

TÜRK HAVA YOLLARI ANONİM ORTAKLIđI

FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE PERIOD ENDED

30 SEPTEMBER 2005

INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have reviewed the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as of 30 September 2005, and the related statements of income, shareholders' equity and cash flows for the nine-month period then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 30 September 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. Based on our limited scope review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with International Financial Reporting Standards.

Can Uluslararası Denetim A.Ş.
A Member Firm of INPACT International

İsmail USLU
Partner

25 November 2005, İstanbul, Turkey

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS
AS OF 30 SEPTEMBER 2005 AND 31 DECEMBER 2004

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated)*

	<u>Note</u>	<u>30 September 2005</u>	<u>31 December 2004</u>
ASSETS			
Cash and cash equivalents	5	611.416.339	389.412.317
Accounts receivable (net)	6	220.057.398	168.896.720
Due from related parties	7	436.540	865.780
Inventories	8	80.451.788	68.708.724
Prepaid tax	23	-	54.641.976
Other short-term receivables and assets	9	36.434.796	38.832.713
Total current assets		948.796.861	721.358.230
Investments at equity	10	18.974.630	17.792.273
Financial assets available for sale	10	23.668.587	27.616.124
Tangible fixed assets (net)	11	1.792.815.516	1.928.199.163
Intangible fixed assets (net)	12	6.618.330	7.948.883
Advances given for aircraft	13	675.351.151	422.720.208
Other long-term receivables and assets	14	11.722.318	14.215.210
Total non-current assets		2.529.150.532	2.418.491.861
Total assets		3.477.947.393	3.139.850.091

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS
AS OF 30 SEPTEMBER 2005 AND 31 DECEMBER 2004

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated)*

	<u>Note</u>	<u>30 September 2005</u>	<u>31 December 2004</u>
LIABILITIES			
Bank borrowings	15	362.840.957	299.531
Short-term portion of finance lease obligations	16	214.000.633	215.893.206
Accounts payable		243.427.882	198.679.112
Due to related parties	17	10.842.191	6.931.405
Other short-term payables	18	47.230.491	40.446.182
Deposits and advances received	19	29.306.509	41.189.232
Passenger flight liabilities	20	180.483.488	188.299.204
Other accrued liabilities	21	100.869.012	74.526.454
Total current liabilities		1.189.001.163	766.264.326
Long-term portion of finance lease obligations	16	807.265.167	1.020.003.095
Manufacturers' credit (net)	22	1.156.267	2.546.704
Deposits and advances received	19	8.157.175	9.113.206
Long-term deferred tax liabilities	23	95.294.011	49.507.318
Retirement pay liability	24	113.257.625	106.265.192
Other long-term payables	18	1.339.070	3.853.600
Total non-current liabilities		1.026.469.315	1.191.289.115
SHAREHOLDERS' EQUITY			
Share capital	25	2.038.460.208	2.038.460.208
Reserves		150.339.626	150.339.626
Share Premium		953.721	953.721
Accumulated losses		(927.276.640)	(1.007.456.905)
Total shareholders' equity		1.262.476.915	1.182.296.650
Total liabilities and shareholders' equity		3.477.947.393	3.139.850.091

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENT OF INCOME
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2005 AND 2004

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated)*

	Not	<u>1 January- 30 September 2005</u>	<u>1 July- 30 September 2005</u>	<u>1 January- 30 September 2004</u>	<u>1 July- 30 September 2004</u>
Operating revenues	30 and 35	2.448.836.582	976.277.660	2.256.230.899	938.845.166
Operating expenses	31 and 35	<u>(2.337.554.353)</u>	<u>(855.811.670)</u>	<u>(2.087.233.996)</u>	<u>(797.733.871)</u>
Main operating profit/(loss)		111.282.229	120.465.990	168.996.903	141.111.295
Income from other operations	33 and 35	84.875.862	38.991.912	31.798.983	9.692.503
Loss from other operations	34	<u>(4.428.966)</u>	<u>(1.215.371)</u>	<u>(15.461.971)</u>	<u>(8.730.875)</u>
Operating income		191.729.125	158.242.531	185.333.915	142.072.923
Financial expense (net)	32	(46.075.815)	981.010	(79.670.593)	8.778.681
Monetary gain (net)		<u>2.198.120</u>	<u>(11.619.754)</u>	<u>108.002.927</u>	<u>23.264.639</u>
Income before taxation		147.851.430	147.603.787	213.666.249	174.116.243
Taxation charge	23	(67.671.165)	(50.311.814)	(79.385.228)	(48.801.149)
Net profit/(loss)		<u><u>80.180.265</u></u>	<u><u>97.291.973</u></u>	<u><u>134.281.021</u></u>	<u><u>125.315.094</u></u>
Earnings per share (YTL in full)	3.17	0,00046	0,00056	0,00077	0,00072

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2005 AND 2004

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated)*

	<u>Share Capital</u>	<u>Reserves</u>	<u>Share Premium</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balances at 1 January 2004	2.038.460.208	150.339.626	953.721	(1.121.476.605)	1.068.276.950
Profit for the period	-	-	-	134.281.021	134.281.021
Balances at 30 September 2004	<u>2.038.460.208</u>	<u>150.339.626</u>	<u>953.721</u>	<u>(987.195.584)</u>	<u>1.202.557.971</u>
Balances at 1 January 2005	2.038.460.208	150.339.626	953.721	(1.007.456.905)	1.182.296.650
Profit for the period	-	-	-	80.180.265	80.180.265
Balances at 30 September 2005	<u>2.038.460.208</u>	<u>150.339.626</u>	<u>953.721</u>	<u>(927.276.640)</u>	<u>1.262.476.915</u>

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF CASH FLOW
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2005 AND 2004

*(All amounts expressed in New Turkish Lira (YTL) in terms of
purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated)*

