

TÜRK HAVA YOLLARI ANONİM ORTAKLIĐI

CONSOLIDATED INTERIM FINANCIAL
STATEMENTS PREPARED IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS
FOR THE PERIOD ENDED 30 JUNE 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying consolidated interim balance sheet of Türk Hava Yolları Anonim Ortaklığı ("the Company") as at 30 June 2006, and the related statements of income, changes in shareholders' equity and cash flows for the period ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These financial statements are the responsibility of the Company's management.
2. We conducted our review in accordance with International Standards on Auditing applicable for limited review engagements. Our review consisted of obtaining an understanding of the system for the preparation of the financial statements, applying analytical procedures to the underlying financial data and making inquiries of persons responsible for financial and accounting matters. This limited scope review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
3. The Company's interim financial statements were consolidated a full basis as of 30 June 2006 due to its % 100 participation to Türk Hava Yolları Teknik A.Ş. which is the subsidiary of the Company and established in 23 May 2006. The financial statements of THY Teknik A.Ş. were audited by another audit company.
4. As of 30.06.2006, the Company compared the indexed YTL book values of aircrafts, simulators and engines with the fair values of these assets to test any impairment. The differences resulting from this comparison were recognized as impairment in the value of the assets. However, in the prior accounting policy application, the Company firstly used to decrease the indexed net book values of the assets into the net book values based on US Dollar acquisition costs. Then, the Company used to control whether the net book values based on US Dollar acquisition costs exceeded the fair values of these assets. If net book values based on US Dollar acquisition costs had exceeded the fair values of these assets, the Company used to recognize these differences as impairment in the value of these assets into the interim financial statements. The change in this accounting policy has resulted YTL 126.448.273 increase in the previous years' profits and YTL 5.359.107 increase in the net profit for the period. This change has also resulted YTL 188.296.257 increase in tangible fixed assets and YTL 56.488.877 increase in deferred tax liabilities of the Company.
5. Based on our limited scope review, we are noting the effects of the matters stated above. Nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view in accordance with with International Financial Reporting Standards ("IFRS").

Can Uluslararası Bağımsız Denetim Anonim Şirketi
A Member Firm of INPACT International

İsmail USLU
Partner

29 Eylül 2006, İstanbul, Turkey

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2006 AND 31 DECEMBER 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

	<u>Note</u>	<u>30 June 2006</u>	<u>31 December 2005</u>
ASSETS			
Cash and cash equivalents	5	443.098.874	482.910.555
Accounts receivable (net)	6	312.787.577	191.596.806
Due from related parties	7	3.386.245	970.701
Inventories	8	110.923.324	84.674.663
Prepaid tax	23	3.030.489	13.363.884
Other short-term receivables and assets	9	73.659.181	52.944.957
Total current assets		<u>946.885.690</u>	<u>826.461.566</u>
Investments at equity	10	7.902.359	17.490.282
Financial assets available for sale	10	12.696.932	19.993.581
Tangible fixed assets (net)	11	2.849.910.951	2.071.099.171
Intangible fixed assets (net)	12	5.395.830	6.360.178
Advances given for aircraft	13	537.435.536	573.169.605
Other long-term receivables and assets	14	16.094.317	11.557.821
Total non-current assets		<u>3.429.435.925</u>	<u>2.699.670.638</u>
Total assets		<u>4.376.321.615</u>	<u>3.526.132.204</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2006 AND 31 DECEMBER 2005

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)*

	<u>Note</u>	<u>30 June 2006</u>	<u>31 December 2005</u>
LIABILITIES			
Bank borrowings	15	241.661.280	363.235.861
Short-term portion of finance lease obligations	16	197.993.152	179.092.821
Accounts payable		356.186.550	252.279.781
Due to related parties	17	13.938.703	8.022.859
Other short-term payables	18	38.681.397	37.952.344
Deposits and advances received	19	29.538.509	56.412.654
Passenger flight liabilities	20	392.707.644	209.797.889
Other accrued liabilities	21	100.403.201	92.206.894
Total current liabilities		<u>1.371.110.436</u>	<u>1.199.001.103</u>
Long-term portion of finance lease obligations	16	1.204.115.770	856.730.859
Manufacturers' credit (net)	22	7.933.156	3.491.212
Deposits and advances received	19	11.131.624	7.124.266
Deferred tax liabilities	23	213.381.962	92.353.486
Retirement pay liability	24	109.100.692	113.641.242
Total non-current liabilities		<u>1.545.663.204</u>	<u>1.073.341.065</u>
SHAREHOLDERS' EQUITY			
Share capital	25	2.000.994.542	2.000.994.542
Reserves		181.433.529	147.576.470
Share premium		936.192	936.192
Accumulated losses		(723.816.288)	(895.717.168)
Total shareholders' equity		<u>1.459.547.975</u>	<u>1.253.790.036</u>
Total liabilities and shareholders' equity		<u><u>4.376.321.615</u></u>	<u><u>3.526.132.204</u></u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED 30 JUNE 2006 AND 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

	<u>Note</u>	<u>1 January - 30 June 2006</u>	<u>1 January - 30 June 2005</u>
Operating revenues	31 and 36	1.628.789.436	1.445.494.180
Operating expenses (-)	32 and 36	<u>(1.773.514.218)</u>	<u>(1.454.509.148)</u>
Main Operating Profit		(144.724.782)	(9.014.968)
Income from other operations	34 and 36	397.825.058	45.040.630
Loss from other operations (-)	35	<u>(16.630.008)</u>	<u>(3.154.531)</u>
Operating Profit		236.470.268	32.871.131
Financial income/(expense) (net)	33	(137.285.945)	(46.191.949)
Monetary gain/(loss) (net)		<u>-</u>	<u>13.563.910</u>
Profit Before Taxation		99.184.323	243.092
Taxation charge	23	(62.314.073)	(17.040.297)
Net Profit/(Loss)		<u>36.870.250</u>	<u>(16.797.205)</u>
Earnings Per Share (Ykr)	3.18	0,021	(0,010)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006 AND 2005

