

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**

**CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING  
STANDARDS FOR THE PERIOD ENDED  
31 DECEMBER 2006**

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying consolidated balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 31 December 2006, and the consolidated statement of income, the consolidated statement of changes in shareholders’ equity and the consolidated statement of cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).
4. Without qualifying our opinion, we would like to emphasize on the following matter:

The Company changed the accounting policy relating to the impairment provision for aircrafts according to the chapter named “Changes in Accounting Policies” of the IFRS No:8. Due to the facts that inflation accounting is not required in the financial statements starting from 30 June 2006 and therefore the effects of fictitious increases in aircraft values caused by inflation accounting has been lessened, the Company decided that it is no longer necessary to use net book values calculated according to US Dollar acquisition costs in impairment loss calculations. The change in this accounting policy has resulted YTL 126.448.273 decrease in the previous years’ losses, YTL 42.766.253 increase in the net profit for the period, YTL 211.518.157 increase in tangible assets and YTL 42.303.631 increase in deferred tax liabilities of the Company.

Can Uluslararası Bağımsız Denetim ve S.M.M.M. A.Ş.  
A Member Firm of INPACT International

İsmail USLU  
Partner

20 April 2007, İstanbul, Turkey

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

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

|   | <u>Note</u> | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------|-------------------------|-------------------------|
| <b>ASSETS</b>                           |             |                         |                         |
| Cash and Cash Equivalents               | 5           | 365.057.959             | 482.910.555             |
| Accounts Receivable (net)               | 6           | 273.400.852             | 191.596.806             |
| Due from Related Parties                | 7           | 21.318.613              | 970.701                 |
| Inventories                             | 8           | 135.643.567             | 84.674.663              |
| Prepaid Taxes                           | 23          | 5.222.340               | 13.363.884              |
| Other Short-term Receivables and Assets | 9           | 56.640.044              | 52.944.957              |
| <b>Total Current Assets</b>             |             | <b>857.283.375</b>      | <b>826.461.566</b>      |
| Due from Related Parties                | 7           | 14.812.000              | -                       |
| Investments at Equity                   | 10          | 22.880.903              | 17.490.282              |
| Financial Assets Available for Sale     | 10          | 6.524.154               | 19.993.581              |
| Tangible Assets (net)                   | 11          | 3.151.957.031           | 2.071.099.171           |
| Intangible Assets (net)                 | 12          | 7.605.642               | 6.360.178               |
| Advances Given for Aircraft             | 13          | 362.750.213             | 573.169.605             |
| Other Long-term Receivables and Assets  | 14          | 23.656.183              | 11.557.821              |
| Deferred Tax Assets                     | 23          | 158.971.576             | 300.060.827             |
| <b>Total Non-current Assets</b>         |             | <b>3.749.157.702</b>    | <b>2.999.731.465</b>    |
| <b>Total Assets</b>                     |             | <b>4.606.441.077</b>    | <b>3.826.193.031</b>    |

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

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

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

|   | <u>Note</u> | <u>31 December 2006</u>     | <u>31 December 2005</u>     |
|---|-------------|-----------------------------|-----------------------------|
| <b>LIABILITIES</b>                                |             |                             |                             |
| Bank Borrowings                                   | 15          | 4.854.655                   | 363.235.861                 |
| Short-term Portion of Finance Lease Obligations   | 16          | 218.720.799                 | 179.092.821                 |
| Accounts Payable                                  |             | 313.765.171                 | 252.279.781                 |
| Due to Related Parties                            | 17          | 14.869.046                  | 8.022.859                   |
| Other Payables                                    | 18          | 45.572.195                  | 37.952.344                  |
| Deposits and Advances Received                    | 19          | 50.098.550                  | 56.412.654                  |
| Passenger Flight Liabilities                      | 20          | 282.128.990                 | 209.797.889                 |
| Other Accrued Liabilities                         | 21          | 119.674.943                 | 92.206.894                  |
| <b>Total Current Liabilities</b>                  |             | <b><u>1.049.684.349</u></b> | <b><u>1.199.001.103</u></b> |
| Bank Borrowings                                   | 15          | 36.401.442                  | -                           |
| Long-term Portion of Finance Lease Obligations    | 16          | 1.443.932.862               | 856.730.859                 |
| Manufacturers' Credit (net)                       | 22          | 26.797.843                  | 3.491.212                   |
| Deposits and Advances Received                    | 19          | 8.988.621                   | 7.124.266                   |
| Deferred Tax Liabilities                          | 23          | 309.886.014                 | 392.414.313                 |
| Retirement Pay Liability                          | 24          | 117.304.910                 | 113.641.242                 |
| <b>Total Non-current Liabilities</b>              |             | <b><u>1.943.311.692</u></b> | <b><u>1.373.401.892</u></b> |
| <b>SHAREHOLDERS' EQUITY</b>                       |             |                             |                             |
| Share Capital                                     | 25          | 2.000.994.542               | 2.000.994.542               |
| Reserves  |             | 193.841.824                 | 147.576.470                 |
| Share Premium                                     |             | 936.192                     | 936.192                     |
| Accumulated Losses                                |             | (582.327.522)               | (895.717.168)               |
| <b>Total Shareholders' Equity</b>                 |             | <b><u>1.613.445.036</u></b> | <b><u>1.253.790.036</u></b> |
| <b>Total Liabilities and Shareholders' Equity</b> |             | <b><u>4.606.441.077</u></b> | <b><u>3.826.193.031</u></b> |

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED**  
**31 DECEMBER 2006 AND 2005**