	<u>1 January- 30 September 2005</u>	<u>1 January- 30 September 2004</u>
Cash flows from operating activities:		
Profit prior to taxation	147.851.430	213.666.249
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	236.868.244	240.945.309
Provision for retirement pay liability	12.924.815	15.924.282
Interest income	(30.415.277)	(31.767.507)
Gain on fixed asset sales	(3.116.565)	(55.716)
Monetary gain on deferred taxes liabilities	(3.022.576)	(4.511.112)
Impairment (gain)/loss	(11.288.524)	12.344.151
Income from financial investment accounted per equity method	(1.182.357)	(7.843.146)
Interest expense	42.794.098	39.078.302
Movement in manufacturers' credit	(1.390.437)	(1.669.080)
Foreign exchange gain on finance leases (net of monetary gain)	(76.365.942)	(14.266.677)
Provison for diminution in value of financial assets available for sale	6.753.075	2.091.164
Amortization of deferred income from USAŞ share transfer	(2.805.538)	(2.890.201)
Increase/(Decrease) in provision for doubtful receivable	76.741	(5.107.066)
Operating profit before working capital changes	317.681.187	455.938.952
Increase in trade receivables	(51.237.419)	(43.332.973)
Decrease in due from related parties	429.240	62.486.213
Increase in inventories	(11.743.064)	(12.982.020)
(Increase)/Decrease in other short term receivables and assets	57.039.893	(4.993.833)
Decrease in other long term receivables and assets	2.492.892	3.152.396
Increase in trade payables	44.748.770	51.264.400
Increase in due to related parties	3.910.786	1.952.866
Increase/(Decrease) in accrued expenses and other liabilities	16.362.542	(19.749.071)
Decrease in deposits and advances received	(12.838.754)	(41.912.101)
Increase/ (Decrease) in passenger flight liabilities	(7.815.716)	22.521.885
Retirement benefits paid	(5.932.382)	(6.319.420)
Interest paid	(40.589.826)	(37.616.357)
Income taxes paid	(4.612.101)	(37.473.155)
Net cash provided by operating activities	307.896.048	392.937.782
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash outflow from purchase of financial assets	-	(8.803)
Cash inflow from sale of tangible and intangible fixed assets	60.189.151	6.514.285
Interest received	30.415.277	31.767.508
Acquisition of tangible and intangible fixed assets	(145.938.106)	(87.188.136)
Advances given for aircrafts	(252.630.943)	(336.363.742)
Net cash used in investing activities	(307.964.621)	(385.278.888)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment of finance leases	(140.468.831)	(244.157.139)
Changes in bank borrowings	362.541.426	864.665
Net cash provided by/(used in)financing activities	222.072.595	(243.292.474)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	222.004.022	(235.633.580)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	389.412.317	799.972.046
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	611.416.339	564.338.466

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 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 September 2005, the shareholders and their respective shareholdings in the Company were as follows:

Republic of Turkey Prime Ministry Privatization Administration	75,18	%
Others	<u>24,82</u>	%
Total	<u>100,00</u>	%

The total number of employees working for the Company as of 30 September 2005 is 11.256 (30 September 2004: 10.312). The average number of employees working for the Company in 30 September 2005 and 2004 is 11.138 and 10.236, respectively. Financial assets of the Company are stated at note 10.

The Company is registered in İstanbul, Turkey and its headoffice address is as follows: THY Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy- İstanbul.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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 their books of account and prepares their statutory financial statements in accordance with accounting principles promulgated by Turkish Commercial Code (the "TCC"), Capital Market Board 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, for the purpose of fair presentation in accordance with IFRS.

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

Inflation Accounting

In the accompanying financial statements, restatement adjustments that are made to compensate for the effect of changes in the general purchasing power of the New Turkish Lira are based on International Accounting Standard No: 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 48,6% for the three-year ended 30 September 2005 (31.12.2004: 69,7%) based on the wholesale price index ("WPI") announced by the Turkish State Institute of Statistics.

Although the three year cumulative inflation rate was below the rate indicated in the preceding paragraph, since majority of the people keep their savings in foreign currencies, the prices of services and goods are set in terms of foreign currencies, interest rates and wages are expressed in terms of the inflation indexes, and the market prices are determined taking into account the losses due to the credit sales including the short term transactions, the economy shows the characteristics of a hyperinflationary environment and therefore the accompanying financial statements were inflation adjusted.

Indices and the conversion factors used to restate the accompanying financial statements as at 30 September 2005 and 31 December 2004 are given below:

<u>Date</u>	<u>Index</u>	<u>Conversion Factor</u>	<u>Compounded Inflation Rates for 3 Years (%)</u>
30 September 2004	8.069,7	1,109	88,7
31 December 2004	8.403,8	1,065	69,7
30 September 2005	8.950,2	1,000	48,6

-As at 30 September 2005, the exchange rate announced by the Turkish Central Bank (which is a market rate) was YTL 1,3406=US Dollar 1 (31 December 2004: YTL 1,3421=US Dollar 1).

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 current 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, shareholders' equity and items of statement of income. The gain or loss on the net monetary position is included in net income.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

New Turkish Lira:

A new law, numbered as 5083 on the Monetary Unit of the Republic of Turkey was enacted with the effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish Republic, The Turkish Lira ("TL"), to form a new currency the New Turkish Lira ("YTL"). Thus, YTL 1 = TL 1.000.000. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). As per the CMB decision numbered MSD-10/832-43399 dated 1 December 2004, the financial statements to be publicly announced in 2005 should be prepared in YTL monetary unit including comparatives. Accordingly, the accompanying financial statements are presented in YTL.

Comparative Information

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

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

Commissions to agencies relating to the passenger revenue are recognized as expense when the transportation service is provided. Commissions on tickets sold are recorded as prepaid expenses in the current assets.

3.2 Inventory Valuation

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

3.3 Financial Investments

The Company 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 values if reliably measured. Gains or losses on held for trading securities are recognized in net profit or loss for the period in which they arise.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial Investments (cont'd)

Investments Held to Maturity:

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

Investments Available for Sale:

Available-for-sale investments 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 are valued at market rate. Otherwise, they are accounted for in accordance with IAS 29. Gains or losses on available for sale investments are recognized in net profit or loss for the period in which they arise.

Investments At Equity:

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

3.4 Tangible and Intangible Fixed Assets

Tangible Fixed Assets

Tangible fixed assets are reflected at cost restated for the effects of inflation. Depreciation is provided on a straight-line basis for all categories of tangible fixed assets, except for rotables and repairables, which are depreciated on a group basis.

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

	<u>Useful Life</u>	<u>Residual Value</u>
- Land	-	-
- Buildings	25-50	-
- Aircraft	15	30%
- Engines	15	30%
- Rotable Assets	5-8-10	-
- Repairables	2-3	-
- Simulator	10	-
- Machinery and Equipment	3-5-7-10	-
- Furniture and Fixtures	3-4-5	-
- Motor Vehicles	4-5-7	-
- Other Equipment	5	-

Intangible Fixed Assets

Intangible fixed assets of the Company include leasehold improvements, rights, information systems and softwares. Intangible fixed assets are reflected at cost restated for the effect of inflation, leasehold improvements are depreciated over their lease periods and other intangible fixed assets are depreciated over their useful life of 5 years.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Tangible and Intangible Fixed Assets (cont'd)

Impairment on Assets:

According to IAS 29, the Company restates its fixed assets by using WPI. However, in international markets, purchasing and second hand trading of aircraft and similar assets are realized in US Dollar.