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)*

	<u>Share capital</u>	<u>Reserves</u>	<u>Share premium</u>	<u>Accumulated losses</u>	<u>Total shareholders' equity</u>
Balances at 1 January 2005	2.000.994.542	147.576.470	936.192	(988.940.456)	1.160.566.748
Net Loss for the year	-	-	-	(16.797.205)	(16.797.205)
Balances at 30 June 2006	<u>2.000.994.542</u>	<u>147.576.470</u>	<u>936.192</u>	<u>(1.005.737.661)</u>	<u>1.143.769.543</u>
Balances at 1 January 2006 - previously reported	2.000.994.542	147.576.470	936.192	(895.717.168)	1.253.790.036
Accounting policy change- effect of IFRS 36	-	-	-	126.448.273	126.448.273
Financial asset reclassification	-	(6.848.425)	-	8.582.357	1.733.932
Balances at 31 December 2005- as restated	<u>2.000.994.542</u>	<u>140.728.045</u>	<u>936.192</u>	<u>(760.686.538)</u>	<u>1.381.972.241</u>
Financial asset reclassification	-	(7.189.083)	-	-	(7.189.083)
Revaluation surplus on tangible fixed assets	-	47.894.567	-	-	47.894.567
Net profit for the period	-	-	-	36.870.250	36.870.250
Balances at 30 June 2006	<u>2.000.994.542</u>	<u>181.433.529</u>	<u>936.192</u>	<u>(723.816.288)</u>	<u>1.459.547.975</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED 30 JUNE 2006 AND 2005

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)*

	<u>1 January-30 June 2006</u>	<u>1 January-30 June 2005</u>
Cash flows from operating activities:		
Profit before taxation	99.184.323	243.092
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	164.321.211	154.153.434
Provision for retirement pay liability	9.365.179	8.045.069
Interest income	(13.299.989)	(14.573.238)
(Gain)/loss on sales of fixed asset	190.722	(401.057)
Monetary gain on deferred taxes liabilities	638.943	(1.530.929)
Change in provision for diminution in value of fixed assets	(329.949.897)	(14.063.474)
Income from financial investment accounted per equity method	9.587.923	(1.239.143)
Interest expense	35.784.109	23.094.023
Movement in manufacturers' credit	4.441.944	(938.099)
Foreign exchange (gain)/loss on financial leases (net of monetary gain)	168.019.807	(38.716.195)
Provision for diminution in value of financial assets available for sale	7.296.649	5.786.759
The change in special reserves occurring from financial assets available for sale	(5.455.151)	-
Amortization of deferred income from USAŞ shares transfer	(1.154.043)	(2.950.058)
Decrease in provision for doubtful receivables	1.909.773	864.653
Operating profit before working capital changes:	150.881.503	117.774.837
Increase in accounts receivable	(123.100.544)	(65.780.264)
(Increase)/Decrease in due from related parties	(2.415.544)	633.982
Increase in inventories	(26.248.661)	(5.686.228)
(Increase)/Decrease in other short and long term receivables and assets	(25.250.720)	(13.693.610)
Increase/(Decrease) in accounts payable	103.906.769	26.555.556
Increase in due to related parties	5.915.844	3.879.410
Increase/(Decrease) in other accrued liabilities and other long term payables	10.081.946	16.531.467
Increase/(Decrease) in deposits and advances received	(22.866.787)	(11.136.560)
Increase in passenger flight liabilities	182.909.755	95.040.472
Retirement benefits paid	(13.905.729)	(2.326.040)
Interest paid	(27.813.393)	(23.164.042)
Prepaid tax	10.333.395	50.494.414
Net cash provided by operating activities	222.427.834	189.123.394
Cash flows from investing activities:		
Cash inflow from sale of tangible and intangible fixed assets	252.173	949.194
Interest received	13.299.989	14.573.238
Acquisition of tangible and intangible fixed assets	(378.539.394)	(105.902.185)
Advances given for aircraft	34.027.579	(189.662.001)
Net cash used in investing activities	(330.959.653)	(280.041.754)
Cash flows from financing activities:		
Principal payment of financial leases	(131.763.920)	(96.713.122)
Change in financial lease obligations	322.058.639	-
Change in bank borrowings	(121.574.581)	366.756.999
Net cash provided by/(used in) financing activities	68.720.138	270.043.877
Net increase/(decrease) in cash and cash equivalents	(39.811.681)	179.125.517
Cash and cash equivalents at the beginning of period	482.910.555	382.255.154
Cash and cash equivalents at the end of period	443.098.874	561.380.671

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

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

Republic of Turkey Prime Ministry Privatization	%	48,99
Other	%	<u>51,01</u>
Total	%	<u>100,00</u>

The total number of employees working for Türk Havayolları A.O. and its subsidiary and its associate ("the Group") as of 30 June 2006 is 11.722 (30 June 2005: 11.095). The average number of employees working for the Group in 30 June 2006 and 2005 is 12.278 and 11.131, respectively. Financial assets of the Group are stated at note 10.

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

Türk Hava Yolları General Management Bulding, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Accounting Standards Applied:

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") (formerly referred to as International Accounting Standards "IAS"). The bases used in the preparation of the accompanying financial statements are as follows:

The Company maintains its books of account and prepares its statutory financial statements in accordance with accounting principles promulgated by Turkish Commercial Code (the "TCC"), Capital Market Boards of Turkey ("CMB"), and tax legislation. The accompanying financial statements are based on the statutory records, with adjustments and reclassifications, including restatement for the changes in the general purchasing power of New Turkish Lira at 31 December 2005, for the purpose of fair presentation in accordance with IFRS.

The bases of the financial statements used in the preparation of the accompanying financial statements are set out below and in Note 3.

2.2 Preparation of Financial Statements in Hyperinflationary Periods:

In the accompanying financial statements, restatement adjustments that are made to compensate for the effect of changes in the general purchasing power of New Turkish Lira are based on International Accounting Standard No: 29 "Financial Reporting in Hyperinflationary Economies". The consolidated interim accompanying financial statements for the year ended as of 31 December 2005, are restated in order to reflect the changes in YTL's current purchasing power in accordance with UMS 29.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

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

2.2 Preparation of Financial Statements in Hyperinflationary Periods:(cont'd)

Inflation indices stated on and before 31 December 2005 and three-year cumulative inflation rates are stated as follows for reference:

<u>Dates</u>	<u>Index</u>	<u>Three-years cumulative inflation rates (%)</u>
31 December 2005	8.785,74	35,6
30 June 2005	8.667,10	55,7
31 December 2004	8.403,80	69,7

The main procedures for the application of IAS 29 are as follows:

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying the relevant conversion factors. Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- Fixed assets, investments and similar assets are restated from the date of their purchase, not to exceed their market value. Depreciation is similarly restated. The components of shareholders' equity are restated by applying the relevant conversion factors from the dates the components are contributed or otherwise arose.
- All items in the statement of income, except for the non-monetary items in the balance sheet, which have an effect on the statement of income, are restated by applying the relevant conversion factors from the dates when the income and expense items are initially recorded in the financial statements.
- The gain or loss on the net monetary position is the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets and liabilities, shareholders' equity and items of statement of income. The gain or loss on the net monetary position is included in net income.

