tic. A.Ş as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	5.474.867	5.693.147
Total assets	6.680.844	5.693.147
Total liabilities	991.221	2.352.958
Shareholders'equity	5.689.623	3.340.189
Group's share in associate's shareholders' equity	2.901.708	1.703.496

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	1.133.385	593.771
Loss for the period year	(6.822.991)	(402.477)
Group's share in loss for the period year	(3.479.684)	(205.262)

Financial information for Turkbine Teknik Gaz Turbinleri Bakım Onarım A.Ş. as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	15.902.268	16.714.081
Total assets	15.325.079	16.714.081
Total liabilities	577.189	348.330
Shareholders'equity	14.747.890	16.365.751
Group's share in associate's shareholders' equity	7.373.945	8.182.875

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	1.252.656	304.185
Loss for the year	(707.763)	(558.554)
Group's share in loss for the year	(353.882)	(279.277)

Financial information for Goodrich THY Teknik Servis Merkezi Ltd. Şti. as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	13.538.722	5.489.742
Total assets	7.284.016	5.489.742
Total liabilities	6.254.706	1.127.545
Shareholders'equity	1.029.310	4.362.197
Group's share in associate's shareholders' equity	411.724	1.744.878

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	13.581.638	195.432
Loss for the year	(3.103.680)	(2.872.955)
Group's share in loss for the year	(1.241.472)	(1.149.182)

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

Financial information for Bosnia and Herzegovina Airlines as of 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Total assets	-	69.857.068
Total liabilities	-	46.235.721
Shareholders'equity	-	23.621.347
Group's share in associate's shareholders' equity	-	11.574.460

	1 January - 31 December 2012	1 January - 31 December 2011
Revenue	-	36.523.173
Loss for the year	-	(12.052.361)
Group's share in loss for the year	(11.574.460)	(5.905.657)

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

	31 December 2012	31 December 2011
Sun Ekspress	(10.463.081)	(2.781.600)
Turkish DO&CO	8.469.139	18.840.524
TEC	(16.950.794)	(28.531.554)
TGS	6.455.474	16.409.963
THY Opet	30.190.048	13.676.061
Uçak Koltuk	4.097.946	-
TCI	(3.479.684)	(205.262)
Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş.	(353.882)	(279.277)
Goodrich	(1.241.472)	(1.149.182)
Bosnia and Herzegovina Airlines	(11.574.460)	(5.905.657)
Total	5.149.234	10.074.016

17. INVESTMENT PROPERTY

	1 January- 31 December 2012	1 January- 31 December 2011
Opening balance	54.720.000	49.570.000
Foreign currency translation adjustment	(3.068.810)	10.319.703
Valuation gain / loss	6.333.810	(5.169.703)
Closing balance	57.985.000	54.720.000

Fair values of Group's investment property were obtained from the valuation performed by an independent valuation firm, which is not a related party to Group. Valuation was performed by the independent valuation firm, which is authorized by Capital Markets Board with reference to market prices.

The Group does not have any rent income from investment property.

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

18. PROPERTY AND EQUIPMENT

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
Cost									
Opening balance at 1 January 2012	194.445.053	461.185.261	148.453.434	12.863.510.809	615.266.465	399.664.054	111.431.957	435.264.825	15.229.221.858
Foreign currency translation adjustment	(13.372.432)	(11.893.982)	(32.665.326)	(1.198.885.929)	(40.357.310)	(22.460.963)	(19.301.794)	(16.786.206)	(1.355.723.942)
Additions	7.963.128	29.345.241	21.907.776	2.145.180.214	42.759.275	107.991.879	3.066.771	268.881.536	2.627.095.820
Disposals	-	(3.044.015)	(668.343)	(4.915.771)	-	(111.399.609)	(540.525)	-	(120.568.263)
Transfer from non-current assets held-for-sale	-	-	-	1.815.991.128	-	-	-	-	1.815.991.128
Transfers [*]	9.373.184	(98.976.033)	103.665.694	2.825.895	-	-	(15.215.791)	(8.151.636)	(6.478.687)
Closing balance at 31 December 2012	198.408.933	376.616.472	240.693.235	15.623.706.346	617.668.430	373.795.361	79.440.618	679.208.519	18.189.537.914
Accumulated depreciation									
Opening balance at 1 January 2012	64.597.647	321.520.088	69.210.291	3.291.791.980	139.105.118	185.035.834	65.366.028	-	4.136.626.986
Foreign currency translation adjustment	(3.713.730)	(46.270.367)	(10.871.418)	(676.742.705)	(9.554.028)	(10.413.104)	(11.725.708)	-	(769.291.060)
Depreciation charge for the year	3.337.720	24.324.384	24.439.402	848.529.631	57.776.326	49.368.777	13.300.035	-	1.021.076.275
Disposals	-	(2.330.508)	(523.204)	(4.915.771)	-	(78.187.897)	(154.625)	-	(86.112.005)
Transfer to non-current assets held-for-sale	-	-	-	1.200.376.816	-	-	-	-	1.200.376.816
Transfers [*]	9.373.184	(94.360.351)	93.724.271	-	-	(15.215.791)	-	(6.478.687)	
Closing balance at 31 December 2012	73.594.821	202.883.246	175.979.342	4.659.039.951	187.327.416	145.803.610	51.569.939	-	5.496.198.325
Net book value 31 December 2012	124.814.112	173.733.226	64.713.893	10.964.666.395	430.341.014	227.991.751	27.870.679	679.208.519	12.693.339.589
Net book value 31 December 2011	129.847.406	139.665.173	79.243.143	9.571.718.829	476.161.347	214.628.220	46.065.929	435.264.825	11.092 594.872

[*] As of 1 July 2012 The Group has implemented a new Enterprise Resource Planning ("ERP"), in this context certain changes have been made to the classification of tangible and intangible fixed assets.

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	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Total
Cost									
Opening balance at 1 January 2011	155.789.647	366.891.008	109.351.091	9.080.064.151	362.331.413	327.545.636	65.684.659	73.716.649	10.541.374.254
Foreign currency translation adjustment	35.931.072	77.611.097	23.578.706	2.318.163.982	93.871.278	76.143.305	23.990.255	56.073.020	2.705.362.715
Additions	2.724.334	31.911.392	26.138.173	3.623.965.020	230.449.737	68.915.393	20.436.376	307.112.467	4.311.652.892
Disposals	-	(15.228.236)	(10.614.536)	(204.879.583)	(71.385.963)	(72.940.280)	(316.644)	-	(375.365.242)
Transfer from non-current assets held-for-sale	-	-	-	(1.953.802.761)	-	-	-	-	(1.953.802.761)
Transfers from investment	-	-	-	-	-	-	1.637.311	(1.637.311)	-
Closing balance at 31 December 2011	194.445.053	461.185.261	148.453.434	12.863.510.809	615.266.465	399.664.054	111.431.957	435.264.825	15.229.221.858
Accumulated depreciation									
Opening balance at 1 January 2011	50.832.184	263.568.628	60.901.609	3.419.063.346	114.334.463	152.551.380	36.685.410	-	4.097.937.020
Foreign currency translation adjustment	10.808.549	52.902.745	157.035	736.630.322	31.613.763	38.423.601	13.384.734	-	883.920.749
Depreciation charge for the year	2.956.914	20.276.951	18.766.183	642.602.948	64.197.367	39.430.049	15.380.299	-	803.610.711
Disposals	-	(15.228.236)	(10.614.536)	(204.879.583)	(71.040.475)	(45.369.196)	(84.415)	-	(347.216.441)
Transfer to non-current assets held-for-sale	-	-	-	(1.301.625.053)	-	-	-	-	(1.301.625.053)
Closing balance at 31 December 2011	64.597.647	321.520.088	69.210.291	3.291.791.980	139.105.118	185.035.834	65.366.028	-	4.136.626.986
Net book value at 31 December 2011	129.847.406	139.665.173	79.243.143	9.571.718.829	476.161.347	214.628.220	46.065.929	435.264.825	11.092.594.872