As a result of inflation rate being higher than devaluation of YTL against US Dollar in recent years, net book values of aircraft, spare engines and simulators adjusted for the effect of inflation exceed net book values of these assets based on their US Dollar acquisition costs. The Company's management is in the opinion that the situation explained above causes a fictitious value increase. Therefore, the Company decreases the adjusted net book value of its aircraft, spare engines and simulators to net book value of these assets based on US Dollar acquisition costs. An examination is then made of whether net book values based on US Dollar acquisition costs may exceed their recoverable amount. Recoverable amount is determined as, higher of the present value of cash flows expected from the use of assets and their net selling price. Net selling price is determined based on the International Aircraft Price Guide. In the accompanying financial statements, the difference between adjusted net book values of these assets and net book values based on US Dollar acquisition costs is netted off against monetary gain. The difference between net book values of these assets based on US Dollar acquisition costs and recoverable amount is recognized as impairment loss under operating expenses.

3.5 Borrowing Costs

Banks loans are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Finance expense resulted from bank loans are recorded to income statement in the period in which they are incurred.

3.6 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 financial leased assets and amortizes them over the related asset's remaining useful life. Manufacturers' credits related to operational leases are recorded as deferred revenue and amortized over the lease term.

3.7 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Frequent Flyer Program

THY provides a frequent flyer program which is called Miles and Miles 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 and charged to operations as program members accumulate mileage.

THY 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.

3.9 Taxation and Deferred Taxes

Taxes on income for the period comprise of current tax and deferred tax. The Company 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 Company’s estimated liability to 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.

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 and deferred tax assets are only provided to the extent that if it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

3.10 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.

3.11 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 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 TL to US Dollar exchange rates for the periods are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2003	1,3958	1,4953
30 September 2004	1,4977	1,4159
31 December 2004	1,3421	1,4223
30 September 2005	1,3406	1,3373

3.13 Leases

The Company leases aircraft, simulator, computer equipment and vehicles in the form of either finance leases or operating leases. According to IAS 17 ("Leases"), finance leases are reflected in the Company's assets by recording finance leased assets and 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.

3.14 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.

Financial Assets

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Financial Assets(cont'd)

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

Book values of trade liabilities and due to related parties are estimated to be their fair value except liabilities discounted 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 fair value relating available for sale investments are recognized in net profit or loss.

Financial assets, except for Sun Express, Uçak Servisi A.Ş. and France Telecom where the Company is not in a position to exercise significant influence or joint control, are stated at cost as their fair value can not be reliably measured.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include accounts and other payables, due to related parties, bank loan and finance lease obligations. Foreign currency loans are translated into Turkish Lira at the rates of change ruling at the balance sheet date.

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.

Credit Risk

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

Price Risk

• Currency Risk:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

- Interest Risk:

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

- Market Risk:

The Company invests in government bonds acquired under reverse repurchase agreements made for short periods or deposits to banks on a daily basis. Fair values of these investments fluctuate based 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.

3.15 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.

3.16 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.

3.17 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Earnings Per Share (cont'd)

A summary of the weighted average number of shares outstanding during 30 September 2005 and 30 September 2004 the basic earnings per share calculation is as follows:

	30 September 2005	30 September 2004
Number of shares outstanding at January 1, (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at 30 September (in full)	175.000.000.000	175.000.000.000
Weighted average number of shares outstanding during the period (in full)	175.000.000.000	175.000.000.000
Net profit for the period	80.180.265	134.281.021
Earnings per share (YTL, full amount)	0,00046	0,00077

4 SEGMENTAL REPORTING

4.1 Business Segments

The Company operates predominantly in one industry segment, its primary business being the air transportation of passengers and cargo within, to or from Turkey. The activity of the Company's equity investment is also related to the airline business.

4.2 Geographical Segments

The analysis of turnover is based on the destinations that THY serves. All passenger fare and cargo revenue within Turkey is attributed to the revenue from domestic services. Turnover from both scheduled and non-scheduled international flight revenues are attributed to flight destination's geographical area.

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	30 September 2005	31 December 2004
Cash	341.441	172.565
Cheques received	23.156	124.477
Banks	601.471.952	387.496.085
Other liquid assets	9.579.790	1.619.190
	611.416.339	389.412.317

Foreign currency bank balances are YTL 311.207.058 at 30 September 2005 (31 December 2004: YTL : 263.652.065).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

5 CASH AND CASH EQUIVALENTS (cont'd)

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>30 September 2005</u>
279.740.000	YTL	05.07.2005–30.09.2005	03.10.2005–30.01.2006	279.740.000
157.525.000	Euro	01.09.2005–30.09.2005	03.10.2005–03.10.2005	254.576.153
				<u>534.316.153</u>

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>31 December 2004</u>
119.815.084	YTL	25.10.2004-1.12.2004	03.01.2005-24.01.2005	119.815.084
22.500.000	USD Dollar	31.12.2004	03.01.2005	32.160.765
89.790.000	Euro	31.12.2004	03.01.2005	174.693.983
				<u>326.669.832</u>

6 ACCOUNTS RECEIVABLE (NET)

Accounts receivable consists of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Trade receivables	240.841.600	187.009.418
Discount on receivables	(2.958.259)	(363.496)
Provision for doubtful receivables	(17.825.943)	(17.749.202)
	<u>220.057.398</u>	<u>168.896.720</u>

7 DUE FROM RELATED PARTIES

Short term due from related parties consists of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Güneş Ekspres Havacılık A.Ş.(Sun Express)	436.540	865.612
Uçak Servisi A.Ş. (USAŞ)	-	168
	<u>436.540</u>	<u>865.780</u>

8 INVENTORIES

Inventories consist of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Spare parts, flight equipment	57.489.366	58.026.225
Other inventories	22.962.422	10.682.499
	<u>80.451.788</u>	<u>68.708.724</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

9 OTHER SHORT TERM RECEIVABLES AND ASSETS

Other short-term receivables and assets consist of the following:

	30 September 2005	31 December 2004
Prepaid sales commissions	12.782.737	11.091.565
Prepaid operating lease expenses	5.208.672	4.241.185
Tax to be refunded	2.313.091	2.857.241
Maintenance service income accrual	1.060.432	6.573.328
Due from insurance firms	3.195.465	-
Interline passenger income accrual	400.605	194.452
Prepaid other expenses	1.264.654	1.755.973
Prepaid financial expense of bank borrowing	1.480.248	-
Deferred insurance expense	329.607	6.554.404
Restriction on transfer of funds from banks(*)	-	900.479
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.163.441
Foreign receivables re-technical equipment	1.042.569	980.664
Business advances given	854.023	368.462
VAT deductible	662.258	162.728
Prepaid rent expenses	2.834.921	468.761
Prepaid aircraft financing expense	526.872	574.581
Personnel salary advance	393.828	347.585
Due from personnel	237.159	263.949
Receivable from SITA deposit certificates	116.056	160.011
Other receivables	639.191	173.904
	36.434.796	38.832.713

(*) As of 31 December 2004, the balance of this account is related to bank balance in Egypt.