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

|                                 | <u>Note</u> | <u>1 January -<br/>31 December 2006</u> | <u>1 January -<br/>31 December 2005</u> |
|---------------------------------|-------------|---|---|
| Operating Revenues              | 31 and 36   | 4.049.976.303                           | 3.139.178.553                           |
| Operating Expenses (-)          | 32 and 36   | <u>(3.975.598.342)</u>                  | <u>(3.054.728.897)</u>                  |
| <b>MAIN OPERATING PROFIT</b>    |             | <b>74.377.961</b>                       | <b>84.449.656</b>                       |
| Income from Other Operations    | 34 and 36   | 217.130.949                             | 111.015.890                             |
| Loss from Other Operations (-)  | 35          | <u>(50.582.545)</u>                     | <u>(27.159.903)</u>                     |
| <b>OPERATING PROFIT</b>         |             | <b>240.926.365</b>                      | <b>168.305.643</b>                      |
| Financial Expenses (net) (-)    | 33          | (52.263.251)                            | (57.286.976)                            |
| Monetary Gain (net)             |             | <u>-</u>                                | <u>28.073.365</u>                       |
| <b>PROFIT BEFORE TAXATION</b>   |             | <b>188.663.114</b>                      | <b>139.092.032</b>                      |
| Taxation Charge                 | 23          | (9.671.215)                             | (45.868.744)                            |
| <b>NET PROFIT</b>               |             | <b><u>178.991.899</u></b>               | <b><u>93.223.288</u></b>                |
| <b>EARNINGS PER SHARE (YKr)</b> | 3.18        | <b>0,102</b>                            | <b>0,053</b>                            |

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 YEARS ENDED 31 DECEMBER 2006 AND 2005**

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

|  | <u>Share Capital</u>        | <u>Reserves</u>           | <u>Share Premium</u>  | <u>Accumulated Losses</u>   | <u>Total Shareholders' Equity</u> |
|--|-----------------------------|---------------------------|-----------------------|-----------------------------|-----------------------------------|
| <b>Balances at 1 January 2005</b>                                  | <b>2.000.994.542</b>        | <b>147.576.470</b>        | <b>936.192</b>        | <b>(988.940.456)</b>        | <b>1.160.566.748</b>              |
| Net Profit for the Year  | -                           | -                         | -                     | 93.223.288                  | 93.223.288                        |
| Balances at 31 December 2005                                       | <u>2.000.994.542</u>        | <u>147.576.470</u>        | <u>936.192</u>        | <u>(895.717.168)</u>        | <u>1.253.790.036</u>              |
| <b>Balances at 31 December 2005</b>                                |                             |                           |                       |                             |                                   |
| – As Previously Reported   | <b>2.000.994.542</b>        | <b>147.576.470</b>        | <b>936.192</b>        | <b>(895.717.168)</b>        | <b>1.253.790.036</b>              |
| Accounting Policy Change-<br>Effect of IFRS 36 (Note 2)            | -                           | -                         | -                     | 126.448.273                 | 126.448.273                       |
| Financial Asset<br>Reclassification-<br>Effect of IFRS 39 (Note 2) | -                           | (7.949.474)               | -                     | 7.949.474                   | -                                 |
| <b>Balances at 31 December 2005<br/>as Restated</b>                | <u><b>2.000.994.542</b></u> | <u><b>139.626.996</b></u> | <u><b>936.192</b></u> | <u><b>(761.319.421)</b></u> | <u><b>1.380.238.309</b></u>       |
| Financial Asset Reclassification                                   | -                           | 5.044.176                 | -                     | -                           | 5.044.176                         |
| Revaluation Surplus on<br>Tangible Assets *                        | -                           | 49.170.652                | -                     | -                           | 49.170.652                        |
| Net Profit for the Year  | -                           | -                         | -                     | 178.991.899                 | 178.991.899                       |
| <b>Balances at 31 December 2006</b>                                | <u><b>2.000.994.542</b></u> | <u><b>193.841.824</b></u> | <u><b>936.192</b></u> | <u><b>(582.327.522)</b></u> | <u><b>1.613.445.036</b></u>       |

\* The differences resulting from revaluation of lands by expert reports under tangible assets of the Company are recorded to the Revaluation Surplus account.