As hyperinflationary conditions in Turkey no longer existed starting from 1 January 2006, New Turkish Lira ("YTL") has been treated as a more stable currency and the financial statements of the Company prepared in accordance with IAS 29 are not required to be adjusted for hyperinflationary accounting.

2.3 Basis of Consolidation

a) The consolidated interim financial statements include the accounts of the parent company, Türk Hava Yolları A.O., its Subsidiary, and its Associate (collectively referred to as "the Group") on the basis set out in sections (b), (c) and (d) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated interim financial statements and have been prepared in accordance with accounting and reporting principles promulgated by International Accounting Standards applying uniform accounting policies and presentation which are stated in Note 2.1. The results of subsidiary and associate are included or excluded from their effective dates of acquisition or disposal respectively.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

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

2.3 Basis of Consolidation (cont'd)

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

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

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

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

c) THY has one associate. The participation rate of THY is 50%, and the associate is not controlled by the Group. The entity is valued by equity method.

The table below sets out consolidated associate and indicates the proportion of ownership interest and effective interest of the Group in this associate at 30 June 2006:

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

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

d) Other investments in which the Group has direct or indirect participation below % 20 or in case of participation over % 20, has no significant influence or which are immaterial for purposes of consolidated financial statements are classified as available for sale. Available for sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for diminution in value. Available for sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value (Note 10).

2.4 Comparative Information and Corrections on Previous Periods' Financial Statements

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

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

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

3.2 Inventory Valuation

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

3.3 Financial Investments

The Group designates its investments portfolio in accordance with IAS 39 ("Financial Instruments: Recognition and Measurement") as follows:

Securities Held for Trading:

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

Investments Held to Maturity:

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

Investments Available for Sale:

Investments available-for-sale are those that the ownership rate is less than or equivalent to 20% and are not held for trading. Subsequent to acquisition, available for sale investments which are traded at stock markets is valued at market rate on balance sheet date. Otherwise, they are accounted for in accordance with IAS 29.

Investments at Equity:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Tangible and Intangible Fixed Assets

Tangible Fixed Assets:

Tangible fixed assets are measured at cost restated for the effects of inflation. Depreciation is provided on a periodical basis for all categories of tangible fixed assets.

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

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

Intangible Fixed Assets

Intangible fixed assets include leasehold improvements, rights, information systems and software. Intangible fixed assets are reflected at cost as of 31 December 2005, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years, on a periodical basis.

3.5 Impairment on Assets

According to IAS 29, the Company restates its fixed assets by using WPI as of 31 December 2005.

As of 30 June 2006, an examination is made of whether net book values of aircrafts, spare engines and simulators may exceed their recoverable amount. Recoverable amount is determined as, higher of the present value of cash flows expected from the use of an asset and its net selling price. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the 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.

The Company appraises its lands by appraisal reports and determines their net selling prices. The differences between the values in appraisal reports and book values are shown directly under the shareholders' equity accounts. The Company has appraised its lands in 2006 for the first time.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Borrowing Costs

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

3.7 Manufacturers' Credits

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

3.8 Maintenance and Repair Costs

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

3.9 Frequent Flyer Program

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

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

3.10 Taxation and Deferred Taxes

Taxes on income for the period comprise of current tax and deferred tax. The Group accounts for current and deferred taxation on the results for the period, in accordance with IAS 12 ("Income Taxes, Revised").

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Taxation and Deferred Taxes (cont'd)

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

3.11 Employee Retirement and Termination Indemnities

Employee retirement and termination benefits as required by Turkish Labor Law are recognized in the accompanying financial statements as earned. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined by the net of an expected inflation rate and an appropriate discount rate according to IAS 19 ("Employee Benefits"). The interest amount included in employee retirement expense is disclosed in the financial result as interest expense.

3.12 Related Parties

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

3.13 Foreign Currency Transactions

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

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

	<u>Closing Rate</u>	<u>Average Rate</u>
30 June 2006	1,6029	1,3865
31 December 2005	1,3418	1,3405
30 June 2005	1,3413	1,3388

3.14 Leases

The Group leases aircraft, engines, simulators and vehicles by financial leases or operational leases. According to IAS 17 ("Leases"), finance leases are reflected in the Group's assets by recording leased assets and lease liabilities equal to the present value of the lease payments. The finance leased assets are depreciated over their useful lives. Operating leases are accounted for as operating expense when incurred.

3.15 Financial Instruments and Financial Risk Management

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Financial Assets

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

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

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

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

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

Güneş Ekspres Havacılık A.Ş. is accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. and France Telecom shares are classified as available for sale investments and changes in their fair value are recognized in share holders' equity.

Financial assets, other than Güneş Ekspres Havacılık A.Ş., Uçak Servisi A.Ş. and France Telecom are stated at their cost since their fair values can not be measured reliably.

Financial Liabilities:

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

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

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Credit Risk

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

Price Risk

- Currency Risk

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

- Interest Risk

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

- Market Risk

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

- Liquidity Risk

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

3.16 Offsetting

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

3.17 Use of Estimates

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Earnings Per Share

IAS 33 (“Earnings per Share”) requires disclosure of basic earnings per share and diluted earnings per share (if applicable) for companies whose shares are publicly traded or which are in the process of issuing shares in a public market.

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

A summary of the weighted average number of shares outstanding and the basic earnings per share calculation are as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Number of shares outstanding at 1 January (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at 30 June (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Weighted average number of shares outstanding during the year (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Net profit/(loss) for the year	36.870.250	(16.797.205)
Earnings per share (Ykr)	0,021	(0,010)

4 SEGMENTAL REPORTING

4.1 Business Segments

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

The Group started to consolidate its financial statements on a full basis as of 30 June 2006 with THY Teknik A.Ş. which was established in 23 May 2006.

4.2 Geographical Segments

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

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5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Cash	660.725	195.489
Cheques received	19.027	138.532
Banks	434.771.711	477.065.690
Other liquid assets	7.647.411	5.510.844
	<u>443.098.874</u>	<u>482.910.555</u>

Foreign currency bank balances are YTL 413.147.870 at 30 June 2006 (31 December 2005: YTL 295.610.051).