10 FINANCIAL ASSETS (NET)

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

	30 September 2005	31 December 2004
Güneş Ekspress Havacılık A.Ş. (Sun Express)	18.974.630	17.792.273

Financial assets available for sale are as follows:

	30 September 2005	31 December 2004
France Telecom	21.528.732	21.528.732
Diminution in value of France Telecom shares	(13.704.682)	(11.920.222)
Uçak Servis A.Ş. (USAŞ)	11.553.326	8.747.788
Appreciation in value of USAŞ shares	2.359.349	7.327.851
Sita Inc.	1.901.851	1.901.851
Emek İnşaat ve İşletme A.Ş.	28.606	28.606
Other financial assets	1.405	1.518
	23.668.587	27.616.124

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

10 FINANCIAL ASSETS (NET) (cont'd)

Tender for the catering service was won by Uçak Servis 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 September 2002, 1,25% of shares was transferred on 2 January 2003 and 1,25% of shares were transferred on 2 January 2004, 1,25% of shares was transferred on 3 January 2005 and it will be completed to 15% by transferring the ownership of 1,25% share in the year 2006. Consequently, 1.140 million shares corresponding to first 13,75% of share of USAŞ's share capital, which was transferred to the Company, was recorded to "financial assets" and "deferred income" accounts at market value of YTL 19.650.109. "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 and 50 million in 2005 in İstanbul Stock Exchange Market.

USAŞ distributed 1.852.500.000 of free shares to the Company based on the decision of General Assembly held on 8 December 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement.

Details of the Company's long-term financial assets at 30 September 2005 are as follows:

<u>Name of the Company</u>	<u>Place of Incorporation and Operation</u>	<u>Proportion of Ownership Interest</u>	<u>Proportion of Voting Power Held</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	7,60%	7,60%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

11 TANGIBLE FIXED ASSET (NET)

	<u>30 September 2005</u>	<u>31 December 2004</u>
Tangible fixed assets (net)	1.786.459.435	1.928.199.163
Advances given for other tangible fixed assets	6.356.081	-
	<u>1.792.815.516</u>	<u>1.928.199.163</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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

	Land, Land Improvements and Buildings	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Softwares	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction in Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets&Simulators	Total Leased Assets	Total
Cost											
Opening balance 1 January 2005	175.083.388	312.186.671	230.713.649	1.354.129.315	302.882.678	411.376	2.375.407.077	3.577.648.517	18.953.785	3.596.602.302	5.972.009.379
Additions	-	2.762.670	1.959.256	59.331.862	72.245.598	1.969.375	138.268.761	-	-	-	138.268.761
Disposals	-	(2.866.244)	(5.651.446)	(57.092.445)	(41.441.173)	(363.393)	(107.414.701)	-	-	-	(107.414.701)
Closing balance 30 September 2005	175.083.388	312.083.097	227.021.459	1.356.368.732	333.687.103	2.017.358	2.406.261.137	3.577.648.517	18.953.785	3.596.602.302	6.002.863.439
Accumulated depreciation											
Opening balance 1 January 2005	48.604.423	269.092.319	209.504.499	829.056.707	148.959.470	-	1.505.217.418	997.455.328	5.607.522	1.003.062.850	2.508.280.268
Depreciation for the period	2.185.871	10.556.595	6.309.791	21.004.993	67.845.476	-	107.902.726	125.217.698	1.110.930	126.328.628	234.231.354
Disposals	-	(2.848.271)	(5.615.546)	(444.052)	(41.441.173)	-	(50.349.042)	-	-	-	(50.349.042)
Closing balance 30 September 2005	50.790.294	276.800.643	210.198.744	849.617.648	175.363.773	-	1.562.771.102	1.122.673.026	6.718.452	1.129.391.478	2.692.162.580
Accumulated impairment	-	7.309.521	-	303.894.071	-	-	311.203.592	1.207.868.063	5.169.769	1.213.037.832	1.524.241.424
30 September 2005 net book value	124.293.094	27.972.933	16.822.715	202.857.013	158.323.330	2.017.358	532.286.443	1.247.107.428	7.065.564	1.254.172.992	1.786.459.435
31 December 2004 net book value	126.478.966	34.644.379	21.209.151	216.124.970	153.923.208	411.376	552.792.050	1.366.962.698	8.444.415	1.375.407.113	1.928.199.163

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

12 INTANGIBLE FIXED ASSETS (NET)

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost			
Opening balance 1 January 2005	64.006.225	20.053.546	84.059.771
Additions	969.180	344.084	1.313.264
Disposals	-	(61.827)	(61.827)
Closing balance 30 September 2005	<u>64.975.405</u>	<u>20.335.803</u>	<u>85.311.208</u>
Accumulated depreciation			
Opening balance 1 January 2005	56.767.210	19.343.678	76.110.888
Amortization charge for the period	2.235.514	401.376	2.636.890
Disposals	-	(54.900)	(54.900)
Closing balance 30 September 2005	<u>59.002.724</u>	<u>19.690.154</u>	<u>78.692.878</u>
Accumulated impairment	-	-	-
30 September 2005 net book value	<u>5.972.681</u>	<u>645.649</u>	<u>6.618.330</u>
31 December 2004 net book value	<u>7.239.015</u>	<u>709.868</u>	<u>7.948.883</u>

13 ADVANCES GIVEN FOR AIRCRAFT

	<u>30 September 2005</u>	<u>31 December 2004</u>
Prepayments for aircraft purchases	672.725.582	421.398.182
Advances given for operational leases	2.625.569	1.322.026
	<u>675.351.151</u>	<u>422.720.208</u>