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

**TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**  
*(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)*

|   | <b>1 January-<br/>31 December 2006</b> | <b>1 January-<br/>31 December 2005</b> |
|---|--|--|
| <b>Cash flows from operating activities:</b>  |  |  |
| Profit before taxation  | 188.663.114                            | 139.092.032                            |
| <b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b> |  |  |
| Depreciation  | 349.992.583                            | 311.755.353                            |
| Provision for retirement pay liability  | 19.943.672                             | 16.216.555                             |
| Interest income   | (25.766.202)                           | (42.433.556)                           |
| (Gain)/loss on sales of fixed asset   | 222.261                                | (3.035.861)                            |
| Monetary gain on deferred taxes liabilities   | (5.302.379)                            | (2.112.661)                            |
| Change in provision for diminution in value of fixed assets   | (133.681.761)                          | (63.511.531)                           |
| Gain from financial investment accounted per equity method  | (5.390.621)                            | (784.282)                              |
| Interest expense  | 81.885.860                             | 57.821.640                             |
| Movement in manufacturers' credit   | 23.306.631                             | 991.315                                |
| Foreign exchange (gain)/loss on financial leases (net of monetary gain)                             | 39.006.934                             | (50.510.861)                           |
| Provision for diminution in value of financial assets available for sale                            | (7.724.768)                            | 7.784.603                              |
| The change in special reserves occurring from financial assets available for sale                   | 5.044.176                              | -                                      |
| Amortization of deferred income from USAŞ shares transfer   | (5.257.836)                            | (2.307.710)                            |
| Increase / (Decrease) in provision for doubtful receivables   | 1.931.161                              | (906.262)                              |
| Expensed portion of previous year's prepaid tax   | -                                      | 2.378.934                              |
| <b>Operating profit before working capital changes:</b>   | <b>526.872.825</b>                     | <b>370.437.708</b>                     |
| Increase in accounts receivable   | (83.735.207)                           | (24.898.044)                           |
| Increase in due from related parties  | (35.159.912)                           | (120.834)                              |
| Increase in inventories   | (50.968.904)                           | (17.228.764)                           |
| Increase in other receivables and assets  | (15.793.449)                           | (12.429.842)                           |
| Increase in accounts payable  | 61.485.390                             | 57.252.268                             |
| Increase in due to related parties  | 6.846.187                              | 1.218.849                              |
| Increase in other accrued liabilities and other long term payables                                  | 40.345.736                             | 15.824.664                             |
| Increase/(Decrease) in deposits and advances received   | (4.449.749)                            | 14.159.010                             |
| Increase in passenger flight liabilities  | 72.331.101                             | 24.959.511                             |
| Retirement benefits paid  | (16.280.004)                           | (6.887.415)                            |
| Interest paid   | (70.692.613)                           | (59.179.468)                           |
| Prepaid taxes   | 8.141.544                              | (13.363.884)                           |
| Previous years prepaid tax to be returned   | -                                      | 51.258.756                             |
| <b>Cash generated from operations</b>   | <b>438.942.945</b>                     | <b>401.002.515</b>                     |
| <b>Cash flows from investing activities:</b>  |  |  |
| Cash inflow from sale of tangible and intangible assets   | 21.194.195                             | 61.814.841                             |
| Cash inflow from sale of financial assets   | 7.144.613                              | 89.634                                 |
| Interest received   | 25.766.202                             | 42.433.556                             |
| Acquisition of tangible and intangible assets   | (1.075.969.979)                        | (483.919.336)                          |
| Advances given for aircraft   | 210.419.392                            | (158.218.739)                          |
| <b>Net cash used in investing activities</b>  | <b>(811.445.577)</b>                   | <b>(537.800.044)</b>                   |
| <b>Cash flows from financing activities:</b>  |  |  |
| Principal payment of finance leases   | (189.706.809)                          | (387.625.942)                          |
| Increase in finance lease obligations   | 766.336.609                            | 262.137.037                            |
| Increase / (Decrease) in bank borrowings  | (321.979.764)                          | 362.941.835                            |
| <b>Net cash provided by financing activities</b>  | <b>254.650.036</b>                     | <b>237.452.930</b>                     |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   | <b>(117.852.596)</b>                   | <b>100.655.401</b>                     |
| <b>Cash and cash equivalents at the beginning of period</b>   | <b>482.910.555</b>                     | <b>382.255.154</b>                     |
| <b>Cash and cash equivalents at the end of period</b>   | <b>365.057.959</b>                     | <b>482.910.555</b>                     |

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

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

## 1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 31 December 2006, the shareholders and their respective shareholdings in the Company were as follows:

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

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary as of 31 December 2006 is 12.807 (31 December 2005: 11.121). The average number of employees working for the Group in 31 December 2006 and 2005 are 12.778 and 11.151, respectively. Financial assets of the Company are stated at Note 10.

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

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

## 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Accounting Standards Applied:

The accompanying financial statements are 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 Markets 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 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 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.

Inflation indices stated on and before 31 December 2006 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 2006 | 9.802,74     | 32,8  |
| 31 December 2005 | 8.785,74     | 35,6  |
| 31 December 2004 | 8.403,80     | 69,7  |

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

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

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

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.

Due to the facts that hyperinflationary conditions have no longer been available and New Turkish Lira has been a stable currency in Turkey, inflation accounting has not been applied in the financial statements starting from 1 January 2006.

### 2.3 Basis of Consolidation

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

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

The table below sets out the consolidated Subsidiary and participation rate of the Company in this subsidiary at 31 December 2006:

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

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

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

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

c) The Company have two associates. The participation rate of the Company is 50%, and the associates are not controlled by the Company. The entities are valued by equity method.

The table below sets out consolidated associates and indicates the proportion of ownership interest of the Company in these associates at 31 December 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                         |
| THY DO&CO İkrâm Hizmetleri A.Ş | Catering Services         | 50%                         | -                             | Turkey                         |

In equity method, the associate is presented on the balance sheet at net asset value and the portion of the Company from its operations is added to the income statement.

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

#### 2.4 Comparative Information and Corrections on Previous Periods' Financial Statements

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

a) As of 31 December 2006, an examination is made of whether the restated indexed YTL net book values of aircrafts exceeded their recoverable amounts. Differences arising from this comparison are recognized as impairment loss. In the prior accounting policy application, the Company firstly used to decrease the restated YTL net book values of its aircrafts to the YTL 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 recoverable amounts of aircrafts. If net book values based on US Dollar acquisition costs had exceeded recoverable amounts of aircrafts, the Company used to recognize these differences as impairment in the financial statements. Due to the fact that inflation accounting has no longer been required in the preparation of financial statements and thus the effects of fictitious increases in aircraft values caused by inflation accounting has been lessened, starting from 30 June 2006 the Company has decided that use of net book values calculated according to US Dollar acquisition costs is not necessary as an additional criterion in the calculation of impairment loss. This accounting policy change has resulted YTL 211.518.157 increase in tangible assets, YTL 42.303.631 increase in deferred tax liabilities, YTL 126.448.273 decrease in accumulated losses and YTL 42.766.253 increase in the net profit for the period of the Company. Eliminating the effect of the current period reduction in the corporate tax rate, the increase in the net profit for the period would be YTL 21.614.437.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