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>30 June 2006</u>
19.704.035	YTL	01.06.2006 – 30.06.2006	03.07.2006	19.704.035
69.830.000	Euro	26.06.2006 – 30.06.2006	03.07.2006-26.07.2006	140.323.385
114.000.000	US Dollar	26.06.2006 – 30.06.2006	03.07.2006-31.07.2006	182.730.600
				<u>342.758.020</u>

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

6 ACCOUNTS RECEIVABLE (NET)

Accounts receivable comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Trade receivables	334.985.515	210.448.412
Discount on receivables	(3.771.445)	(2.334.886)
Provision for doubtful receivables	(18.426.493)	(16.516.720)
	<u>312.787.577</u>	<u>191.596.806</u>

7 DUE FROM RELATED PARTIES

Due from related parties comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	3.386.245	970.701
	<u>3.386.245</u>	<u>970.701</u>

8 INVENTORIES

Inventories comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Spare parts, flight equipments	95.737.553	70.078.750
Other inventories	15.185.771	14.595.913
	<u>110.923.324</u>	<u>84.674.663</u>

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9 OTHER SHORT TERM RECEIVABLES AND ASSETS

Other short-term receivables and assets comprised the following:

	30 June 2006	31 December 2005
Prepaid sales commissions	24.719.153	11.268.599
Prepaid operating lease expenses	11.659.164	5.314.180
Interline passenger income accruals	8.579.472	3.843.430
Maintenance service income accruals	7.385.736	10.127.094
Tax to be refunded	4.365.238	2.965.389
Due from insurance firms	3.688.278	3.192.141
Foreign receivables from technical suppliers	2.588.447	1.557.088
Prepaid other expenses	2.144.835	2.739.482
VAT deductible	1.565.023	437.170
Income accrual from financial leasing	1.105.616	-
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.092.408
Business advances given	1.071.478	95.989
Prepaid rent expenses	742.298	574.125
Receivables relating to Rj aircraft modification	669.586	560.516
Personnel salary advance	563.036	375.337
Deferred insurance expenses	501.514	6.787.420
Prepaid aircraft financing expense	463.762	487.846
Due from personnel	326.549	278.853
Receivable from SITA deposit certificates	177.334	155.882
Receivables from tax office	159.983	13.194
Prepaid financial expense of bank borrowing	-	740.124
Other receivables	90.271	338.690
	73.659.181	52.944.957

10 FINANCIAL ASSETS (NET)

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

	30 June 2006	31 December 2005
Güneş Ekspres Havacılık A.Ş. (Sun Express)	7.902.359	17.490.282

Financial assets available for sale are as follows:

	30 June 2006	31 December 2005
France Telecom shares	21.133.047	21.133.047
Diminution in value of France Telecom shares	(14.284.719)	(14.377.581)
Uçak Servisi A.Ş. (USAŞ)	8.323.716	8.431.536
Appreciation in value of USAŞ shares	(4.260.755)	3.021.190
Sita Inc.	1.755.955	1.755.955
Emek İnşaat ve İşletme A.Ş.	28.080	28.080
Other financial assets	1.608	1.354
	12.696.932	19.993.581

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10 FINANCIAL ASSETS (NET) (cont'd)

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1,25% of shares was transferred on 2 January 2003, 1,25% of shares was transferred on 2 January 2004, 1,25% of shares was transferred on 3 January 2005 and 1,25% of shares was transferred on 2 January 2006 and the transfer was completed to 15%. Consequently, 1.567.500.000 shares corresponding to 15% of USAŞ's share capital, transferred to the Company, were recorded to "financial assets" and "deferred income" accounts at market value of YTL 23.519.386. "Deferred income" amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003, 1.026 million shares in 2005 and 1.026 million shares in 2006 at İstanbul Stock Exchange.

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

Sun Express's total assets and equity are YTL 80.026.328 and YTL 15.804.717 respectively at 30 June 2006. (31 December 2005: YTL 69.634.100 and YTL 33.535.938).

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

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

11 TANGIBLE FIXED ASSETS (NET)

Tangible fixed assets comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Tangible fixed assets (net)	2.838.728.230	2.061.622.940
Advances given for other tangible fixed assets	11.182.721	9.476.231
	<u>2.849.910.951</u>	<u>2.071.099.171</u>

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11 TANGIBLE FIXED ASSETS (NET) (cont'd)

	Land, Land Improvements & Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Software	Aircraft and Spare Engines	Components and Repairable Spare Parts	Construction in Progress	Total Assets Owned	Leased Aircraft	Other Leased Fixed Assets & Simulators	Total Leased Assets	Total
Cost											
Opening balance 1 January 2006	171.865.462	308.307.746	209.181.184	2.117.443.900	320.007.039	1.688.860	3.128.494.191	3.021.361.625	18.605.426	3.039.967.051	6.168.461.242
Transfers from finance leased aircraft	-	-	-	532.308.697	-	-	532.308.697	(532.308.697)	-	(532.308.697)	-
Additions	-	984.316	3.683.563	22.723.843	52.211.725	-	79.603.447	298.232.985	-	298.232.985	377.836.432
Disposals	(233.430)	(18.122.300)	(17.109.366)	-	(51.027.385)	(78.611)	(86.571.092)	-	-	-	(86.571.092)
Revaluation (*)	51.777.910	-	-	-	-	-	51.777.910	-	-	-	51.777.910
Closing balance 30 June 2006	223.409.942	291.169.762	195.755.381	2.672.476.440	321.191.379	1.610.249	3.705.613.153	2.787.285.913	18.605.426	2.805.891.339	6.511.504.492
Accumulated depreciation											
Opening balance 1 January 2006	50.572.030	274.609.837	192.762.580	1.098.671.472	153.131.163	-	1.769.747.082	886.346.148	6.948.761	893.294.909	2.663.041.991
Transfers from finance leased aircraft	-	-	-	248.586.793	-	-	248.586.793	(248.586.793)	-	(248.586.793)	-
Depreciation for the period	1.430.464	4.395.099	4.072.970	44.610.410	47.808.151	-	102.317.094	59.766.902	569.906	60.336.808	162.653.902
Disposals	-	(17.856.435)	(17.241.836)	-	(51.027.385)	-	(86.125.656)	-	-	-	(86.125.656)
Closing balance 30 June 2006	52.002.494	261.148.501	179.593.714	1.391.868.675	149.911.929	-	2.034.525.313	697.526.257	7.518.667	705.044.924	2.739.570.237
Accumulated impairment	-	3.757.831	-	616.950.255	-	-	620.708.086	308.898.276	3.599.663	312.497.939	933.206.025
30 June 2006 net book value	171.407.448	26.263.430	16.161.667	663.657.510	171.279.450	1.610.249	1.050.379.754	1.780.861.380	7.487.096	1.788.348.476	2.838.728.230
31 December 2005 net book value	121.293.432	27.329.539	16.418.604	442.360.383	166.875.876	1.688.860	775.966.694	1.278.899.476	6.756.770	1.285.656.246	2.061.622.940

(*) If the Company has not appraised its lands then the net book value of the lands would be YTL 216.196 instead of YTL 51.994.106.