14 OTHER LONG TERM RECEIVABLES AND ASSETS

	<u>30 September 2005</u>	<u>31 December 2004</u>
Prepaid eximbank USA guarantee and exposure fee	6.162.474	7.456.459
Prepaid aircraft financing expense	2.338.646	2.862.907
Deposits given	1.240.386	1.849.803
Due from personel	1.067.542	1.200.742
Receivables from SITA deposit certificate	821.994	748.430
Other receivables	91.276	96.869
	<u>11.722.318</u>	<u>14.215.210</u>

15 BANK BORROWINGS

	<u>30 September 2005</u>	<u>31 December 2004</u>
T.İş Bankası /Citibank NA London	362.514.157	-
Other (*)	326.800	299.531
	<u>362.840.957</u>	<u>299.531</u>

<u>Bank Name</u>	<u>Maturity</u>	<u>Currency</u>	<u>Interest accruals</u>	<u>YTL</u>
T.İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	411.873 US Dollar	362.514.157

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

16 FINANCE LEASE OBLIGATIONS

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

	<u>30 September 2005</u>	<u>31 December 2004</u>
Not later than one year	248.268.908	253.260.316
Between 1 - 5 years	732.807.903	829.127.160
Over 5 years	168.864.412	299.192.665
	<u>1.149.941.223</u>	<u>1.381.580.141</u>
Less: Future interest expense	<u>(128.675.423)</u>	<u>(145.683.840)</u>
Principal value of future rentals shown in the balance sheets	<u>1.021.265.800</u>	<u>1.235.896.301</u>
	<u>30 September 2005</u>	<u>31 December 2004</u>
Represented by :		
Current liabilities	214.000.633	215.893.206
Long term liabilities	807.265.167	1.020.003.095
	<u>1.021.265.800</u>	<u>1.235.896.301</u>
Interest range:		
Floating rate obligations	784.714.905	929.684.729
Fixed rate obligations	236.550.895	306.211.572
	<u>1.021.265.800</u>	<u>1.235.896.301</u>

As of 30 September 2005, the US Dollar denominated lease obligations' interest rates are between 6,25% and 7,68%, for the fixed rate obligations; and a margin ranging between LIBOR and LIBOR plus 3,00% for floating rate obligations.

17 DUE TO RELATED PARTIES

Due to related parties consist of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Sun Express	344.335	224.777
Uçak Servisi A.Ş. (USAŞ)	10.497.856	6.706.628
	<u>10.842.191</u>	<u>6.931.405</u>

18 OTHER SHORT TERM AND LONG TERM PAYABLES

Other short term payables consist of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Tax and funds payable	23.718.573	20.598.022
Social security premiums payable	14.512.406	12.980.850
Deferred income from USAŞ share transfer	5.356.281	3.853.600
Payable to personel	535.933	269.907
State Airport Administration ("DHMI") protocol payable	-	1.940.697
Discount on DHMI protocol payable	-	(38.768)
Other liabilities	3.107.298	841.874
	<u>47.230.491</u>	<u>40.446.182</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

18 OTHER SHORT TERM AND LONG TERM PAYABLES (cont'd)

Other long term payables consist of the following:

	30 September 2005	31 December 2004
Deferred income from USAŞ share transfer	1.339.070	3.853.600
	<u>1.339.070</u>	<u>3.853.600</u>

19 DEPOSITS AND ADVANCES RECEIVED

Short term deposits and advances received consist of the following:

	30 September 2005	31 December 2004
MCO advances	17.862.481	8.903.690
Deposits and guarantees received	4.927.699	4.496.334
Advances received for mileage credit sales	-	24.603.691
E-pos ticket advance	5.527.005	371.486
Other advances received	419.199	310.682
Deposits received from Turkish Republic Religious Affairs	570.125	2.503.349
	<u>29.306.509</u>	<u>41.189.232</u>

Long term deposits and guarantees received consist of the following:

	30 September 2005	31 December 2004
Deposits and guarantees received	8.157.175	9.113.206

20 PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities consist of the following:

	30 September 2005	31 December 2004
Flight liability - advanced ticket sales	124.192.394	132.841.479
Flight liability resulting from sales of mileage	56.291.094	55.457.725
	<u>180.483.488</u>	<u>188.299.204</u>

21 OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	30 September 2005	31 December 2004
Collective agreement expense accruals	21.703.380	16.635.604
Accrued salaries	14.351.583	16.981.339
Accrued maintenance costs	18.920.935	10.729.346
Expense accruals of insurance premiums	14.249.795	-
Provision for legal claims	8.985.235	9.846.924
Accrued frequent flyer liability	8.801.368	7.447.885
Sales incentive premium accrual	7.336.734	8.237.303
Fuel oil privilege expense accrual	730.598	778.104
Other accrued liabilities	349.596	380.521
Other expense accruals	5.439.788	3.489.428
	<u>100.869.012</u>	<u>74.526.454</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

22 MANUFACTURERS' CREDIT (NET)

Unearned income about manufacturers' credit consists of the following:

	30 September 2005	30 September 2004
Gross manufacturers' credit	16.937.140	18.058.627
Accumulated amortization(-)	(15.780.873)	(15.511.923)
	<u>1.156.267</u>	<u>2.546.704</u>

23 TAXATION

Corporation tax payable is as follows:

	30 September 2005	31 December 2004
Corporation tax payable	18.861.896	-
Prepaid taxes and funds	(4.612.101)	(54.641.976)
	<u>14.249.795</u>	<u>(54.641.976)</u>

Tax expense is as follows:

	30 September 2005	30 September 2004
Current year tax expense	18.861.896	55.991.636
Deferred tax expense	48.809.269	23.393.592
Tax expense	<u>67.671.165</u>	<u>79.385.228</u>

Corporate tax:

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated tax liabilities based on the Company's financial 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 by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rates are as follows:

- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004)
- In 2005: 30 %

In Turkey, prepaid taxes are calculated and accrued on a quarterly basis. In 2004, the prepaid corporate income tax rate was applied 33%. Prepaid corporate income tax rate is 30% in 2005.

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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

23 TAXATION (cont'd)

Corporate tax (cont'd)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until 15 April following the close of the accounting period to which they relate. The tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax:

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

Income withholding tax which was calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not, has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. Carried forward investment incentives to be deducted from corporate tax liability in the following periods are revalued with the applicable WPI.