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

19. INTANGIBLE ASSETS

	Slot Rights	Other Rights	Total
Cost			
Opening balance at 1 January 2012	24.445.066	113.740.124	138.185.190
Foreign currency translation adjustment	(1.375.673)	(7.175.696)	(8.551.369)
Additions	-	16.552.664	16.552.664
Disposals	-	(718.942)	(718.942)
Transfers (*)	-	6.478.687	6.478.687
Closing balance at 31 December 2012	23.069.393	128.876.837	151.946.230
Accumulated Depreciation			
Opening balance at 1 January 2012	-	91.222.250	91.222.250
Foreign currency translation adjustment	-	(5.513.033)	(5.513.033)
Amortization charge for the year	-	8.686.645	8.686.645
Disposals	-	(112.086)	(112.086)
Transfers (*)	-	6.478.687	6.478.687
Closing balance at 31 December 2012	-	100.762.463	100.762.463
Net book value at 31 December 2012	23.069.393	28.114.374	51.183.767
Net book value at 31 December 2011	24.445.066	22.517.874	46.962.939

	Slot Rights	Other Rights	Total
Cost			
Opening balance at 1 January 2011	20.007.450	87.477.119	107.484.569
Foreign currency translation adjustment	4.437.616	15.444.865	19.882.481
Additions	-	13.284.156	13.284.156
Disposals	-	(2.466.016)	(2.466.016)
Closing balance at 31 December 2011	24.445.066	113.740.124	138.185.190
Accumulated Depreciation			
Opening balance at 1 January 2011	-	74.385.468	74.385.468
Foreign currency translation adjustment	-	11.064.888	11.064.888
Amortization charge for the year	-	8.237.910	8.237.910
Disposals	-	(2.466.016)	(2.466.016)
Closing balance at 31 December 2011	-	91.222.250	91.222.250
Net book value at 31 December 2011	24.445.066	22.517.874	46.962.939

The Group considers the slot rights as intangible assets having infinitive useful life.

(*) As of 1 July 2012 the Group has implemented a new Enterprise Resource Planning ("ERP"). In this context certain changes have been made to the classification of property and equipment and intangible fixed assets.

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

20 GOODWILL

None (31 December 2011: None).

21 GOVERNMENT GRANTS AND INCENTIVES

Incentive certificate no:28.12.2011 / 99256 was obtained from Turkish Treasury for financing the aircrafts planned for the period after 2010. According to this certificate, the Company will use the adventages for reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.7 for the accounting of the related investment assistance.

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions for short-term liabilities are as follows:

	31 December 2012	31 December 2011
Provisions for legal claims	35.516.181	26.224.798

Changes in the provisions for legal claims at 31 December 2012 and 2011 periods set out below:

	1 January - 31 December 2012	1 January - 31 December 2011
Provision at the beginning of the year	26.224.798	20.480.602
Charge for the period	15.507.398	6.236.668
Provisions released	(7.170.892)	(581.703)
Foreign currency translation adjustment	954.877	89.231
Provision at the end of the year	35.516.181	26.224.798

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

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

a) Guarantees/Pledges/Mortgages ("GPM") given by the group: Amount of letter of guarantees given is TL 103,501,040 (31 December 2011: TL 97,177,999)

	31 December 2012		31 December 2011	
	Foreign currency amount	TL equivalent	Foreign currency amount	TL equivalent
A. Total amounts of GPM given on the behalf of its own legal entity	-	103.501.040	-	97.177.999
-Collaterals				
TL	11.882.222	11.882.222	10.419.036	10.419.036
EUR	6.719.618	15.802.526	7.536.458	18.417.595
USD	40.957.707	73.011.209	35.434.308	66.931.865
Other		2.805.083	-	1.409.503
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third partie debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
i. Total amount of GPM given on behalf of the Parent	-	-	-	-
ii. Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii. Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		103.501.040		97.177.999

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

b) The Group's discounted retirement pay provision is TL 234,019,405. The Group's liability for retirement pay would be approximately TL 421,270,210 as of 31 December 2012, if all employees were dismissed on that date.

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

23. COMMITMENTS

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

	31 December 2012	31 December 2011
Less than 1 year	282.339.574	335.010.923
Between 1 – 5 years	810.999.803	1.000.864.431
More than 5 years	81.178.443	218.425.929
	1.174.517.820	1.554.301.283

To be delivered between the years 2010-2015, the Group signed a contract for 89 aircrafts with a total value of 11,8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 10 of these aircrafts were delivered in 2010 and 29 of these aircrafts were delivered in 2011. To be delivered between the years 2013-2017, the Group signed a contract for 40 aircrafts with a total value of 10.5 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. The Group has made an advance payment of 934 million US Dollars relevant to these purchases as of 31 December 2012.

The Group also has operational lease agreement for 23 years related with the land for the construction of aircraft maintenance hangar which is still under construction. The liabilities of the Group related with this lease agreements are as follows:

	31 December 2012	31 December 2011
Less than 1 year	2.081.088	1.934.234
Between 1 – 5 years	16.417.472	16.440.986
More than 5 years	49.973.307	54.186.976
	68.471.867	72.562.196

24. EMPLOYEE BENEFITS

Short-term employee benefits are as follows:

	31 December 2012	31 December 2011
Salary accruals	143.879.448	127.819.504
Unused vacation provision	41.066.116	11.914.374
Due to personnel	3.178.359	3.525.186
Labor union agreement accrual (*)	-	106.364.433
	188.123.923	249.623.497

(*) 23. Labor Union Agreement negotiations started at 2 February 2012 between the Group and Turkey Civil Aviation Labor Union (HAVA-İŞ). The parties could not agree as of 31 December 2011 financial statements announcement dates. The Group has calculated and booked a provision of TL 106.364.433 for salary increases attained to Labor Union Agreement for the period between 1 January 2011 and 31 December 2011. 23. Labor Union Agreement was signed between the Group and HAVA-İŞ at 2 August 2012 and calculated salary increases were paid.

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

rovision for long-term retirement pay liability is comprised of the following:

	31 December 2012	31 December 2011
Provisions for retirement pay liability	234.019.405	191.632.448

Provision for retirement pay liability is recorded according to following explanations:

Under labor laws effective in Turkey, it is a liability to make legal retirement pay to employees whose employment is terminated in such way to receive retirement pay. In addition, according to Article 60 of Social Security Law numbered 506 which was changed by the laws numbered 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is also a liability to make legal retirement pay to those who entitled to leave their work by receiving retirement pay. Some transfer provisions related to service conditions prior to retirement are removed from the Law by the changed made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly TL 3,129 as of 1 January 2013 (1 January 2012: TL 2,917).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees.

IAS 19 (“Employee Benefits”) stipulates the development of company’s liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying financial statements as of 31 December 2012 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 5.00% annual inflation rate (31 December 2011: 5.00%) and 7.63% discount rate. (31 December 2011: 9.5%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 2.40% (31 December 2011: 2.13%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 3,129 which is in effect since 1 January 2013 is used in the calculation of Group’s provision for retirement pay liability.