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12 INTANGIBLE FIXED ASSETS (NET)

Intangible fixed assets comprised the following:

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<u>Cost</u>			
Opening balance 1 January 2006	64.371.175	20.088.256	84.459.431
Additions	430.450	272.512	702.962
Disposals	(2.204)	-	(2.204)
Closing balance 30 June 2006	<u>64.799.421</u>	<u>20.360.768</u>	<u>85.160.189</u>
<u>Accumulated depreciation</u>			
Opening balance 1 January 2006	58.639.322	19.459.931	78.099.253
Amortization charge for the period	1.445.904	221.406	1.667.310
Disposals	(2.204)	-	(2.204)
Closing balance 30 June 2006	<u>60.083.022</u>	<u>19.681.337</u>	<u>79.764.359</u>
Accumulated impairment	-	-	-
30 June 2006 net book value	<u>4.716.399</u>	<u>679.431</u>	<u>5.395.830</u>
31 December 2005 net book value	<u>5.731.854</u>	<u>628.324</u>	<u>6.360.178</u>

13 ADVANCES GIVEN FOR AIRCRAFT

	<u>30 June 2006</u>	<u>31 December 2005</u>
Prepayments for aircraft purchases	532.569.934	570.531.933
Advances given for operational leases	4.865.602	2.637.672
	<u>537.435.536</u>	<u>573.169.605</u>

14 OTHER LONG TERM RECEIVABLES AND ASSETS

	<u>30 June 2006</u>	<u>31 December 2005</u>
Prepaid Eximbank USA guarantee and exposure fee	5.343.169	5.889.372
Prepaid operating lease expenses	4.391.223	374.744
Deposits given	2.102.079	1.325.066
Prepaid aircraft financing expense	1.853.140	2.067.151
Receivables from SITA deposit certificate	1.165.557	804.107
Due from personnel	1.145.082	1.006.711
Other receivables	94.067	90.670
	<u>16.094.317</u>	<u>11.557.821</u>

15 BANK BORROWINGS

	<u>30 June 2006</u>	<u>31 December 2005</u>
Bank Borrowings (*)	241.277.958	362.903.225
Other (**)	383.322	332.636
	<u>241.661.280</u>	<u>363.235.861</u>

(*)

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
Yapı Kredi & Koçbank	04.08.2006	150.000.000 US Dollar	525.895 US Dollar	241.277.958

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15 BANK BORROWINGS (cont'd)

<u>Bank Name</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Interest Accruals</u>	<u>YTL</u>
T.İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	459.998 US Dollar	362.903.225

(**) Other bank borrowings consist of overnight interest-free borrowings obtained for settlement of tax and social security premium payments.

16 FINANCE LEASE OBLIGATIONS

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Not later than one year	267.876.598	221.054.754
Between 1 - 5 years	959.056.124	699.473.041
Over 5 years	509.524.360	299.805.674
	<u>1.736.457.082</u>	<u>1.220.333.469</u>
Less: Future interest expense	<u>(334.348.160)</u>	<u>(184.509.789)</u>
Principal value of future rentals shown in the balance sheets	<u>1.402.108.922</u>	<u>1.035.823.680</u>
	<u>30 June 2006</u>	<u>31 December 2005</u>
<i>Represented by :</i>		
Current liabilities	197.993.152	179.092.821
Long term liabilities	1.204.115.770	856.730.859
	<u>1.402.108.922</u>	<u>1.035.823.680</u>
<i>Interest range:</i>		
Floating rate obligations	1.402.108.922	982.205.221
Fixed rate obligations	-	53.618.459
	<u>1.402.108.922</u>	<u>1.035.823.680</u>

As of 30 June 2006, the US Dollar denominated lease obligations' interest rates between LIBOR minus %0,056 and LIBOR plus %3,0.

17 DUE TO RELATED PARTIES

Due to related parties comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Uçak Servisi A.Ş. (USAŞ)	9.744.230	7.563.830
Sun Express	4.194.473	459.029
	<u>13.938.703</u>	<u>8.022.859</u>

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18 OTHER SHORT TERM PAYABLES

Other short term payables comprised the following:

	30 June 2006	31 December 2005
Taxes and funds payable	16.949.996	16.204.908
Social security premiums payable	16.085.881	14.840.062
Deferred income from USAŞ shares transfer	4.103.793	5.257.836
Deferred technical income	553.066	-
Debt to personnel	365.988	276.417
Other liabilities	622.673	1.373.121
	<u>38.681.397</u>	<u>37.952.344</u>

19 DEPOSITS AND ADVANCES RECEIVED

Short term deposits and advances received comprised the following:

	30 June 2006	31 December 2005
MCO advances	18.633.824	16.262.840
Deposits and guarantees received	6.006.398	3.715.141
Special rent advances	1.701.808	3.413.900
Advances received for financial leases	1.375.043	1.151.059
Advances received for mileage credit sales	793.664	21.649.478
E-pos ticket advance	568.387	9.675.611
Other advances received	459.385	544.625
	<u>29.538.509</u>	<u>56.412.654</u>

Long term deposits and guarantees received comprised the following:

	30 June 2006	31 December 2005
Deposits and guarantees received	<u>11.131.624</u>	<u>7.124.266</u>

20 PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities comprised the following:

	30 June 2006	31 December 2005
Flight liability resulting from ticket sales	334.434.470	154.949.961
Flight liability resulting from mileage sales	58.273.174	54.847.928
	<u>392.707.644</u>	<u>209.797.889</u>

21 OTHER ACCRUED LIABILITIES

Other accrued liabilities comprised the following:

	30 June 2006	31 December 2005
Frequent flyer program liability	35.746.337	30.577.262
Accrued salaries	19.794.271	17.993.508
Maintenance service expense accruals	18.233.983	12.585.613
Expense accruals of insurance premiums	10.518.999	10.468.387
Accruals for sales incentive premiums	7.170.420	6.684.627
Provisions for legal claims	5.905.880	9.202.870
Provisions for the other liabilities	67.525	347.266
Accruals for other expenses	2.965.786	4.347.361
	<u>100.403.201</u>	<u>92.206.894</u>

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22 MANUFACTURERS' CREDIT (NET)

Unearned income about manufacturers' credit comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Gross manufacturers' credit	8.197.987	19.690.997
Accumulated amortization	(264.831)	(16.199.785)
	<u>7.933.156</u>	<u>3.491.212</u>

23 TAXATION

Prepaid tax is as follows:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Prepaid taxes and funds	(3.030.489)	(13.363.884)
	<u>(3.030.489)</u>	<u>(13.363.884)</u>

Tax expense is as follows:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Deferred tax expense	62.314.073	17.040.297
Tax expense	<u>62.314.073</u>	<u>17.040.297</u>

Corporate tax:

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

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

The effective tax rates are as follows:

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

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

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

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

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23 TAXATION(cont'd)

Income withholding tax:

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

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

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

Deferred tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements as reported for IFRS purposes and its financial statements prepared for tax purposes. These differences generally result in the recognition of revenue and expenses in different reporting periods considering IFRS and tax legislation. The deferred tax rate is 30%.