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 statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes. The deferred tax rate is 30%.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

23 TAXATION (cont'd)

Temporary differences: deferred tax assets / (liabilities)

	<u>30 September 2005</u>	<u>31 December 2004</u>
Allowance for unrecoverable bank accounts	246	294
Provision for doubtful receivables	907.746	443.787
Restatement of inventory	(342.873)	9.283.227
Appreciation in value of financial assets	(812.201)	(1.580.302)
Changes in other current assets	-	64.924
Short term lease obligation	48.641.682	50.979.466
Deferred income and expense	466.011	309.277
Expense accruals	11.313.047	13.979.005
Provision for advance ticket sales	(21.259.307)	(19.142.655)
Deferred income	2.008.598	1.972.208
Adjustments to non-current assets	-	(660.878)
Fixed assets	(412.319.459)	(453.039.486)
Long term lease obligation	242.179.550	306.000.929
Retirement pay liability	33.977.288	31.879.559
Manufacturers' credit	346.880	764.011
Discount on receivables	772.994	108.709
Discount on payables	(1.174.213)	(21.296)
Unused investment incentives	-	3.945.070
Unused tax losses	-	5.206.833
Deferred tax liability	<u>(95.294.011)</u>	<u>(49.507.318)</u>

Movement in deferred tax liability per balance sheet is as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Deferred tax charge related to the origination and reversal of temporary differences	48.809.269	13.133.237
Deferred tax charge resulting from change in effective tax rate	-	5.423.773
Net deferred tax charge	<u>48.809.269</u>	<u>18.557.010</u>
Monetary gain on deferred tax liabilities	<u>(3.022.576)</u>	<u>(4.511.112)</u>
Net change in deferred tax	<u>45.786.693</u>	<u>14.045.898</u>

Reconciliation from the expected to the disclosed tax charge is as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Profit before taxation	147.851.430	213.666.249
Expected tax expense (2005:30%, 2004:33%)	44.355.429	70.509.863
<i>Reconciling items:</i>		
Non-deductible expenses	7.705.136	8.689.105
Tax-exempt income	(4.697.039)	(1.559.401)
Non-deductible monetary losses	20.307.639	(944.318)
Deferred tax charge resulting from change in effective tax rate	-	4.843.150
Investment incentive used	-	(2.153.171)
Taxation charge	<u>67.671.165</u>	<u>79.385.228</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

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, complete 25 years of service (20 years for women), 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 a limit of YTL 1.727 as at 30 September 2005 (31 December 2004: YTL 1.575). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

Amounts recognized in the income statement as provision for termination benefit are as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Current service cost	15.330.828	19.811.060
Interest cost	4.081.802	4.237.773
	<u>19.412.630</u>	<u>24.048.833</u>

Movements in the provision for termination benefit in the balance sheet are as follows:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Provision at 1 January	106.265.192	95.350.000
Charge for the period	19.412.630	20.667.709
Payments during the period	(5.932.382)	(6.748.775)
Restatement effect	(6.487.815)	(3.003.742)
Provision at 30 September	<u>113.257.625</u>	<u>106.265.192</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,45% (31 December 2004: 5,45%) per annum after considering the effect of increase in eligible pay and its limit.

25 SHARE CAPITAL

The Company's share capital was held in each period as follows:

	<u>Group</u>	<u>%</u>	<u>30 September 2005</u>	<u>%</u>	<u>31 December 2004</u>
Turkish Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	75,18(**)	131.565.696	75,17	131.538.948
Others	A	24,82(**)	43.434.304	24,83	43.461.052
Share capital (historic)			175.000.000		175.000.000
Restatement effect			1.863.460.208		1.863.460.208
Restated			<u>2.038.460.208</u>		<u>2.038.460.208</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

25 SHARE CAPITAL (cont'd)

(**) YTL 26.748 nominal valued shares of the Company which were bought by private shareholders from the second public offering of the Company which was held on 1,2 and 3 December 2004 was transferred to the accounts of the Republic of Turkey Prime Ministry Privatization Administration by İş Yatırım Menkul Değerler A.Ş. The transfer was made due to default of private shareholders who were unable to transfer the amounts of the shares after the conclusion of last instalment.

As at 30 September 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 name. The Class C share, which belongs to the Privatization Administration, is a unique share with a par value of YKr 0.1 with the following privileges:

Main Agreement Article 7: The Directors elected to represent C shareholders should have an affirmative vote for recording of transfer of ordinary shares on the share register.

Main Agreement Article 10: The Board of Directors of the Company consists of seven members of which one member has to be nominated by the class C shareholder.

Main Agreement Article 14: The following Board of Directors' decisions are subject to the class C Shareholder's affirmative vote:

- a) As explained in Article 3.1 of the Main Agreement, taking decisions that will negatively effect the Company's mission
- b) To suggest a change in the Main Agreement at General Assembly
- c) To increase the share capital
- d) Registration of the transfer of the shares issued to name in the 'Register of the Company'
- e) To make decisions or taking actions which will put the Company under direct or indirect commitment for more than 5 of total assets for each agreement in the latest annual financial statements prepared for Turkish Capital Market Board (this statement will be valid until the Company's shares held by Turkish State are below 20)
- f) To make decisions about to merging with another companies and liquidation.
- g) To make decisions to close flight routes or significantly decrease number of flights except routes that cannot recover even its operational expenses under market conditions.

Main Agreement Temporary Article 1: The Company's chairman of the Board of Directors, members of the Board of Directors, auditors and general manager who meet the conditions mentioned in law numbered 4046, are to be selected from candidates suggested by A group shareholders, then assigned by a nomination of the Republic of Turkey Prime Ministry Privatization Administration and the approval of the Prime Minister or authorized minister, until the Company's shares held by Turkish State are below 50. The article 315 of Turkish Commercial Code is applied for the members representing non-public membership.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

26 FOREIGN CURRENCY POSITION

Foreign currency risk occurs from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debt. As of 30 September 2005, the Company does not have derivative financial instruments to hedge its foreign currency risks. US Dollar, Euro and Sterling are the main currencies that make the foreign currency position of the Company.