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

#### 2.4 Comparative Information and Corrections on Previous Periods' Financial Statements (cont'd)

b) IAS 39 "Financial Instruments: Recognition and Measurement" has been revised effective from the period beginning on or after 1 January 2005. In accordance with the revised standard, fair value gains and losses on available-for-sale financial assets shall be directly recognized in equity until the financial assets are derecognized. The Company recognised such fair value gains and losses on available-for-sale financial assets in income statement until 31 December 2004. As a result of the revision in IAS 39, the Company applied the accounting policy change retrospectively, and adjusted all related comparative financial information.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Revenue Recognition and Commission Expenses

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

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

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

#### 3.2 Inventories

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

#### 3.3 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 value if measured reliably. Gains or losses on these securities are recognized in net profit or loss for the period in which they arise.

Investments Held to Maturity:

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

Investments Available for Sale:

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

Investments at Equity:

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

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

#### 3.4 Tangible and Intangible Assets

Tangible Assets:

Tangible assets are measured at net book value calculated by deduction of accumulated depreciation from cost values, cost values being restated until 31 December 2005 in accordance with inflation accounting. Depreciation is calculated over the useful lives for tangible assets on a straight-line basis.

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

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

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

Intangible Assets:

Intangible assets include leasehold improvements, rights, information systems and software. Intangible assets are carried at the beginning cost including the restatement to the equivalent purchasing power for those accounted on or before 31 December 2005 less accumulated depreciation. Leasehold improvements are depreciated over their lease periods and other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis.

#### 3.5 Impairment on Assets

According to IAS 29, the Company restates those fixed assets purchased on or before 31 December 2005 by using WPI. Those purchased on or after 1 January 2006 are carried at cost.

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

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

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

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

### 3.5 Impairment on Assets (cont'd)

As of 31 December 2006, an examination is made of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts. Recoverable amount is determined as, higher of the present value of cash flows expected from the usage of an asset and its net selling price. Net selling price for the aircrafts is determined according to second hand prices in international price guides. Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations account.

### 3.6 Borrowing Costs

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

### 3.7 Manufacturers' Credits

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

### 3.8 Maintenance and Repair Costs

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

### 3.9 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 "Shop and Miles" program. A portion of such revenue is deferred and amortized as transportation is provided.

### 3.10 Deferred Income Taxes

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

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

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

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

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

#### 3.10 Deferred Income Taxes (cont'd)

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

#### 3.11 Employment Termination Benefits

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

#### 3.12 Related Parties

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

#### 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> |
|------------------|---------------------|---------------------|
| 31 December 2006 | 1,4056              | 1,4297              |
| 31 December 2005 | 1,3418              | 1,3405              |

#### 3.14 Leases

The Company leases aircraft, engines, simulators, computer equipments and vehicles by financial leases or operational leases. Finance leases are reflected in the Company's balance sheet by recording leased assets and lease liabilities equal to the present value of lease payments. The finance leased assets are depreciated over their useful lives. Operating leases are accounted for as operating expense when incurred.

#### 3.15 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.

##### 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 Company could realize in a current market exchange.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

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

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

##### Financial Assets (cont'd)

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

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

The Company's principal financial assets are cash and cash equivalents, accounts 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. ("Sun Express") and THY DO&CO İkrâm Hizmetleri A.Ş. ("THY DO&CO") are accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. ("USAŞ") is classified as available for sale investments and changes in their fair value are recognized in shareholders' equity.

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

##### Financial Liabilities:

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

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

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

##### Credit Risk:

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

##### Price Risk:

- Currency Risk

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

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

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

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

- Interest Risk

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

- Market Risk

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

- Liquidity Risk

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

### 3.16 Offsetting

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

### 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.

### 3.18 Earnings Per Share

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

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

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

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| Number of shares outstanding on 1 January (in full)                       | 175.000.000.000         | 175.000.000.000         |
| New shares issued (in full)   | -                       | -                       |
| Number of shares outstanding on 31 December (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   | 178.991.899             | 93.223.288              |
| Earnings per share (Ykr)  | 0,102                   | 0,053                   |

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
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## 4 SEGMENTAL REPORTING

### 4.1 Business Segments

The Company predominantly operates in one industry segment as of 31 December 2006; the primary businesses are air transportation of passengers and cargo within, to or from Turkey and to supply maintenance service for aircrafts.

### 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.

## 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

|                     | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---------------------|-------------------------|-------------------------|
| Cash                | 503.956                 | 195.489                 |
| Cheques received    | 309.601                 | 138.532                 |
| Banks               | 354.192.254             | 477.065.690             |
| Other liquid assets | 10.052.148              | 5.510.844               |
|                     | <u>365.057.959</u>      | <u>482.910.555</u>      |

Foreign currency bank balances are YTL 317.154.164 at 31 December 2006 (31 December 2005: YTL 295.610.051).