Temporary differences: Deferred tax assets/ (liabilities)

	<u>30 June 2006</u>	<u>31 December 2005</u>
Allowance for unrecoverable bank accounts	296	246
Allowance for doubtful receivables	993.427	230.607
Restatement of inventories	483.793	394.576
Diminution(Appreciation) in value of financial assets	1.530.021	(666.579)
Short term lease obligation	36.477.624	36.369.506
Deferred income and expenses	3.067.765	456.107
Expense accruals	18.685.017	18.829.234
Provision for advance ticket sales	(23.492.811)	(22.186.612)
Deferred income	1.194.950	1.577.347
Fixed assets	(492.531.370)	(368.749.380)
Long term lease obligation	191.560.908	185.266.465
Retirement pay liability	32.623.463	34.092.373
Manufacturers' credit	2.789.417	1.392.681
Discount on receivables	975.845	772.994
Discount on payables	(1.586.254)	(811.742)
Unused investment incentives	13.211.070	20.048.657
Unused tax losses	634.877	630.034
Deferred tax liability	<u>(213.381.962)</u>	<u>(92.353.486)</u>

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23 TAXATION(cont'd)

Deferred tax: (cont'd)

Movement in deferred tax liability is as follows:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Net deferred tax charge related to temporary differences	62.314.073	17.040.297
Net deferred tax charge	62.314.073	17.040.297
Monetary gain on deferred tax liabilities	-	(1.530.929)
Net change in deferred tax	<u>62.314.073</u>	<u>15.509.368</u>

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

	<u>30 June 2006</u>
31 December 2005 opening value of deferred tax liability	92.353.486
As a result of accounting policy change, the effect on previous years deferred taxes	54.192.117
Deferred tax liability derived from Teknik A.Ş.	2.372.875
Deferred tax liability	<u>148.918.478</u>
IFRS 39 effect of financial assets available for sale	(1.733.932)
Current period deferred tax expense	62.314.073
Deferred taxes netted off from special reserves	3.883.343
Current period deferred tax liability	<u>213.381.962</u>

24 RETIREMENT PAY LIABILITY

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), or are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to an upper limit of YTL 1.771 as at 30 June 2006 (31 December 2005: YTL 1.727). The number of service years required before retirement is rising according to a sliding scale based on new legislation enacted in 1999.

The system described here can be named as an unfunded defined benefit system. The total provision recognised in the financial statements represents the estimated present value of the vested benefit obligation.

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Current service cost	5.749.321	15.156.287
Interest cost	3.615.858	5.594.993
	<u>9.365.179</u>	<u>20.751.280</u>

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25 RETIREMENT PAY LIABILITY (cont'd)

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Provision at 1 January	113.641.242	104.312.102
Charge for the year	9.365.179	20.751.280
Payments during the period	(13.905.729)	(6.887.415)
Restatement effect	-	(4.534.725)
Provision at 30 June	<u>109.100.692</u>	<u>113.641.242</u>

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

25 SHARE CAPITAL

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

	<u>Group</u>	<u>%</u>	<u>30 June 2006</u>	<u>%</u>	<u>31 December 2005</u>
Republic of Turkey					
Prime Ministry					
Privatization					
Administration(*)	A, C	48,99(**)	85.734.021	75,18(**)	131.565.696
Others	A	51,01(**)	89.265.979	24,82(**)	43.434.304
Share capital (historic)			175.000.000		175.000.000
Restatement effect			<u>1.825.994.542</u>		<u>1.825.994.542</u>
Restated share capital			<u>2.000.994.542</u>		<u>2.000.994.542</u>

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

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

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25 SHARE CAPITAL (cont'd)

As at 31 December 2005, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to the name. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

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

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

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

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

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

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26 FOREIGN CURRENCY POSITION

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

The foreign currency position of the Group as of 30 June 2006 and 31 December 2005 in terms of YTL is as follows:

30 June 2006	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	195.860.301	163.282.820	1.990.515	59.662.104	420.795.740
Account receivables (net)	4.978.690	78.017.731	11.214.564	91.892.900	186.103.885
Due from related parties	366.008	2.865.603	-	-	3.231.611
Other short term receivables and assets	35.763.759	5.203.819	258.600	2.764.950	43.991.128
Inventories-advances given	869.849	144.817	47.872	69.258	1.131.796
Other long term receivables and assets	14.729.973	692.920	90.250	581.174	16.094.317
Advances given for the tangible fixed assets	8.538.298	-	2.644.425	-	11.182.723
Advances given for the aircraft	537.435.536	-	-	-	537.435.536
	<u>798.542.414</u>	<u>250.207.710</u>	<u>16.246.226</u>	<u>154.970.386</u>	<u>1.219.966.736</u>

30 June 2006	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated liabilities					
Bank borrowings	241.277.958	-	-	-	241.277.958
Financial lease obligations (short term)	197.993.152	-	-	-	197.993.152
Accounts payable (net)	102.619.020	95.440.864	6.331.571	47.405.843	251.797.298
Due to related parties	294.459	3.921.078	2.667	-	4.218.204
Deposits and advances received (short term)	3.529.459	1.932.970	-	2.365.480	7.827.909
Passenger flight liabilities	86.441.995	105.065.315	16.026.938	65.266.715	272.800.963
Other accrued liabilities	10.533.199	25.749.906	5.688.110	15.367.879	57.339.094
Financial lease obligations (long term)	1.204.115.770	-	-	-	1.204.115.770
Gross manufacturers' credit	7.933.155	-	-	-	7.933.155
Deposits and advances received (long term)	599.642	8.565.372	158.672	1.807.938	11.131.624
	<u>1.855.337.809</u>	<u>240.675.505</u>	<u>28.207.958</u>	<u>132.213.855</u>	<u>2.256.435.127</u>
Net foreign currency position (*)	<u>(1.056.795.395)</u>	<u>9.532.205</u>	<u>(11.961.732)</u>	<u>22.756.531</u>	<u>(1.036.468.391)</u>

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26 FOREIGN CURRENCY POSITION (cont'd)