The foreign currency position of the Company as of 30 September 2005 and 31 December 2004 in terms of YTL is as follows:

30 September 2005	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency based assets</i>					
Cash and cash equivalents	8.516.014	271.982.431	3.330.511	37.521.349	321.350.305
Account receivables (net)	36.889.709	41.663.167	6.420.895	50.802.861	135.776.632
Due from related parties (short term)	353.460	73.048	-	-	426.508
Other short term receivables and assets	15.945.120	3.021.539	240.619	361.135	19.568.413
Inventories-advances given	3.407.536	155.758	154.608	9.160	3.727.062
Other long term receivables and assets	10.821.138	454.953	71.104	343.335	11.690.530
Advances given for the tangible fixed asset	6.356.081	-	-	-	6.356.081
Advances given for the aircrafts	675.351.151	-	-	-	675.351.151
	<u>757.640.209</u>	<u>317.350.896</u>	<u>10.217.737</u>	<u>89.037.840</u>	<u>1.174.246.682</u>
<i>Foreign currency based liabilities</i>					
Bank borrowings	362.514.157	-	-	-	362.514.157
Short term finance lease obligation	214.000.633	-	-	-	214.000.633
Accounts payable (short term) (net)	60.825.325	51.135.506	3.864.324	31.690.977	147.516.132
Due to related parties	320.154	50.765	3.028	-	373.947
Other short term liabilities	2.014.729	1.557.333	91.763	106.871	3.770.696
Deposits and advances received (short term)	1.366.735	1.943.148	59.206	561.004	3.930.093
Other accrued liabilities	24.636.337	3.083.574	1.205.217	1.544.618	30.469.746
Passenger flight liabilities	56.291.094	-	-	-	56.291.094
Long term finance lease obligations	807.265.167	-	-	-	807.265.167
Gross manufacturers' credit	1.156.267	-	-	-	1.156.267
Deposits and advances received (long term)	423.849	5.792.712	520.083	1.420.531	8.157.175
	<u>1.530.814.447</u>	<u>63.563.038</u>	<u>5.743.621</u>	<u>35.324.001</u>	<u>1.635.445.107</u>
Net foreign currency position (*)	<u>(773.174.238)</u>	<u>253.787.858</u>	<u>4.474.116</u>	<u>53.713.839</u>	<u>(461.198.425)</u>

(*) Although, the Company is shown as in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Company values its aircraft and spare engines based on their US Dollar acquisition costs or US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's tangible assets which are carried from US Dollar denominated values should also be considered during the evaluation of the Company's sensitivity of its assets and liabilities against the changes in foreign exchange rates.

As of 30 September 2005, the net book values of aircraft and spare engines, which are carried from US Dollar acquisition costs or US Dollar selling prices is YTL 1.463.146.807 (31 December 2004: YTL 1.602.192.026).

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

26 FOREIGN CURRENCY POSITION (cont'd)

31 December 2004	US Dollar	Euro	Sterling	Other	Total
Foreign currency based assets					
Cash and cash equivalents	42.977.732	189.895.780	2.468.517	30.150.109	265.492.138
Account receivables (net)	37.830.907	35.044.307	5.774.478	41.154.557	119.804.249
Due from related parties	508.699	331.660	-	-	840.359
Other short term receivables and assets	19.674.585	2.092.007	461.721	2.124.979	24.353.292
Advances given for the aircrafts	422.720.206	-	-	-	422.720.206
Other long term receivables and assets	12.646.959	565.982	82.458	885.508	14.180.907
	<u>536.359.088</u>	<u>227.929.736</u>	<u>8.787.174</u>	<u>74.315.153</u>	<u>847.391.151</u>
Foreign currency based liabilities					
Short term finance lease obligations	215.893.206	-	-	-	215.893.206
Accounts payable	86.223.036	51.867.973	5.096.091	23.108.146	166.295.246
Due to related parties	230.001	1.350	-	-	231.351
Other short and long term liabilities (net)	587.338	538.807	106.128	80.887	1.313.160
Deposits and advances received	29.317.664	8.940.185	731.696	1.985.457	40.975.002
Other accrued liabilities	18.167.103	2.979.588	2.885.002	1.735.327	25.767.020
Long term finance lease obligations	1.020.003.095	-	-	-	1.020.003.095
Manufacturers' credit (net)	2.546.704	-	-	-	2.546.704
	<u>1.372.968.147</u>	<u>64.327.903</u>	<u>8.818.917</u>	<u>26.909.817</u>	<u>1.473.024.784</u>
Net foreign currency position(*)	(836.609.059)	163.601.833	(31.743)	47.405.336	(625.633.633)

27 CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is 37.898.648 YTL as of 30 September 2005 (31 December 2004: 36.258.662 YTL).

b) Purchase Commitments:

The Company has signed agreements to purchase 51 aircraft which will be obtained between years 2005-2008. Total value of these aircraft is approximately US Dollar 4.1 billion according to the list prices before any discounts to be applied by aircraft producer firms. THY paid a deposit of US Dollar 497 million as of 30 September 2005 related to these new purchases.

c) Letter of comfort:

	30 September 2005		31 December 2004	
Letters of comfort given to Sun Express	US Dollar	2.900.000	US Dollar	2.900.000
	Euro	2.556.459	Euro	2.556.459

d) The Company's discounted retirement pay provision is YTL 113.257.625. The Company's total undiscounted liability for retirement pay would be approximately YTL 180 million as of 30 September 2005, if all employees had been dismissed as at that date.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

28 OPERATING LEASE COMMITMENTS

Operating lease commitments of the Company consist of the following:

	<u>30 September 2005</u>	<u>31 December 2004</u>
Not later than one year	106.180.014	79.689.557
Between 1-5 years	165.154.175	126.963.741
Over 5 years	6.849.640	-
	<u>278.183.829</u>	<u>206.653.298</u>

29 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) Market price of 202.735 France Telecom securities, which is quoted at the Paris Stock Exchange, presented in the financial assets available for sale account has decreased from Euro 23,88 at 30 September 2005 to Euro 21,75 at 24 November 2005. Hence, the total market value of these securities decreased by YTL 697.873 compared to balance sheet date.

b) Market price of 2.650,5 million USAŞ securities, which is traded in İstanbul Stock Exchange Market, and presented in the financial assets as available for sale account has increased from YTL 5,35 at 30 September 2005 to YTL 6,25 on 24 November 2005. Hence, the total market value of these securities increased by YTL 2.340.450 compared to balance sheet date.

c) THY sold 397.500.000 USAŞ securities from its portfolio in İstanbul Stock Exchange in November 2005.

d) THY bought the 3 A-340 aircraft earlier before their lease contract dues which are at 19 April 2006, 21 April 2010 and 22 April 2011.