### Time Deposits:

| <u>Amount</u> | <u>Currency</u> | <u>Opening Date</u>   | <u>Maturity</u>       | <u>31 December 2006</u> |
|---------------|-----------------|-----------------------|-----------------------|-------------------------|
| 33.582.312    | YTL             | 04.12.2006-29.12.2006 | 04.01.2007            | 33.582.312              |
| 112.392.082   | Euro            | 11.12.2006-29.12.2006 | 04.01.2007-12.01.2007 | 208.093.940             |
| 7.443.256     | US Dollar       | 29.12.2006            | 04.01.2007            | 10.462.241              |
|               |                 |                       |                       | <u>252.138.493</u>      |

| <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>31 December 2006</u> | <u>31 December 2005</u> |
|------------------------------------|-------------------------|-------------------------|
| Trade receivables                  | 295.210.410             | 210.448.412             |
| Discount on receivables (-)        | (3.361.677)             | (2.334.886)             |
| Provision for doubtful receivables | (18.447.881)            | (16.516.720)            |
|                                    | <u>273.400.852</u>      | <u>191.596.806</u>      |

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
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### 7 DUE FROM RELATED PARTIES

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

|                                 | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---------------------------------|-------------------------|-------------------------|
| THY DO&CO İkrâm Hizmetleri A.Ş. | 19.833.398              | -                       |
| Sun Express                     | 1.485.215               | 970.701                 |
|                                 | <u>21.318.613</u>       | <u>970.701</u>          |

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

|                                 | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---------------------------------|-------------------------|-------------------------|
| THY DO&CO İkrâm Hizmetleri A.Ş. | 14.812.000              | -                       |
|                                 | <u>14.812.000</u>       | <u>-</u>                |

Due from THY DO&CO İkrâm Hizmetleri A.Ş. comprised of short and long term credit receivables at amounts of Euro 10.700.000, Euro 8.000.000 respectively, in total Euro 18.700.000.

### 8 INVENTORIES

Inventories comprised the following:

|                                | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--------------------------------|-------------------------|-------------------------|
| Spare parts, flight equipments | 119.132.823             | 70.078.750              |
| Other inventories              | 16.510.744              | 14.595.913              |
|                                | <u>135.643.567</u>      | <u>84.674.663</u>       |

### 9 OTHER SHORT TERM RECEIVABLES AND ASSETS

Other short-term receivables and assets comprised the following:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Prepaid sales commissions                        | 14.199.828              | 11.268.599              |
| Prepaid operating lease expenses                 | 11.356.882              | 5.314.180               |
| Tax to be refunded                               | 7.025.462               | 2.965.389               |
| Maintenance service income accruals              | 5.792.001               | 10.127.094              |
| Interline passenger income accruals              | 3.886.502               | 3.843.430               |
| Due from insurance firms                         | 3.688.278               | 3.192.141               |
| Foreign receivables from technical suppliers     | 2.194.204               | 1.557.088               |
| Prepaid other expenses                           | 1.922.986               | 2.726.288               |
| Income accruals                                  | 1.356.703               | -                       |
| Prepaid Eximbank USA guarantee and exposure fee  | 1.092.408               | 1.092.408               |
| Business advances given                          | 771.160                 | 95.989                  |
| Prepaid rent expenses                            | 666.760                 | 574.125                 |
| Receivables relating to RJ aircraft modification | -                       | 560.516                 |
| Personnel salary advance                         | 556.804                 | 375.337                 |
| Prepaid aircraft financing expense               | 423.583                 | 487.846                 |
| Deferred insurance expenses                      | 283.404                 | 6.787.420               |
| Due from personnel                               | 312.489                 | 278.853                 |
| Receivable from SITA deposit certificates        | 188.675                 | 155.882                 |
| VAT deductible                                   | 27.545                  | 437.170                 |
| Prepaid financial expense of bank borrowing      | 21.690                  | 740.124                 |
| Receivables from tax office                      | 13.157                  | 13.194                  |
| Other receivables                                | 859.523                 | 351.884                 |
|  | <u>56.640.044</u>       | <u>52.944.957</u>       |

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
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### 10 FINANCIAL ASSETS

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

|  | <b>31 December 2006</b> | <b>31 December 2005</b> |
|--|-------------------------|-------------------------|
| Güneş Ekspres Havacılık A.Ş. (Sun Express) | 7.681.874               | 17.490.282              |
| THY DO&CO İkrâm Hizmetleri A.Ş.            | 15.199.029              | -                       |
|  | <u>22.880.903</u>       | <u>17.490.282</u>       |

Financial assets available for sale are as follows:

|   | <b>31 December 2006</b> | <b>31 December 2005</b> |
|---|-------------------------|-------------------------|
| Uçak Servisi A.Ş. (USAŞ)                          | 8.371.742               | 8.431.536               |
| Appreciation/(diminution) in value of USAŞ shares | (3.631.623)             | 3.021.190               |
| Sita Inc.   | 1.755.955               | 1.755.955               |
| Emek İnşaat ve İşletme A.Ş.                       | 28.080                  | 28.080                  |
| France Telecom shares                             | -                       | 21.133.047              |
| Diminution in value of France Telecom shares      | -                       | (14.377.581)            |
| Other financial assets                            | -                       | 1.354                   |
|   | <u>6.524.154</u>        | <u>19.993.581</u>       |

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 22.599.856. "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 85.513.379 and YTL 15.363.747 respectively at 31 December 2006. (31 December 2005: YTL 69.014.975 and YTL 34.980.564).

THY DO&CO İkrâm Hizmetleri A.Ş. was established with YTL 60.000.000 capital on 27 September 2006. THY DO&CO İkrâm Hizmetleri A.Ş.'s total assets and equity are YTL 107.915.720 and YTL 30.398.058 respectively at 31 December 2006.

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated.)