31 December 2005	US Dollar	Euro	Sterling	Other	Total
Foreign currency denominated assets					
Cash and cash equivalents	209.110.558	63.411.560	1.701.717	27.041.304	301.265.139
Account receivables (net)	24.881.620	45.615.416	5.907.491	40.429.558	116.834.085
Due from related parties	469.066	446.745	-	-	915.811
Other short term receivables and assets	32.369.277	3.469.191	374.251	9.138.411	45.351.130
Inventories-advances given	1.117.566	53.958	71.109	18.599	1.261.232
Other long term receivables and assets	10.485.217	463.364	71.791	414.991	11.435.363
Advances given for the tangible fixed assets	9.333.540	-	142.691	-	9.476.231
Advances given for the aircraft	573.169.605	-	-	-	573.169.605
	<u>860.936.449</u>	<u>113.460.234</u>	<u>8.269.050</u>	<u>77.042.863</u>	<u>1.059.708.596</u>
Foreign currency denominated liabilities					
Bank borrowings	362.903.225	-	-	-	362.903.225
Financial lease obligations (short term)	179.092.821	-	-	-	179.092.821
Accounts payable (net)	67.907.303	54.755.274	3.166.398	27.703.755	153.532.730
Due to related parties	8.022.859	-	-	-	8.022.859
Deposits and advances received (short term)	23.697.313	1.970.250	29.313	315.965	26.012.841
Passenger flight liabilities	65.421.294	52.758.028	7.028.571	28.124.205	153.332.098
Other accrued liabilities	17.657.538	6.848.702	2.836.665	4.149.043	31.491.948
Financial lease obligations (long term)	856.730.859	-	-	-	856.730.859
Gross manufacturers' credit (net)	3.491.212	-	-	-	3.491.212
Deposits and advances received (long term)	428.254	5.270.953	103.467	1.321.592	7.124.266
	<u>1.585.352.678</u>	<u>121.603.207</u>	<u>13.164.414</u>	<u>61.614.560</u>	<u>1.781.734.859</u>
Net foreign currency position (*)	<u>(724.416.229)</u>	<u>(8.142.973)</u>	<u>(4.895.364)</u>	<u>15.428.303</u>	<u>(722.026.263)</u>

(*) Whereas, the Group seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.4, the Group values its aircraft, spare engines and simulators according to their US Dollar selling prices. In this respect, the Group's management is of the opinion that the Group's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Group's assets and liabilities against the changes in foreign exchange rates. As of 30 June 2006, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices is YTL 2.460.060.152 (31 December 2005: YTL 1.916.522.751).

27 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is YTL 53.152.576 as of 30 June 2006 (31 December 2005: YTL 38.040.225).

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27 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES(cont'd)

b) Purchase Commitments:

The Company has signed agreements for delivery of 59 aircrafts with delivery dates between years 2005-2008. 5 of above mentioned aircrafts are delivered on 2005 and 11 of these aircrafts are delivered during first 6 months of 2006. Total value of these aircrafts is approximately US Dollar 4,7 billion according to the list prices before any discounts applicable by aircraft manufacturers. The Company paid a deposit of US Dollar 331 million as of 30 June 2006 related to these aircrafts.

c) Letters of comfort:

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

d) The Group's discounted retirement pay provision is YTL 109.100.692 The Group's undiscounted liability for retirement pay would be approximately YTL 184 million as of 30 June 2006, if all employees were dismissed on that date.

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

28 OPERATING LEASE COMMITMENTS

Operating lease commitments of the Company comprised the following:

	<u>30 June 2006</u>	<u>31 December 2005</u>
Not later than one year	193.325.690	118.983.335
Between 1-5 years	468.288.413	200.387.903
Over 5 years	472.546.485	100.928.325
	<u>1.134.160.588</u>	<u>420.299.563</u>

29 SEGMENTAL REPORTING

29.1. Total Assets and Shareholders' Equity

Assets	<u>30 June 2006</u>
Total Assets	4.403.591.347
Aviation	<u>340.023.571</u>
Technical service	4.743.614.918
Total	<u>(367.293.303)</u>
Less: Eliminations of consolidation	
Total assets according to consolidated	<u>4.376.321.615</u>

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29 SEGMENTAL REPORTING(cont'd)

29.1. Total Assets and Shareholders' Equity(cont'd)

Shareholders' Equity	30 June 2006
Aviation	1.463.157.633
Technical service	271.391.471
Total	1.734.549.104
Less: Eliminations of consolidation	(275.001.129)
Total shareholders' equity according to consolidated financial statements	1.459.547.975

29.2. Main Sales Revenues

	01 January 2006- 30 June 2006
Aviation	1.633.534.497
Technical service	38.764.363
Total	1.672.298.860
Less: Eliminations of consolidation	(43.509.424)
Total main sales revenues according to consolidated financial statements	1.628.789.436

29.3. Main Operating Profit / (Loss)

	01 January 2006- 30 June 2006
Aviation	1.759.883.847
Technical service	51.410.178
Total	1.811.294.025
Less: Eliminations of consolidation	(37.779.807)
Total main operating profit / (loss) according to consolidated financial statements	1.773.514.218

30 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) The Company sold all France Telecom shares, which is one of its associates, for Euro 3.297.209 in Paris Stock Exchange.

b) Market price of 1.026.000.000 USA\$ shares, which are traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of 29 September 2006, has increased to YTL 3,64. The value of USA\$ shares decreased by YTL 328.320 compared to the 30 June 2006 price which was YTL 3,96.

c) The Company has taken the delivery of 8 aircrafts on July 2006 and August 2006 of which the purchase deal were done.

d) The Company has decided to start negotiations to join Star Alliance by Board Decision dated 04 August 2006.

e) The Company and DO&CO Restaurant&Catering A.G. decided to established a company THY DO&CO İkram Hizmetleri A.Ş whose main operating activity is catering services by a contract signed on 15 September 2006 with a 50%-50% partnership.

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30 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE(cont'd)

f) According to the precontract between THY DO&CO İkrım Hizmetleri A.Ş. and Uçak Servisi A.Ş. (Usaş), all the assets of USAŞ regarding to airline catering services will be purchased by this new partnership.