30 OPERATING REVENUES

Operating revenues are as follows :

	<u>30 September 2005</u>	<u>30 September 2004</u>
Scheduled services		
- Passenger	1.977.581.625	1.836.739.232
- Cargo and mail	197.641.619	203.049.296
Non-scheduled services	26.934.806	35.403.451
Other revenues	246.678.532	181.038.920
Total revenues	<u>2.448.836.582</u>	<u>2.256.230.899</u>

Geographical analysis of the scheduled services' traffic revenue is as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
- Europe	934.438.638	867.668.897
- Middle East	197.796.580	192.468.752
- North Africa	56.222.815	52.042.184
- North America	116.408.765	127.000.006
- Far East	353.257.721	335.600.006
	<u>1.658.124.519</u>	<u>1.574.779.845</u>
Domestic	517.098.725	465.008.683
Total scheduled services' flight revenue	<u>2.175.223.244</u>	<u>2.039.788.528</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

31 OPERATING EXPENSES

Operating expenses are given below:

Cost of Sales	30 September 2005	30 September 2004
Fuel expenses	544.754.235	384.960.999
Staff expenses	386.461.728	313.635.618
Depreciation expenses	225.749.070	229.878.879
Handling and station expenses	192.313.972	191.626.914
Landing and navigation expenses	124.041.212	133.126.485
Passenger service and catering expenses	116.121.254	104.181.409
Maintenance expenses	107.015.744	99.794.344
Operating lease expenses	74.900.910	41.715.082
Insurance expenses	42.581.309	57.533.846
Other renting expenses	7.892.971	10.008.553
Aircraft rent expenses	7.331.545	18.946.877
Service expenses	5.343.510	4.511.987
Communication expenses	5.958.912	6.881.097
Other taxes	4.029.865	1.942.244
Lighting, heating and water expenses	2.662.282	3.298.771
Transportation expenses	1.725.402	999.341
Impairment loss	-	12.344.151
Cost of other sales	16.000.305	6.214.473
	<u>1.864.884.226</u>	<u>1.621.601.070</u>

Sales and marketing expenses	30 September 2005	30 September 2004
Commission and promotion expenses	167.662.755	165.098.053
Staff expenses	95.855.408	86.880.422
Reservation system expenses	45.175.103	40.740.735
Communication expenses	10.755.873	11.169.510
Rent expenses	9.741.029	10.571.874
Service expenses	5.881.337	4.231.009
Advertisement expenses	4.625.353	2.587.594
Transportation expenses	3.555.302	2.820.864
Passenger service and catering expenses	3.238.513	2.828.947
Other taxes	3.016.868	1.922.842
Seat rent expenses	1.641.805	1.524.544
Lighting, heating and water expenses	1.125.749	1.126.089
Maintenance expenses	850.533	874.927
Software and computer equipment expenses	512.097	498.115
Fuel expenses	399.091	302.231
Insurance expenses	230.855	347.488
Other sales and marketing expenses	10.862.501	9.645.145
	<u>365.130.172</u>	<u>343.170.389</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

31 OPERATING EXPENSES (cont'd)

	30 September 2005	30 September 2004
General administrative expenses		
Staff expenses	75.587.797	89.724.946
Depreciation expenses	11.119.174	11.066.430
Other taxes	3.172.077	2.614.145
Maintenance expenses	2.810.147	2.834.573
Software and computer equipment expenses	2.438.666	3.189.787
Communication expenses	2.115.477	1.816.597
Commission and promotion expenses	1.589.065	1.444.666
Lighting, heating and water expenses	1.273.919	659.570
Service expenses	1.457.607	1.921.293
Other renting expenses	953.453	667.617
Insurance expenses	323.674	1.439.486
Fuel expenses	172.351	5.504
Other general administrative expenses	4.526.548	5.077.923
	<u>107.539.955</u>	<u>122.462.537</u>
	<u>2.337.554.353</u>	<u>2.087.233.996</u>

32 FINANCIAL EXPENSE (NET)

Financial income/ (expense) consist of the following:

	30 September 2005	30 September 2004
Discount income	1.556.986	396.440
Income from investment accounted for equity method	2.268.631	7.843.146
Interest income	30.415.277	31.767.509
Foreign exchange gain	188.163.266	191.579.426
Financial income	<u>222.404.160</u>	<u>231.586.521</u>

	30 September 2005	30 September 2004
Foreign exchange losses	(214.705.305)	(263.957.506)
Interest expenses-third parties	-	(3.751.234)
Finance lease interest expense	(34.976.472)	(35.327.068)
Retirement pay interest cost	(4.081.802)	(4.237.773)
Diminution in value of financial assets	(5.033.366)	(2.091.164)
Discount expense	(385.156)	(1.892.369)
Interest expense-bank borrowings	(7.817.626)	-
Other financial expense	(1.480.248)	-
Financial expense	<u>(268.479.975)</u>	<u>(311.257.114)</u>
Financial expense (net)	<u>(46.075.815)</u>	<u>(79.670.593)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the financial statements as at 30 September 2005

(All amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 30 September 2005 unless otherwise stated.)

33 INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Provision for diminution in value of fixed assets	45.122.842	-
Reversal of unnecessary provision	7.874.122	8.177.878
Discounts received from spare parts suppliers	7.743.208	8.327.446
Free of cost of materials income	3.894.532	1.009.495
Compensation received	3.096.569	1.884.768
Dividend income	8.513.277	4.825.661
Manufacturers' credit income	1.373.044	1.573.994
Gain from sale of fixed assets	3.116.565	55.716
Other income	4.141.703	5.944.025
	<u>84.875.862</u>	<u>31.798.983</u>

34 LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the followings:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Provision expenses	3.180.949	9.203.529
Rent expense of RJ aircraft to be returned	-	3.069.513
Rent expense of RJ aircraft for the non-operating period	-	2.505.905
Other expenses	1.248.017	683.024
	<u>4.428.966</u>	<u>15.461.971</u>

35 TRANSACTIONS WITH RELATED PARTIES

For the purposes of the accompanying financial statements, the Company's shareholders and the Company's equity participations are referred to as related parties.

Transactions with related parties are as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Services given to Sun Express	2.034.597	2.142.386
Services given to USAŞ	274.681	192.965
	<u>2.309.278</u>	<u>2.335.351</u>

	<u>30 September 2005</u>	<u>30 September 2004</u>
Services taken from Sun Express	678.526	2.615.019
Services taken from USAŞ	61.965.326	53.236.395
	<u>62.643.852</u>	<u>55.851.414</u>

Dividend income from equity investments are as follows:

	<u>30 September 2005</u>	<u>30 September 2004</u>
Sun Express	7.198.306	4.513.090
Uçak Servisi A.Ş. (USAŞ)	1.152.695	205.384
Emek İnşaat ve İşletme A.Ş.	-	6.986
France Telecom	162.276	100.201
	<u>8.513.277</u>	<u>4.825.661</u>