Movement in the provision for retirement pay liability is as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Provisions at the beginning of the period	191.632.448	170.505.529
Foreign currency translation adjustment	13.107.185	5.024.709
Charge for the year	16.513.733	32.271.975
Interest charges	7.635.445	6.220.836
Actuarial loss	26.922.256	5.219.823
Payments	(21.791.662)	(27.610.424)
Provisions at the end of the year	234.019.405	191.632.448
	234.019.405	191.632.448

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

25. RETIREMENT BENEFITS

None (31 December 2011: None).

26. OTHER ASSETS AND LIABILITIES

Details of other current assets are as follows:

	31 December 2012	31 December 2011
Deferred VAT	57.924.708	48.561.653
Advances given for orders	35.473.673	12.040.036
Prepaid sales commissions	21.096.986	18.467.423
Other Prepaid expenses	47.736.722	18.297.778
Prepaid insurance expenses	17.984.689	8.693.312
Prepaid operating lease expenses	14.191.310	17.968.896
Advances given	3.337.806	5.543.478
Prepaid taxes and funds	2.206.083	12.807.153
Technical maintenance income accruals	936.368	47.204.715
Other current assets	781.620	992.792
	201.669.965	190.577.236

Other non-current assets are as follows:

	31 December 2012	31 December 2011
Maintenance reserves for engines	123.246.769	116.072.898
Advances given for fixed asset purchases	84.219.006	90.967.384
Prepaid aircraft financing expenses	27.830.021	30.613.937
Income accruals on withholding tax return	15.797.083	13.918.869
Prepaid operating lease expenses	1.891.246	2.516.897
Prepaid expenses	699.010	2.289.548
Prepaid Eximbank guarantee and exposure fee	-	227.816
	253.683.135	256.607.349

Other short-term liabilities are as follows:

	31 December 2012	31 December 2011
Accruals for maintenance expense	480.887.247	392.633.037
Unearned revenue accruals	7.720.681	3.751.411
Unearned revenue from share transfer of TGS (Note 16)	12.870.201	13.806.320
Accruals for other expenses	14.182.943	8.284.231
Other liabilities	1.360.052	1.079.126
Credit note for received aircrafts and simulators	-	1.034.502
	517.021.124	420.588.627

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

Other long-term liabilities are as follows:

	31 December 2012	31 December 2011
Gross manufacturer's credits	49.342.847	49.451.906
Accumulated depreciations of manufacturer's credit	(25.877.761)	(22.930.646)
Unearned revenue from share transfer of TGS (Note 16)	13.248.491	27.612.639
Unearned revenue accruals	10.732.856	-
	47.446.433	54.133.899

Flight liability is as follows;

	31 December 2012	31 December 2011
Flight liability generating from ticket sales	1.271.723.065	892.516.873
Flight liability generating from sales of mileage and frequent flyer programme	396.752.754	386.796.767
	1.668.475.819	1.279.313.640

27. SHAREHOLDERS' EQUITY

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

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

(*) 1,644 shares belonging to various private shareholders were not taken into consideration when the Group was included to the privatization program in 1984. Subsequently, these shares were registered on behalf of Privatization Administration according to Articles of Association of the Group, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

As of 31 December 2012, the Group's issued and paid-in share capital consists of 119,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

Articles of Association 10: The Board of Directors consists of nine members of which one member has to be nominated by the class C shareholder and the rest eight members has to be choosen by an election between class A shareholder's top rated.

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.

Benefits of class C shares solely restricted Privatization High Council or another Public Institution which the High Council delegates its authority. According to related part of the agreement, shares holded by foreign shareholders can not excess 40% of total shares.

Restricted Profit Reserves

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

Foreign Currency Translation Adjustment

Method for consolidation purpose is, according to IAS 21, monetary items in statutory financial statements is translated to USD using year-end exchange rates, non-monetary items in balance sheet, income/expenses and cash flow are transleted to USD by using the exchange rate of the transaction date (historic rate), and currency translation differences are presented under equity. Translation profit/loss from foreign currency transactions is presented under currency translation item in financial income of income statement. Also, currency translation differences in equities of the Groups's joint ventures; Güneş Ekspres Havacılık A.Ş. (Sun Express) and Bosnia Herzegovina Airlines which are consolidated by using equity method, are presented under currency translation item. Foreign currency translation differences are the changes due to foreign exchange rate changes in the shareholders' equity Sun Express and Bosnia Herzegovina Airlines, which are subsidiaries accounted for equity method.

Distribution of Dividends

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

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

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

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

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

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

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

Within the frame of 6th bulletin of Communiqué Series: IV No: 27, dividend distribution should be completed by the end of 5th month following the end of the period.

The items of shareholders' equity of the Company in the statutory accounts as of 31 December 2012 are as follows:

Paid-in capital	1,200,000,000
Share premium	181,185
Legal reserves	55,692,565
Extraordinary reserves (*)	198,959,553
Other profit reserves	9
Special funds	13,804,176
Retained earnings (*)	806,615
Retained loss	(1,040,827,727)
Net profit for the period (*)	1,214,388,943
Total shareholders' equity	1,643,005,319

* Per legal records 373,327,384 TL will be subject to distribution of dividends.

Hedge Fund against the Cash Flow Risk

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

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

28. SALES AND COST OF SALES

Details of gross profit are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Scheduled flights		
Passenger	13.062.330.568	10.207.767.679
Cargo and mail	1.206.772.563	966.114.928
Total scheduled flights	14.269.103.131	11.173.882.607
Unscheduled flights	120.776.903	138.603.969
Other revenue	519.123.784	500.063.332
Net sales	14.909.003.818	11.812.549.908
Cost of sales (-)	(11.893.596.710)	(9.803.269.512)
Gross profit	3.015.407.108	2.009.280.396

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

	1 January - 31 December 2012	1 January - 31 December 2011
- Europe	4.723.073.136	3.823.409.344
- Far East	3.182.009.998	2.412.184.832
- Middle East	1.854.983.407	1.530.241.615
- America	1.412.641.210	952.638.688
- Africa	1.070.182.735	707.902.793
Total international flights	12.242.890.486	9.426.377.272
Domestic flights	2.026.212.645	1.747.505.335
Total revenue	14.269.103.131	11.173.882.607

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

The details of the cost of sales are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Fuel expenses	5.159.187.276	3.998.588.861
Personnel expenses	1.818.591.560	1.640.829.647
Landing and navigation expenses	1.055.443.680	888.159.416
Depreciation expenses	982.774.191	764.523.411
Ground services expenses	878.506.857	785.500.939
Passenger service catering expenses	601.834.695	512.939.146
Maintenance expenses	390.551.585	384.995.476
Operating lease expenses	312.866.150	396.538.392
Other airlines' seat rents	184.498.773	158.170.704
Short term leasing expenses	111.974.938	24.062.482
Insurance expenses	85.463.250	56.258.201
Service expenses	83.845.381	49.738.978
Other rent expenses	58.979.928	35.903.438
Transportation expenses	31.819.834	23.575.019
Tax expenses	22.400.538	15.842.831
Utility expenses	12.430.824	9.470.581
Other sales	102.427.250	58.171.990
	11.893.596.710	9.803.269.512

29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2012	1 January - 31 December 2011
Marketing, sales and distribution expenses	1.593.367.677	1.284.859.256
Administrative expenses	374.221.814	365.283.678
	1.967.589.491	1.650.142.934

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

Marketing, sales and distribution expenses are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Commissions and incentive expenses	522.664.180	379.488.123
Personnel expenses	420.259.846	378.990.790
Reservation systems expense	301.657.615	220.889.868
Advertising expenses	168.783.057	146.497.444
Service expenses	36.896.302	34.719.604
Rent expenses	32.422.743	22.029.930
Membership fees	14.002.199	17.383.173
Tax expenses	13.289.888	10.102.599
Communication expenses	11.725.347	9.695.660
Depreciation expenses	11.161.933	2.165.732
Fuel expenses	1.410.455	1.587.250
Other	59.094.112	61.309.083
	1.593.367.677	1.284.859.256

General administrative expenses are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Personnel expenses	230.977.207	216.908.569
Depreciation expenses	35.826.796	45.159.478
Service expenses	32.794.768	17.524.775
Rent expenses	16.016.523	17.283.307
Communication expenses	12.326.828	11.717.857
Utility expenses	7.438.452	4.781.641
Tax expenses	2.909.490	3.281.011
Fuel expenses	2.059.057	911.604
Insurance expenses	1.299.876	5.752.145
Other	32.572.817	41.963.291
	374.221.814	365.283.678

30. EXPENSES ACCORDING TO CATEGORIES

Expenses according to categories are explained in Notes 28 and 29.