31 OPERATING REVENUES

Operating revenues comprised the following:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Scheduled flights		
- Passenger	1.391.787.686	1.241.020.027
- Cargo and mail	145.355.366	125.535.879
Other revenues	75.245.596	59.216.883
Non-scheduled flights	16.400.788	19.721.391
Total revenues	<u>1.628.789.436</u>	<u>1.445.494.180</u>

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

	<u>30 June 2006</u>	<u>30 June 2005</u>
- Europe	626.196.369	563.752.782
- Far East	275.316.786	221.989.270
- Middle East	150.147.228	147.909.465
- North America	77.348.034	71.739.524
- North Africa	40.776.152	40.799.804
- Middle Africa	1.422.885	-
Abroad	<u>1.171.207.454</u>	<u>1.046.190.845</u>
Domestic	365.935.598	320.365.061
Total revenue from the scheduled flights	<u>1.537.143.052</u>	<u>1.366.555.906</u>

32 OPERATING EXPENSES

Operating expenses comprised the following:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Cost of Sales		
Fuel expenses	472.075.807	314.542.569
Staff expenses	279.236.128	228.935.157
Depreciation expenses	157.915.034	148.413.089
Landing and overflight expenses	143.485.003	114.007.870
Maintenance expenses	102.587.416	67.032.304
Handling expenses	88.767.378	84.468.092
Passenger service and catering expenses	74.532.537	70.537.688
Operating lease expenses	73.108.245	45.741.461
Insurance expenses	20.543.601	31.341.506
Aircraft wet-lease expenses	9.751.738	6.984.601
Other rent expenses	5.942.471	7.449.877
Service expenses	4.688.812	3.685.131
Communication expenses	4.628.413	3.469.813
Other taxes	3.021.186	2.037.758
Lighting, heating and water expenses	2.248.454	1.947.003
Transportation expenses	1.594.269	1.054.382
Cost of other sales	5.087.814	5.514.444
	<u>1.449.214.306</u>	<u>1.137.162.745</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

32 OPERATING EXPENSES(cont'd)

	30 June 2006	30 June 2005
Sales and marketing expenses (-)		
Commission and promotion expenses	106.815.719	97.306.875
Staff expenses	71.823.599	58.730.272
Reservation system expenses	36.448.738	31.949.771
Advertisement expenses	9.435.703	3.499.944
Other renting expenses	7.880.609	6.258.145
Communication expenses	7.323.163	7.011.317
Code share expenses	4.523.660	924.098
Service expenses	4.468.151	3.926.840
Other taxes	2.360.049	1.465.931
Passenger service and catering expenses	2.271.609	2.062.385
Transportation expenses	2.059.110	2.106.376
Lighting, heating, energy and water expenses	895.391	684.869
Maintenance expenses	548.823	643.291
Software and computer equipment expenses	392.165	381.280
Fuel expenses	282.894	256.872
Insurance expenses	233.637	164.399
Depreciation expenses	76.538	-
Other sales and marketing expenses	6.957.817	7.649.792
	<u>264.797.375</u>	<u>225.022.457</u>
General administrative expenses (-)		
Staff expenses	38.025.086	72.541.948
Depreciation expenses	6.329.640	5.740.345
Other taxes	2.210.649	1.901.748
Software and computer equipment expenses	2.138.571	1.809.389
Other renting expenses	2.014.344	673.164
Maintenance expenses	1.833.207	1.821.995
Communication expenses	1.223.210	1.679.277
Commission and promotion expenses	1.176.266	1.084.588
Service expenses	996.266	725.709
Lighting, heating, energy and water expenses	867.330	802.013
Insurance expenses	242.258	201.450
Fuel expenses	110.372	116.822
Other general administrative expenses	2.335.338	3.225.498
	<u>59.502.537</u>	<u>92.323.946</u>
Total operating expenses	<u>1.773.514.218</u>	<u>1.454.509.148</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

33 FINANCIAL INCOME/(EXPENSE) (NET)

Financial income/ (expense) comprised the following:

	30 June 2006	30 June 2005
Foreign exchange gains	341.971.449	128.957.009
Interest income	13.299.989	14.573.238
Discount income	2.593.331	3.457.333
Income from investment accounted for equity method	-	1.789.339
Financial income	<u>357.864.769</u>	<u>148.776.919</u>
	30 June 2006	30 June 2005
Foreign exchange losses	(440.918.554)	(156.196.887)
Financial lease interest expense	(27.882.546)	(23.094.023)
Loss from financial investment accounted per equity method	(11.938.923)	-
Interest expenses for bank borrowings	(7.901.563)	(3.521.078)
Retirement pay interest cost	(3.615.858)	(4.135.650)
Discount expense	(2.020.457)	(2.397.888)
Diminution in value of financial assets	(132.661)	(4.873.956)
Other financial expense	(740.152)	(749.386)
Financial expense	<u>(495.150.714)</u>	<u>(194.968.868)</u>
Financial income/(expense) (net)	<u>(137.285.945)</u>	<u>(46.191.949)</u>

34 INCOME FROM OTHER OPERATIONS

Income from other operations comprised the following:

	30 June 2006	30 June 2005
Change in provision for diminution in value of fixed assets	329.949.854	23.289.215
Discounts received from spare parts suppliers	21.984.448	5.947.186
Reversal of unnecessary provision	18.851.898	6.449.514
Profit on sale of marketable securities	3.950.091	-
Cost free materials income	3.544.394	3.288.757
Compensation received	3.355.273	1.630.166
Dividend income	3.102.797	1.372.630
Yapı Kredi protocol income	1.534.482	791.913
Manufacturers' credit income	1.163.779	857.903
Gain on sale of fixed assets	9.065	401.057
Other	10.378.977	1.012.289
	<u>397.825.058</u>	<u>45.040.630</u>

35 LOSS FROM OTHER OPERATIONS

Loss from other operations comprised the followings:

	30 June 2006	30 June 2005
Provision expenses	7.251.906	2.839.491
Indemnity and penalty expenses	6.587.050	-
Expenses incurred for passengers with no visas	398.510	199.217
Loss on sale of fixed assets	199.787	-
Other expenses	2.192.755	115.823
	<u>16.630.008</u>	<u>3.154.531</u>

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Notes to the consolidated financial statements as at 30 June 2006

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the New Turkish Lira at 31 December 2005 unless otherwise stated)

36 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprised the following:

	30 June 2006	30 June 2005
Services rendered to Sun Express	3.933.006	1.395.400
Services rendered to USAŞ	83.304	165.107
	<u>4.016.310</u>	<u>1.560.507</u>

	30 June 2006	30 June 2005
Services received from USAŞ	23.083.263	37.582.238
Services received from Sun Express	3.495.040	361.664
	<u>26.578.303</u>	<u>37.943.902</u>

Dividend received comprised the following:

	30 June 2006	30 June 2005
Sun Express	2.351.000	81.827
Uçak Servisi A.Ş. (USAŞ)	409.135	1.131.509
Emek İnşaat ve İşletme A.Ş.	-	-
France Telecom	342.662	159.294
	<u>3.102.797</u>	<u>1.372.630</u>