### 10 FINANCIAL ASSETS (cont'd)

Details of the Company's financial assets at 31 December 2006 are as follows:

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

### 11 TANGIBLE ASSETS (NET)

Tangible assets comprised the following:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Tangible assets (net)                    | 3.145.244.807           | 2.061.622.940           |
| Advances given for other tangible assets | 6.712.224               | 9.476.231               |
|  | <u>3.151.957.031</u>    | <u>2.071.099.171</u>    |

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006

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

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

|  | Land, Land<br>Improvements &<br>Buildings | Technical<br>Equipments,<br>Simulators and<br>Vehicles | Other<br>Equipments,<br>Fixtures and<br>Software | Aircraft and<br>Spare Engines | Components and<br>Repairable Spare<br>Parts | Construction<br>in Progress | Total Assets<br>Owned | Leased Aircraft      | Other Leased<br>Fixed<br>Assets & Simulator<br>s | Total Leased<br>Assets | Total                |
|--|---|--|--|-------------------------------|---|-----------------------------|-----------------------|----------------------|--|------------------------|----------------------|
| <b>Cost</b>                            |   |  |  |                               |   |                             |                       |                      |  |                        |                      |
| 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 leases          | -   | 4.865.614  | -  | 546.048.509                   | -   | -                           | 550.914.123           | (532.308.697)        | (18.605.426)                                     | (550.914.123)          | -                    |
| Additions                              | 1.236.388                                 | 32.419.711   | 7.928.444  | 44.699.992                    | 112.609.302                                 | 625.818                     | 199.519.655           | 871.973.047          | -  | 871.973.047            | 1.071.492.702        |
| Disposals                              | (887.890)                                 | (34.566.320)   | (25.314.455)                                     | -                             | (77.771.679)                                | (1.406.803)                 | (139.947.147)         | -                    | -  | -                      | (139.947.147)        |
| Revaluation                            | 51.768.953                                | -  | -  | -                             | -   | -                           | 51.768.953            | -                    | -  | -                      | 51.768.953           |
| Closing balance 31 December 2006       | 223.982.913                               | 311.026.751  | 191.795.173                                      | 2.708.192.401                 | 354.844.662                                 | 907.875                     | 3.790.749.775         | 3.361.025.975        | -  | 3.361.025.975          | 7.151.775.750        |
| <b>Accumulated Depreciation</b>        |   |  |  |                               |   |                             |                       |                      |  |                        |                      |
| 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 leases          | -   | 4.383.996  | -  | 251.151.558                   | -   | -                           | 255.535.554           | (248.586.793)        | (6.948.761)                                      | (255.535.554)          | -                    |
| Depreciation for the period            | 2.856.444                                 | 12.344.091   | 6.464.903  | 90.253.934                    | 97.913.802                                  | -                           | 209.833.174           | 136.765.668          | -  | 136.765.668            | 346.598.842          |
| Disposals                              | (490.842)                                 | (30.142.301)   | (24.179.230)                                     | -                             | (77.771.679)                                | -                           | (132.584.051)         | -                    | -  | -                      | (132.584.052)        |
| Closing balance 31 December 2006       | 52.937.631                                | 261.195.623  | 175.048.253                                      | 1.440.076.964                 | 173.273.286                                 | -                           | 2.102.531.758         | 774.525.023          | -  | 774.525.023            | 2.877.056.781        |
| Accumulated impairment                 | -   | 3.494.428  | -  | 680.803.108                   | -   | -                           | 684.297.536           | 445.176.626          | -  | 445.176.626            | 1.129.474.162        |
| <b>31 December 2006 net book value</b> | <b>171.045.282</b>                        | <b>46.336.700</b>                                      | <b>16.746.919</b>                                | <b>587.312.329</b>            | <b>181.571.376</b>                          | <b>907.875</b>              | <b>1.003.920.481</b>  | <b>2.141.324.326</b> | <b>-</b>   | <b>2.141.324.326</b>   | <b>3.145.244.807</b> |
| <b>31 December 2005 net book value</b> | <b>121.293.432</b>                        | <b>27.329.539</b>                                      | <b>16.418.604</b>                                | <b>442.360.383</b>            | <b>166.875.876</b>                          | <b>1.688.860</b>            | <b>775.966.694</b>    | <b>1.278.899.476</b> | <b>6.756.770</b>                                 | <b>1.285.656.246</b>   | <b>2.061.622.940</b> |

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### 12 INTANGIBLE ASSETS (NET)

Intangible assets comprised the following:

|  | <u>Rights</u>     | <u>Leasehold<br/>Improvements</u> | <u>Total</u>      |
|--|-------------------|-----------------------------------|-------------------|
| <b><u>Cost</u></b>                     |                   |                                   |                   |
| Opening balance 1 January 2006         | 64.371.175        | 20.088.256                        | 84.459.431        |
| Additions                              | 4.026.898         | 615.908                           | 4.642.806         |
| Disposals                              | (6.609)           | -                                 | (6.609)           |
| Closing balance 31 December 2006       | <u>68.391.464</u> | <u>20.704.164</u>                 | <u>89.095.628</u> |
| <b><u>Accumulated Depreciation</u></b> |                   |                                   |                   |
| Opening balance 1 January 2006         | 58.639.322        | 19.459.931                        | 78.099.253        |
| Amortization charge for the period     | 2.973.619         | 420.122                           | 3.393.741         |
| Disposals                              | (3.008)           | -                                 | (3.008)           |
| Closing balance 31 December 2006       | <u>61.609.933</u> | <u>19.880.053</u>                 | <u>81.489.986</u> |
| Accumulated impairment                 | -                 | -                                 | -                 |
| <b>31 December 2006 net book value</b> | <u>6.781.531</u>  | <u>824.111</u>                    | <u>7.605.642</u>  |
| <b>31 December 2005 net book value</b> | <u>5.731.854</u>  | <u>628.324</u>                    | <u>6.360.178</u>  |