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

31. OTHER OPERATING INCOME / EXPENSES

Other operating income/expense consist of the following:

	1 January - 31 December 2012	1 January - 31 December 2011
Reversal from provision on asset held-for-sale and impairment of fixed asset (Note 34)	351.142.323	
Income from investment assistance (Note 2.7)	62.319.152	43.866.276
Insurance, indemnities, penalties income	47.250.258	15.521.333
Provisions released	23.183.077	13.653.379
Discounts received from maintenance services suppliers	16.267.517	25.096.497
TGS share premium (Note 16)	14.088.535	11.354.928
Tax return regarding finance leases of aircrafts	11.403.048	10.791.868
Banks protocol revenue	7.762.460	5.020.748
Valuation gain from investment property (Note 17)	6.333.810	-
Discount from purchases	5.746.140	4.294.173
Rent income	4.318.765	5.493.104
Other	50.867.807	25.098.340
	600.682.892	160.190.646

	1 January - 31 December 2012	1 January - 31 December 2011
Provision expense	28.869.760	31.969.921
Indemnity and penalty expense	4.942.022	11.775.619
Other operating expense	9.854.839	18.094.063
Valuation loss from investment property (Note 17)	-	5.169.703
Real increase in provision on non-current asset held-for-sale and impairment of fixed asset (Note 34)	-	329.671.431
	43.666.621	396.680.737

32. FINANCIAL INCOME

Financial income consists of the following:

	1 January - 31 December 2012	1 January - 31 December 2011
Interest income	129.243.516	77.277.018
Discount interest income	7.389.996	6.122.349
Income from derivative transactions	25.503.133	-
Foreign exchange gains	-	180.838.910
	162.136.645	264.238.277

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

33. FINANCIAL EXPENSES

Finance expenses are as follows:

	1 January - 31 December 2012	1 January - 31 December 2011
Finance lease interest expense	208.066.460	204.097.145
Finance lease administration expense	14.559.832	17.414.308
Discount interest expense	18.834.339	9.779.121
Cost of employee termination benefits interest	6.763.104	6.220.836
Other financial expense	5.486.577	4.679.775
Foreign exchange loss	161.031.299	-
Loss from derivative transactions	-	8.879.487
	414.741.611	251.070.672

34. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Group has decided to dispose of seven A340-type aircrafts in 2011 and had negotiations with several companies interested in this subject. These assets, which are expected to be sold within twelve months, are classified as non-current assets held for sale as of 31 December 2011. Since proceeds from sale are expected to remain below the book value of the assets, the company has made provision for decrease in value at amount of TL 329,671,431 for the assets held for sale.

In 2012, the Group decided to use current aircrafts by changing aircraft passanger placement plan; taking into account that price offers for its aircrats remained under the market prices.

As a result of the change of the sales plan these aircrafts are transferred from non-current asset held for sale to tangible assets. Related the these aicrafts According to IFRS 5, “Asset Held For Sale and Discontinued Operations Standard” , the calculated amortization amount of TL 101,208,868, which is not recorded as amortization amount between 31 December 2011and 31 December 2012 since the aircrafts were transferred to non-current assets held-for-sale. In addition to that, it is observed that the transfer of these aircrafts to the property and equipment causes no impairment on the related cash generating unit, which is the aircraft fleet, as of 31 December 2012. TL 351,142,323 which is recorded to non-current assets held-for-sale as impairment provision, because of the reclassification, is cancelled and recorded as income into other operating income on the income statement, as of 31 December 2012.

	1 January - 31 December 2012	1 January - 31 December 2011
Net book value of non-current assets held-for-sale	279.472.200	652.177.708
Provision for decrease in value	-	(329.671.431)
Reversal from provision of impairment	351.142.323	-
Foreign currency translation adjustment	(15.000.211)	(43.034.077)
Transfers to property and equipment	(615.614.312)	-
Adjusted net book value of non-current assets held-for-sale as of 31 December 2012		
	-	279.472.200

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

35. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

	31 December 2012	31 December 2011
Provisions for corporate tax	32.616.486	18.956.251
Prepaid taxes and funds	(32.616.486)	(13.587.608)
Tax liability	-	5.368.643

Tax expense consists of the following items:

	1 January - 31 December 2012	1 January - 31 December 2011
Current period tax expense	32.616.486	16.770.183
Deferred tax expense	191.394.437	110.602.177
Tax expense	224.010.923	127.372.360

Tax effect related to other comprehensive income is as follows:

	1 January - 31 December 2012		
	Amount before tax	Tax (expense) /income	Amount after tax
Foreign currency translation adjustment	(228.479.860)	-	(228.479.860)
Change in cash flow hedge reserve	1.535.719	(307.144)	1.228.575
Other comprehensive income	(226.944.141)	(307.144)	(227.251.285)

Change in foreign currency translation adjustment that is included in other comprehensive income is TL 228,479,860 for the period 1 January – 31 December 2012 (1 January – 31 December 2011: TL 795,001,243). In addition, the effect of taxation does not exist for the year.

Corporate Tax

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

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized. The effective tax rate in 2012 is 20% (2011: 20%).

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

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

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

Income Withholding Tax

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

Deferred Tax

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

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

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

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

	31 December 2012	31 December 2011
Property, equipment and intangible assets	(887.354.639)	(901.848.053)
Provisions for ticket sales advance	(78.216.603)	(56.547.535)
Adjustment on inventories	(32.525.576)	(42.833.609)
Accruals for expenses	152.179.387	119.292.064
Provisions for employee benefits	46.503.155	38.326.490
Income and expense for future periods	17.216.979	14.950.671
Long-term lease obligations	10.493.700	13.141.314
Short-term lease obligations	1.581.391	7.288.257
Allowance for doubtful receivables	5.963.723	6.360.975
Provisions for unused vacation	11.641.538	2.382.874
Other	4.892.886	1.914.838
Provisions for impairment of inventories	3.540.398	2.873.729
Carry forward tax losses	-	207.976.984
Labor union difference accruals	-	12.041.158
Deferred liabilities	(744.083.660)	(574.679.843)

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

The changes of deferred tax liability as of 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Opening balance at the begining of the year	574.679.843	435.385.525
Deferred tax expense	191.394.437	110.602.177
Hedge fund tax expense/(income)	307.144	(15.499.305)
Foreign currency translation adjustment	(22.297.764)	44.191.446
Deferred tax liability at the end of the year	744.083.660	574.679.843

	1 January - 31 December 2012	1 January - 31 December 2011
Reconciliation of provision for taxes:		
Profit from operations before tax	1.357.378.156	145.888.994
Domestic income tax rate of 20%	271.475.631	29.177.798
Taxation effects on:		
- income from investment incentive	(12.445.209)	(8.802.684)
- non-deductible expenses	2.406.311	3.547.754
- foreign exchange gain/loss	(36.770.976)	116.073.387
- equity method	(1.029.847)	(6.539.544)
- other	375.013	(6.084.351)
Tax charge in the comprehensive income statement	224.010.923	127.372.360

36. EARNINGS PER SHARE

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

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

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

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

Number of total shares and calculation of earnings per share at 31 December 2012 and 2011:

	1 January - 31 December 2012	1 January - 31 December 2011
Number of shares outstanding at 1 January (in full)	120.000.000.000	100.000.000.000
New shares issued (in full)	-	20.000.000.000
Number of shares outstanding at 31 December (in full)	120.000.000.000	120.000.000.000
Weighted average number of shares outstanding during the period (in full)	120.000.000.000	120.000.000.000
Net profit for period	1.133.367.233	18.516.632
Earnings per share (Kr)	0,94	0,02

37. RELATED PARTY TRANSACTIONS

Short-term trade receivables from related parties that are accounted by using the equity method (Note 10) are as follows:

	31 December 2012	31 December 2011
TEC	12.736.341	-
Sun Express	5.791.128	5.072.047
TCI	447.790	58.387
Bosnia Herzegovina Airlines	-	1.526.276
Türkbine Teknik	-	312.350
	18.975.259	6.969.060

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

	31 December 2012	31 December 2011
TCI	7.959	7.959
Türkbine Teknik	476	9.671
Uçak Koltuk	96	1.814
Goodrich	-	38.638
	8.531	58.082

Short-term trade payables to related parties that are acoounted by using the equity method (Note 10) are as follows:

	31 December 2012	31 December 2011
THY Opet	139.538.456	127.045.062
TGS	27.246.944	21.907.112
Sun Express	19.426.776	-
Turkish DO&CO	16.035.217	25.136.455
TEC	12.462.870	6.855.313
Goodrich	289.812	-
Türkbine Teknik	676	-
TCI	244	-
	215.000.995	180.943.942

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

Transactions with related parties that are accounted by using the equity method for the year ended as of 31 December 2012 are as follows:

Sales	1 January - 31 December 2012	1 January - 31 December 2011
Sun Ekspress	42.182.656	29.723.737
TGS	32.959.604	12.182.732
TEC	15.621.347	25.540.358
Turkish DO&CO	2.566.491	1.939.830
Goodrich	1.890.294	9.652.699
TCI	944.319	-
Türkbine Teknik	360.275	218.619
THY Opet	160.909	432.893
Sun Express Deut.	70.008	7.408.796
Uçak Koltuk	29.231	-
	96.785.134	87.099.664

Purchases	1 January - 31 December 2012	1 January - 31 December 2011
THY Opet	3.192.744.391	2.074.655.627
Turkish DO&CO	385.433.214	349.856.592
TGS	311.898.310	302.633.375
Sun Ekspress	73.735.876	459.142
TEC	36.222.756	150.531.810
Goodrich	8.149.394	273.226
Türkbine Teknik	146.619	-
Bosnia Herzegovina Airlines	-	10.003.326
	4.008.330.560	2.888.413.098

Transactions between the Group and Sun Express and Bosnia Herzegovina Airlines seat rental operations; transactions between the Group and Turkish DO&CO are catering services and loan financing, transactions between the Group and TGS are ground services, transactions between the Group and P&W T.T are engine maintenance services and the transactions between the Group and THY OPET is the supply of aircraft fuel. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Chairman and the Members of Board of Directors, General Manager, General Coordinator and Deputy General Managers are TL 6,301,658 (31 December 2011: TL 4,528,973).

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

38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 8, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Group remains the same since the year 2011.

	31 December 2012	31 December 2011
Total debts	9.772.018.570	8.941.681.848
Less: Cash and cash equivalents and time deposits		
with maturity of more than three months	(1.832.501.330)	(1.683.057.811)
Net debt	7.939.517.240	7.258.624.037
Total shareholders' equity	5.405.043.589	4.498.927.641
Total capital stock	13.344.560.829	11.757.551.678
Net debt/total capital stock ratio	0,59	0,62

(b) Financial Risk Factors

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from different financial risks.

Risk management, in line with policies approved by the Board of Directors, is carried out. According to risk policy, financial risk is identified and assessed. By working together with Group's operational units, relevant instruments are used to reduce the risk.

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

b.1) Credit Risk Management

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
31 December 2012	Related Party	Third Party	Related Party	Deposits in Third Party	Derivative Banks	Instruments
Maximum credit risk as of balance sheet date [*]	18.975.259	758.427.363	8.531	2.307.948.323	1.821.162.590	74.861.649
-The part of maximum risk under guarantee with collateral etc. [**]	-	9.844.132	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	18.975.259	442.712.030	8.531	2.307.948.323	1.821.162.590	74.861.649
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	315.715.333	-	-	-	-
-The part under guarantee with collateral etc.	-	3.574.589	-	-	-	-
D. Net book value of impaired assets						
-Past due (gross carrying amount)	-	73.380.910	-	-	-	-
-Impairment(-)	-	(73.380.910)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-	-	-	-

[*]The factors that increase in credit reliability such as guarantees received are not considered in the balance.

[**]Guarantees consist of the guarantees in cash and letters of guarantee obtained from the customers.

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

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables			
31 December 2011	Related Party	Third Party	Related Party	Third Party	Deposits in Banks	Derivative Instruments
Maximum credit risk as of balance sheet date (*)	6.969.060	757.806.831	58.082	1.407.239.900	1.639.073.653	80.366.577
-The part of maximum risk under guarantee with collateral etc. (**)	-	5.168.078	-	-	-	-
A. Net book value of financial assets that are	-	-	-	-	-	-
neither past due nor impaired	6.969.060	582.012.926	58.082	1.407.239.900	1.639.073.653	80.366.577
B. Net book value of financial assets that are renegotiated,	-	-	-	-	-	-
if not that will be accepted as past due or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are past due but	-	-	-	-	-	-
not impaired	-	175.793.905	-	-	-	-
-The part under guarantee with collateral etc.	-	2.847.053	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	79.913.899	-	-	-	-
-Impairment(-)	-	(79.913.899)	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-
E.Off-balance sheet items with credit risk	-	-	-			

- - -

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**)Guarantees consist of the guarantees in cash and letters of guarantee obtained from the customers.

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

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

The Group's credit risk is basically related to its receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economical conditions. Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration.

The aging of past due receivables as of 31 December 2012 are as follows:

	Receivables					
31 December 2012	Trade Receivables	Other Receivables	Deposits in Banks	Derivative Instruments	Other	Total
Past due 1-30 days	183.386.997	-	-	-	-	183.386.997
Past due 1-3 months	95.288.491	-	-	-	-	95.288.491
Past due 3-12 months	110.229.680	-	-	-	-	110.229.680
Past due 1-5 years	191.075	-	-	-	-	191.075
Past due more than 5 years	-	-	-	-	-	-
Total past due receivables	389.096.243	-	-	-	-	389.096.243
The part under guarantee with collateral etc.	3.574.589	-	-	-	-	3.574.589

The aging of past due receivables as of 31 December 2011 are as follows:

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

	Receivables					
31 December 2011	Trade Receivables	Other Receivables	Deposits in Banks	Derivative Instruments	Other	Total
Past due 1-30 days	154.588.150	-	-	-	-	154.588.150
Past due 1-3 months	22.320.528	-	-	-	-	22.320.528
Past due 3-12 months	63.762.619	-	-	-	-	63.762.619
Past due 1-5 years	14.317.716	-	-	-	-	14.317.716
Past due more than 5 years	718.791	-	-	-	-	718.791
Total past due receivables	255.707.804	-	-	-	-	255.707.804
The part under guarantee with collateral etc.	2.847.053	-	-	-	-	2.847.053

As of balance sheet date, total amount of cash collateral and letter of guarantee, which is received by Group for past due not impaired receivable, is TL 3,574,589 (31 December 2011: TL 2,847,053).