### 13 ADVANCES GIVEN FOR AIRCRAFT

|                                       | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---------------------------------------|-------------------------|-------------------------|
| Prepayments for aircraft purchases    | 358.335.473             | 570.531.933             |
| Advances given for operational leases | 4.414.740               | 2.637.672               |
|                                       | <u>362.750.213</u>      | <u>573.169.605</u>      |

### 14 OTHER LONG TERM RECEIVABLES AND ASSETS

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| Maintenance reserve for engines                 | 5.707.606               | -                       |
| Prepaid Eximbank USA guarantee and exposure fee | 4.796.966               | 5.889.372               |
| Income accruals                                 | 3.747.430               | -                       |
| Prepaid operating lease expenses                | 3.670.910               | 374.744                 |
| Deposits given                                  | 2.037.873               | 1.325.066               |
| Prepaid aircraft financing expense              | 1.723.667               | 2.067.151               |
| Receivables from SITA deposit certificate       | 985.359                 | 804.107                 |
| Due from personnel                              | 986.372                 | 1.006.711               |
| Other receivables                               | -                       | 90.670                  |
|   | <u>23.656.183</u>       | <u>11.557.821</u>       |

### 15 BANK BORROWINGS

Short-term bank borrowings comprised the following:

|                     | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---------------------|-------------------------|-------------------------|
| Bank Borrowings (*) | 4.481.158               | 362.903.225             |
| Other (**)          | 373.497                 | 332.636                 |
|                     | <u>4.854.655</u>        | <u>363.235.861</u>      |

Long-term bank borrowings comprised the following:

|                     | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---------------------|-------------------------|-------------------------|
| Bank Borrowings (*) | 36.401.442              | -                       |
|                     | <u>36.401.442</u>       | <u>-</u>                |

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### 15 BANK BORROWINGS (cont'd)

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

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

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

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

Bank Borrowings comprised the following short-term bank credit at 31 December 2005:

| <u>Bank Name</u>                     | <u>Maturity</u> | <u>Original Amount</u> | <u>Interest Accruals</u> | <u>YTL</u>  |
|--------------------------------------|-----------------|------------------------|--------------------------|-------------|
| T.İş Bankası /<br>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 monthly tax and social security premium payments.

### 16 FINANCE LEASE OBLIGATIONS

Finance lease obligations are as follows:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Not later than one year  | 293.245.257             | 221.054.754             |
| Between 1 - 5 years  | 1.029.508.045           | 699.473.041             |
| Over 5 years   | 725.608.135             | 299.805.674             |
|  | <u>2.048.361.437</u>    | <u>1.220.333.469</u>    |
| Less: Future interest expense                                    | <u>(385.707.776)</u>    | <u>(184.509.789)</u>    |
| Principal value of future rentals shown in the<br>balance sheets | <u>1.662.653.661</u>    | <u>1.035.823.680</u>    |
|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
| <i>Represented by :</i>  |                         |                         |
| Current liabilities  | 218.720.799             | 179.092.821             |
| Long term liabilities  | 1.443.932.862           | 856.730.859             |
|  | <u>1.662.653.661</u>    | <u>1.035.823.680</u>    |
| <i>Interest range:</i>   |                         |                         |
| Floating rate obligations  | 1.530.403.463           | 982.205.221             |
| Fixed rate obligations   | 132.250.198             | 53.618.459              |
|  | <u>1.662.653.661</u>    | <u>1.035.823.680</u>    |

As of 31 December 2006, the US Dollar and Euro denominated lease obligations' interest rates for the fixed rate obligations are between 4,075% and 5,59%; and for the floating rate obligations are on a margin ranging between EURIBOR minus 0,01% and LIBOR minus 0,057% and LIBOR plus 3,0%.

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## 17 DUE TO RELATED PARTIES

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

|                          | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--------------------------|-------------------------|-------------------------|
| Uçak Servisi A.Ş. (USAŞ) | 11.496.508              | 7.563.830               |
| Sun Express              | 3.372.538               | 459.029                 |
|                          | <u>14.869.046</u>       | <u>8.022.859</u>        |

## 18 OTHER SHORT TERM PAYABLES

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| Taxes and funds payable                   | 25.593.540              | 16.204.908              |
| Social security premiums payable          | 16.898.094              | 14.840.062              |
| Debt to personnel                         | 375.941                 | 276.417                 |
| Other liabilities                         | 2.704.620               | 1.373.121               |
| Deferred income from USAŞ shares transfer | -                       | 5.257.836               |
|   | <u>45.572.195</u>       | <u>37.952.344</u>       |

## 19 DEPOSITS AND ADVANCES RECEIVED

Short term deposits and advances received comprised the following:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| MCO advances   | 19.059.524              | 16.262.840              |
| Advances received for mileage credit sales           | 18.396.195              | 21.649.478              |
| Advances received for operating and financial leases | 4.669.162               | 1.151.059               |
| Deposits and guarantees received                     | 4.349.529               | 3.715.141               |
| Special rent advances                                | 2.087.449               | 3.413.900               |
| E-pos ticket advance                                 | 701.462                 | 9.675.611               |
| Other advances received                              | 835.229                 | 544.625                 |
|  | <u>50.098.550</u>       | <u>56.412.654</u>       |

Long term deposits and guarantees received comprised the following:

|                                  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|----------------------------------|-------------------------|-------------------------|
| Deposits and guarantees received | 8.988.621               | 7.124.266               |