As of the balance sheet date, The Group has no guarantee for past due receivables for which provisions were recognized.

b.2) Liquidity risk management

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

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities. The adjustment column shows the item which causes possible cash flow in the future periods. The item in question is included in the maturity analysis and is not included balance sheet amount of financial liabilities in the balance sheet.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities.

Liquidity risk table:

31 December 2012

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Finance lease obligations	8.666.993.598	9.984.187.644	245.252.701	823.054.902	4.291.572.222	4.624.307.819
Trade payables	912.324.274	913.005.421	913.005.421	-	-	-
Other financial liabilities	31.064.076	31.064.076	31.064.076	-	-	-
Total	9.610.381.948	10.928.257.141	1.189.322.198	823.054.902	4.291.572.222	4.624.307.819

31 December 2011

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Finance lease obligations	7.912.882.833	9.063.046.374	229.775.641	734.536.609	3.599.737.058	4.498.997.066
Trade payables	870.440.470	1.006.176.118	869.723.250	136.452.868	-	-
Other financial liabilities	3.487.463	3.612.510	3.612.510	-	-	-
Total	8.786.810.766	10.072.835.002	1.103.111.401	870.989.477	3.599.737.058	4.498.997.066

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

31 December 2012

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities)/assets net						
Derivative cash inflows outflows,net	(86.774.973)	(71.960.047)	(16.065.497)	(9.064.927)	(39.600.180)	(7.229.443)
Total	(86.774.973)	(71.960.047)	(16.065.497)	(9.064.927)	(39.600.180)	(7.229.443)

31 December 2011

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities)/assets net						
Derivative cash inflows outflows,net	(74.504.505)	(56.835.471)	10.220.246	(13.597.247)	(43.600.906)	(9.857.564)
Total	(74.504.505)	(56.835.471)	10.220.246	(13.597.247)	(43.600.906)	(9.857.564)

b.3) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

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

b.3.1) Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

	31 December 2012				
	TL Equivalent	TL	Euro	GBP	Other
1.Trade receivables	660.404.241	93.711.562	351.947.508	58.330.075	156.415.096
2a.Monetary financial assets	34.601.987	4.841.781	28.829.747	158.610	771.849
2b.Non monetary financial assets					
3.Other	184.577.753	137.194.090	30.325.674	632.795	16.425.194
4.Current assets (1+2+3)	**879.583.981**	**235.747.433**	**411.102.929**	**59.121.480**	**173.612.139**
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	-	-	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	88.027.061	41.019.659	6.374.765	40.617.449	15.188
8.Non current asstes (5+6+7)	**88.027.061**	**41.019.659**	**6.374.765**	**40.617.449**	**15.188**
9.Total assets (4+8)	**967.611.042**	**276.767.092**	**417.477.694**	**99.738.929**	**173.627.327**
10.Trade payables	602.781.028	421.214.368	96.829.947	10.664.330	74.072.383
11.Financial liabilities	547.464.447	37.215.631	510.248.816	-	-
12a.Other liabilitites, monetary	35.808.560	13.729.271	12.513.007	319.513	9.246.769
12b.Other liabilitites, non monetary	33.859.220	33.760.522	98.698	-	-
13.Current liabilities (10+11+12)	1.219.913.255	505.919.792	619.690.468	10.983.843	83.319.152
14.Trade payables	-	-	-	-	-
15.Financial liabilities	4.481.085.105	400.618.948	4.080.466.157	-	-
16a.Other liabilitites, monetary	36.752.921	36.752.921	-	-	-
16b.Other liabilitites, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	**4.517.838.026**	**437.371.869**	**4.080.466.157**	**-**	**-**
18.Total liabilities (13+17)	**5.737.751.281**	**943.291.661**	**4.700.156.625**	**10.983.843**	**83.319.152**
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	**-**	**-**	**-**	**-**	**-**
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-
20.Net foreign currency asset/ (liability) position (9-18+19)	**(4.770.140.239)**	**(666.524.569)**	**(4.282.678.931)**	**88.755.086**	**90.308.175**
21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	**(5.008.885.833)**	**(810.977.796)**	**(4.319.280.672)**	**47.504.842**	**73.867.793**
22.Fair value of foreign currency hedged financial assets	**-**	**-**	**-**	**-**	**-**
23.Hedged foreign currency assets	**-**	**-**	**-**	**-**	**-**
24.Hedged foreign currency liabilities	**-**	**-**	**-**	**-**	**-**
25.Exports	**12.644.882.230**	**1.944.308.679**	**3.039.289.827**	**372.993.006**	**7.288.290.718**
26.Imports	**4.490.581.439**	**3.155.191.192**	**31.266.879**	**697.737.895**	**606.385.473**

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

	31 December 2011				
	TL Equivalent	TL	Euro	GBP	Other
1.Trade receivables	552.043.752	185.113.977	109.556.908	20.855.509	236.517.358
2a.Monetary financial assets	1.379.232.996	355.589.247	827.874.879	1.037.973	194.730.897
2b.Non monetary financial assets	-	-	-	-	-
3.Other	783.280.900	777.111.536	3.880.392	911.868	1.377.104
4.Current assets (1+2+3)	2.714.557.648	1.317.814.760	941.312.179	22.805.350	432.625.359
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	-	-	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	12.669.299	634.694	7.647.026	270.045	4.117.534
8.Non current asstes (5+6+7)	12.669.299	634.694	7.647.026	270.045	4.117.534
9.Total assets (4+8)	2.727.226.947	1.318.449.454	948.959.205	23.075.395	436.742.893
10.Trade payables	724.967.077	339.514.208	250.583.484	9.038.313	125.831.072
11.Financial liabilities	445.023.191	524.414	444.498.777	-	-
12a.Other liabilitites, monetary	39.346.934	27.913.536	7.516.665	394.154	3.522.579
12b.Other liabilitites, non monetary	632.032	620.338	11.694	-	-
13.Current liabilities (10+11+12)	1.209.969.234	368.572.496	702.610.620	9.432.467	129.353.651
14.Trade payables	-	-	-	-	-
15.Financial liabilities	3.286.402.558		3.286.402.558	-	-
16a.Other liabilitites, monetary	34.330.826	26.521.260	4.790.822	-	3.018.744
16b.Other liabilitites, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	3.320.733.384	26.521.260	3.291.193.380	-	3.018.744
18.Total liabilities (13+17)	4.530.702.618	395.093.756	3.993.804.000	9.432.467	132.372.395
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	254.424.060	-	254.424.060	-	-
19a.Off-balance sheet foreign currency derivative assets	254.424.060	-	254.424.060	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-
20.Net foreign currency asset/ (liability) position (9-18+19)	(1.549.051.611)	923.355.698	(2.790.420.735)	13.642.928	304.370.498
21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(2.598.793.838)	146.229.806	(3.056.360.519)	12.461.015	298.875.860
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	11.305.317.391	2.570.894.658	2.815.171.973	262.108.817	5.657.141.943
26.Imports	4.091.338.689	2.682.995.840	910.380.714	37.519.114	460.443.020

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from US dollar, Euro and GBP. The following table details the Group's sensitivity to a 10% increase and decrease in US Dollars, Euro and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss.

	31 December 2012 Profit / (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1 - US dollar net asset / liability	(66.652.457)	66.652.457
2- Part of hedged from US dollar risk (-)	-	-
3- US dollar net effect (1 +2)	(66.652.457)	66.652.457
4 - Euro net asset / liability	(428.267.893)	428.267.893
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(428.267.893)	428.267.893
7 - GBP net asset / liability	8.875.509	(8.875.509)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	8.875.509	(8.875.509)
10 - Other foreign currency net asset / liability	9.030.818	(9.030.818)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	9.030.818	(9.030.818)
TOTAL (3 + 6 + 9 + 12)	(477.014.023)	477.014.023

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

	31 December 2011 Profit / (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1 - US dollar net asset / liability	92.335.570	(92.335.570)
2- Part of hedged from US dollar risk (-)	-	-
3- US dollar net effect (1 +2)	92.335.570	(92.335.570)
4 - Euro net asset / liability	(279.042.074)	279.042.074
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(279.042.074)	279.042.074
7 - GBP net asset / liability	1.364.293	(1.364.293)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	1.364.293	(1.364.293)
10 - Other foreign currency net asset / liability	30.437.050	(30.437.050)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	30.437.050	(30.437.050)
TOTAL (3 + 6 + 9 + 12)	(154.905.161)	154.905.161

b.3.2) Interest rate risk management

Group has been borrowing over fixed and variable interest rates. Considering the interest types of the current borrowings, borrowings with variable interest rates have the majority but in financing of aircrafts performed in the last years, Group tries to create a partial balance between borrowings with fixed and variable interest rates by increasing the weight of the borrowings with fixed interest rate in condition of the suitability of the cost. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, dependency to local risks is low.

Interest Rate Position Table

	31 December 2012	31 December 2011
Instruments with fixed interest rate		
Financial Liabilities	5.311.293.033	3.928.078.910
Financial Instruments with Variable Interest Rate		
Financial Liabilities	3.355.700.565	3.984.803.923
Interest Swap Agreements not subject to Hedge accounting (Net)	-	(59.611)
Interest swap agreements subject to Hedge accounting (Net)	-	(62.888.643)

As indicated in Note 39, the Group as of 31 December 2012 fixed the interest rate for TL 284,578,858 of floating–interest-rated financial liabilities via an interest rate swap contract.

Interest rate sensitivity

The following sensitivity analysis is determined according to the interest rate exposure in the reporting date and possible changes on this rate and it is fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the interest rates of the borrowings with variable interest rates, fluctuate 0.5% and reports these to the top management.

In condition that 0.5% increase in Libor and Euribor interest rate and all other variables being constant:

Loss before tax of the Group, which belongs to the twelve-month-period, will increase by TL 16,778,503 (as of 31 December 2011 profit before tax will decrease by TL 19,924,020). In contrast, if Libor and Euribor interest rate decreases 0.5%, loss before tax for the six-month-period will decrease by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in case of a 0,5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by TL 13,823,126 without the deferred tax effect. In case of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amount without the deferred tax effect.

b.3.3) Fuel prices sensitivity

As explained in Note 39, Group made forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases beginning from 2009. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by TL 63,778,860 excluding the deferred tax effect. In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by TL 60,668,805 excluding the deferred tax effect.

39. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- In standard maturities and conditions, fair values of financial assets and liabilities which are traded in an active market are determined as quoted market prices.

- Fair values of derivative instruments are calculated by using quoted prices. In absence of prices, discounted cash flows analysis is used through applicable yield curve for maturities of derivative instruments (forward and swaps).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Audited Consolidated Financial Statements
For the Year Ended 31 December 2012
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

31 December 2012 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1.355.542.536	-	-	-	-	1.355.542.536	6
Financial investments	476.958.794	9.765.473	65.096.176	2.049.244	-	553.869.687	7
Trade receivables	777.402.622	-	-	-	-	777.402.622	10
Other receivables	2.307.956.854	-	-	-	-	2.307.956.854	11
Financial liabilities							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	8.666.993.598	8.666.993.598	8
Other financial liabilities	-	59.464.968	102.171.654	-	31.064.076	192.700.698	9
Trade payables	-	-	-	-	912.324.274	912.324.274	10

31 December 2011 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1.549.524.710	-	-	-	-	1.549.524.710	6
Financial investments	133.533.101	6.796.870	73.569.707	1.767.872	-	215.667.550	7
Trade receivables	764.775.891	-	-	-	-	764.775.891	10
Other receivables	1.407.297.982	-	-	-	-	1.407.297.982	11
Financial liabilities							
Bank borrowings	-	-	-	-	-	-	8
Finance lease obligations	-	-	-	-	7.912.882.833	7.912.882.833	8
Other financial liabilities	-	70.753.275	84.117.807	-	3.487.463	158.358.545	9
Trade payables	-	-	-	-	870.440.470	870.440.470	10

The Group considers the book values for financial assets approximate their fair values.

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

Fair values of financial assets and liabilities are determined as follows:

- First level: Financial assets and liabilities, are valued with the stock exchange prices in the active market for the assets and liabilities same with each other.

- Second level: Financial assets and liabilities are valued with input obtained while finding the stock exchange price of the relevant asset or liability mentioned in the first level and the direct or indirect observation of price in the market.

- Third level: Financial assets and liabilities are valued by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets and liabilities, which are presented in their fair values, level reclassifications are as follows:

		Fair value level as of the reporting date		
Financial assets	31 December 2012	Level 1 TL	Level 2 TL	Level 3 TL
Financial assets at fair value through profit or loss Derivative instruments	65.096.176	-	65.096.176	-
Financial assets accounted for hedge accounting Derivative instruments	9.765.473	-	9.765.473	-
Total	74.861.649	-	74.861.649	-
Financial liabilities				
Financial assets at fair value through profit or loss Derivative instruments	102.171.654	-	102.171.654	-
Financial assets accounted for hedge accounting Derivative instruments	59.464.968	-	59.464.968	-
Total	161.636.622	-	161.636.622	-

Derivative Instruments and Hedging Transactions

In order to hedge important operations and cash flows in the future against financial risks, Group made interest rate swap contracts to convert some of the fixed-rate finance lease liabilities into floating rate and cross-currency swap contracts to convert Euro-denominated finance lease liabilities into US Dollars. The changes in the fair values of those derivative instruments are directly accounted in the income statement for the period.

The floating-rate financial liabilities of the Group are explained in Note 38 (b.3.2). Beginning from September 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group made fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities whose maturities are after the second half of 2010 and account for approximately 26% of floating rate USD and Euro denominated liabilities. Effective part of the change in the fair values of those derivative instruments which are subject to hedge accounting for cash flows risks of floating-rate finance lease liabilities are accounted in cash flow hedge fund under the shareholders' equity.

In 2010, in order to control risk arising from fluctuations in price of fuel which is approximately 37% of cost of sales to lessen the effects of fluctuations in oil prices on fuel expenses, the Group began hedging transactions for approximately 20% of annual jet fuel consumption. For this purpose, the Group made forward fuel purchase contracts settled on cash basis. In accordance with the Company's BOD resolution issued on 21 January 2011, hedging rate which corresponds to 20% of the currently applied monthly consumption rate will be applied as 50% after 12 months and this rate will be gradually increased by 2,5% in each month. In addition, the Company started to use zero cost 4 way collars in 2011 instead of forward fuel purchase contracts to hedge cash flow risk of fuel prices. The effective portion of fair value hedge of derivative instruments that are subject to cash flow hedge accounting due to future fuel purchases is recognized under hedge accounting fund in equity.

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

Group's derivative instruments arisen from transactions stated above and their balances as of 31 December 2012 and 31 December 2011 are as follows:

31 December 2012	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(59.464.968)	(59.464.968)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	-	-	-
4 way collar contracts for hedging against cash flow risk of fuel prices	9.765.473	-	9.765.473
Fair values of derivative instruments for hedging purposes	9.765.473	(59.464.968)	(49.699.495)
Cross-currency swap contracts not accounted for hedge accounting	20.161.677	(35.253.615)	(15.091.938)
Interest rate swap contracts not accounted for hedge accounting	41.005.786	(52.672.105)	(11.666.319)
Forward currency contracts not for hedging purposes	3.928.713	(14.245.934)	(10.317.221)
Fair values of derivative instruments not for hedging purposes	65.096.176	(102.171.654)	(37.075.478)
Total	74.861.649	(161.636.622)	(86.774.973)

31 December 2011	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(62.888.643)	(62.888.643)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	6.796.870	-	6.796.870
4 way collar contracts for hedging against cash flow risk of fuel prices	-	(7.864.632)	(7.864.632)
Fair values of derivative instruments for hedging purposes	6.796.870	(70.753.275)	(63.956.405)
Cross-currency swap contracts not accounted for hedge accounting	43.169.453	(61.992.542)	(18.823.089)
Interest rate swap contracts not accounted for hedge accounting	20.717.103	(20.776.714)	(59.611)
Forward currency contracts not for hedging purposes	9.683.151	(1.348.551)	8.334.600
Fair values of derivative instruments not for hedging purposes	73.569.707	(84.117.807)	(10.548.100)
Total	80.366.577	(154.871.082)	(74.504.505)

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

	Hedging against fuel risk	Hedging against interest risk	Total
Increase/(decrease) in fair values of derivative instruments for hedging purposes	9.765.473	(59.464.968)	(49.699.495)
The amount of financial expenses inside hedge funds	-	(1.255.299)	(1.255.299)
Reclassified amount for ineffecient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	5.679.985	-	5.679.985
Foreign currency translation adjustment	(1.567.896)	(9.888.384)	(11.456.280)
Total	13.877.562	(70.608.651)	(56.731.089)
Deferred tax	(2.775.512)	14.121.730	11.346.218
Hedge reserve as of 31 December 2012	11.102.050	(56.486.921)	(45.384.871)

40. EVENTS AFTER THE BALANCE SHEET DATE

During 24. Labor Union Agreement negotiations for 2013 and 2014, the Group and Turkey Civil Aviation Labor Union (HAVA-İş) could not agree and signed dispute minute. The negotiations continued with an Official Conciliator. However, official supervisor negotiations ended since the parites could not reach an agreement on matters of dispute.The report prepared by the Official Conciliator within the legal period will be announced to the parties.

The Group Board of Directors decided to buy 5 unit of A330-300 aircrafts from Airbus firm. 2 of these purchases are certain to realize in 2014 and 3 of them are optional for 2015 and 2016 periods.

In order to meet increasing repair and maintenance requirements related to fleet planning, the Group Board of Directors decided to start negotiations for partnership or purchasing alternatives and works of due diligence with MNG Teknik Uçak Bakım Hizmetleri A.Ş.. A good faith agreement is signed by counter parties.

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

As there is a change in the presentation and classification of the Group's financial statement items, due to the implemented ERP system, prior financial statements are reclassified for maintaining comparability. These reclassifications have no effect over the prior period's equity and net profit/ (loss) accounts. Significant reclassifications in the financial statements include:

Balance Sheet Reclassifications

As of December 2011, TL2,746,677 part of the "Other Doubtful Receivables and Other Doubtful Receivables Provision" item, both was stated under "Other Receivables", is now classified under "Doubtful Trade Receivables and Doubtful Trade Receivables Provision"

As of December 2011, TL1,019,693 part of the "Receivables from Deport Passengers" item, wich was stated under "Short-term Other Receivables" and TL 3,359,270 part of the "Interline Passenger Revenue Accrual" item which was stated under "Other Current Assets" ,is now both classified under"Trade Receivables"

As of December 2011, TL28,526,223 part of the "Receivables from Training of Captain Candidates" and TL 2,265,376 part of the "Given Deposits and Quarantees" item, both was stated under"Short-term Other Receivables" ,is now classified under"Long-term Other Receivables"

As of December 2011, TL12,815,279 part of the “VAT Return“ item, which was stated under “Shor-term Other Receivables”,is now classified under”Other Current Assets”.

As of December 2011,TL125,047 part of the “Personnel Credit Card Liability” item, which was stated under”Short-term Financial Liabilities”,is now cliassified under “Trade Payables”.

As of December 2011, TL 497,573 part of the “Debt to Personnel” and TL 317,867 of “Debt to Social Security Institution” item,both of them was stated under “Trade Payables”,is now classified under “Short-term Benefits of Employee”and “Short-term Other Liabilites” ,respectively.

As of December 2011, TL136,452,869 part of the “Landing ve Passenger Service Charges” item, which was stated under “Trade Payables”,is now classified under ”Flight Liability Generating from Ticket Sales”.

As of December 2011, TL 2,172,969 part of the “Taxes Collected from Abroad” item, which was stated under”Other Short-term Liabilities”,is now classified under “Short-term Other Payables”.

As of December 2011, TL67,767,337 part of the “Miscellaneous Service Advances ” item, which was stated under “Other Short-term Liabilities”,is now classified under ”Flight Liability Generating from Ticket Sales”.

As of December 2011, TL 1,500,183 part of the “Trade Payables” item,which was stated under “Passenger Flight Liabilities”,is now classified under “Short-term Trade Payables”.

As of December 2011, TL 91,499 part of the “Taxes Payable” item,which was stated under “Other Short-term Liability” ,is now classified “Other Short-term Debts”.

As of December 2011, TL 4,473,928 part of the “Agency Incentive Premium Payables”item,which was stated under “Other Short-term Liabilites”, is now classified under “Short-term Trade Payables”.

Income Statement Reclassifications

TL 14,953,929 part of the "Transportation Expenses" and TL 3.023.821 of the "Comissions of Guarantee Letters" item, which was stated under "Sales and Marketing Expenses" in the interim period 1 January-31 December 2012, is now classified under "Cost Of Sales" and "Financial Expenses",respectively.

TL 3,937,856 part of the "Fuel Charges" and TL 1.120.428 of the "Comissions of Guarantee Letters" item, which was stated under "Sales and Marketing Expenses" in the interim period 1 January-31 December 2011, is now classified under "Cost Of Sales" and "Financial Expenses"

TL 17,414,308 part of the "Aircraft Finance Administrative Expenses "item, which was stated under "Cost Of Sales" in the interim period 1 January-31 December 2011, is now classified under "Financial Expenses".

TL 1938,980 part of the " Frequents Flyer Programme" item, which was stated under "Sales and Marketing Expenses" in the interim period 1 January-31 December 2011,is now offset "Sales Revenue".

TL 4,632,747 part of the "Aircraft Rent Income and Other Rent Income" item, which was stated under "Sales Revenue" in the interim period 1 January-31 December 2011, is now classified under "Other Operating Income".

TL 4,189,653 part of the "Other Operating Income" item, which was stated under "Other Operating Income" in the interim period 1 January-31 December 2011, is now classified under "Sales Income".

TL 501,742 part of the "Other Operating Expenses" item, which was stated under "Other Operating Expenses"in the interim period 1 January-31 December 2011, is now classified under"Sales Revenue".

TL 13,215,277 part of the "Gain of Interest Derivative" item, which was stated under "Financial Income" in the interim period 1 January-31 December 2011, is now offset with "Financial Expenses".

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TURKISH AIRLINES

A STAR ALLIANCE MEMBER

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