## 20 PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities comprised the following:

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| Flight liability resulting from ticket sales  | 218.648.685             | 154.949.961             |
| Flight liability resulting from mileage sales | 63.480.305              | 54.847.928              |
|   | <u>282.128.990</u>      | <u>209.797.889</u>      |

## 21 OTHER ACCRUED LIABILITIES

Other accrued liabilities comprised the following:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Frequent flyer program liability       | 42.285.285              | 30.577.262              |
| Accrued salaries                       | 21.773.788              | 17.993.508              |
| Accruals for sales incentive premiums  | 19.226.521              | 6.684.627               |
| Maintenance service expense accruals   | 13.271.328              | 12.585.613              |
| Expense accruals of insurance premiums | 10.613.244              | 10.468.387              |
| Provisions for legal claims            | 5.544.394               | 9.202.870               |
| Accruals for other expenses            | 6.909.507               | 4.347.361               |
| Provisions for the other liabilities   | 50.876                  | 347.266                 |
|  | <u>119.674.943</u>      | <u>92.206.894</u>       |

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### 22 MANUFACTURERS' CREDIT (NET)

Unearned income about manufacturers' credit comprised the following:

|                             | <u>31 December 2006</u> | <u>31 December 2005</u> |
|-----------------------------|-------------------------|-------------------------|
| Gross manufacturers' credit | 28.394.376              | 19.690.997              |
| Accumulated amortization    | (1.596.533)             | (16.199.785)            |
|                             | <u>26.797.843</u>       | <u>3.491.212</u>        |

### 23 TAXATION

Prepaid tax is as follows:

|                                     | <u>31 December 2006</u> | <u>31 December 2005</u> |
|-------------------------------------|-------------------------|-------------------------|
| Provision for corporate tax payable | 7.174.359               | -                       |
| Prepaid taxes and funds             | (5.222.340)             | (13.363.884)            |
|                                     | <u>1.952.019</u>        | <u>(13.363.884)</u>     |

Tax expense is as follows:

|                            | <u>31 December 2006</u> | <u>31 December 2005</u> |
|----------------------------|-------------------------|-------------------------|
| Deferred tax expense       | 2.496.856               | 45.868.744              |
| Current period tax expense | 7.174.359               | -                       |
| Tax expense                | <u>9.671.215</u>        | <u>45.868.744</u>       |

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

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

The corporation tax rate of the fiscal year 2006 is 20% (30% those for benefiting from investment allowances.) (2005: 30%). Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and allowances. The annual corporate income tax return is required to be filled in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year. Payments can be made up until the end of the month in which the tax return is to be filed.

In accordance with Income Tax Law Temporary Article 69, investment allowances available as of 31 December 2005 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 % instead of 20%. Taxpayers have the option to benefit from investment allowances in all the years 2006, 2007 and 2008 or in any of these years.

The parent company preferred to deduct the investment allowances of 2005 from the earnings in 2006. Therefore, the applicable current corporate tax rate is 30%. However, since the parent company assumes that investment allowances will not be benefited in 2007 and in the following years, and due to the fact that the deferred tax assets and liabilities are of long-term, deferred tax rate is applied as 20%.

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

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### 23 TAXATION(cont'd)

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

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

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

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 20%.

The deferred tax assets and liabilities as of 31 December 2006 and 2005, computed by applicable tax rate are as follows:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Allowance for unrecoverable bank accounts              | -                       | 246                     |
| Allowance for doubtful receivables                     | 494.424                 | 230.607                 |
| Restatement of inventories                             | -                       | 394.576                 |
| Diminution/(Appreciation) in value of financial assets | 1.543.298               | (666.579)               |
| Short term lease obligations                           | 25.180.043              | 36.369.506              |
| Income and expenses relating to future periods         | 220.206                 | 456.107                 |
| Expense accruals                                       | 7.237.010               | 18.829.234              |
| Provision for advance ticket sales                     | (18.429.928)            | (22.186.612)            |
| Deferred income  | -                       | 1.577.347               |
| Fixed assets   | (290.990.739)           | (368.749.380)           |
| Long term lease obligation                             | 100.292.302             | 185.266.465             |
| Retirement pay liability                               | 23.460.981              | 34.092.373              |
| Manufacturers' credit                                  | -                       | 1.392.681               |
| Discount on receivables                                | 672.335                 | 772.994                 |
| Discount on payables                                   | (988.236)               | (811.742)               |
| Other  | 393.866                 | -                       |
| Unused investment incentives                           | -                       | 20.048.657              |
| Unused tax losses                                      | -                       | 630.034                 |
| Deferred tax liability                                 | <u>(150.914.438)</u>    | <u>(92.353.486)</u>     |
|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
| Deferred tax assets                                    | 158.971.576             | 300.060.827             |
| Deferred tax liabilities                               | (309.886.014)           | (392.414.313)           |
| Deferred tax assets / (liabilities), net               | <u>(150.914.438)</u>    | <u>(92.353.486)</u>     |

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### 23 TAXATION (cont'd)

Movement in deferred tax liability is as follows:

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| Opening value of deferred tax liability   | (92.353.486)            | (48.597.403)            |
| As a result of accounting policy change, the effect<br>on previous years deferred taxes | (54.192.117)            | -                       |
| Total deferred tax liability  | (146.545.603)           | (48.597.403)            |
| Current period deferred tax expense   | (2.496.856)             | (45.868.744)            |
| Monetary gain on deferred tax liabilities   | -                       | 2.112.161               |
| Deferred taxes netted off from reserves   | (1.871.979)             | -                       |
| Current period deferred tax liability   | <u>(150.914.438)</u>    | <u>(92.353.486)</u>     |

### 24 RETIREMENT PAY LIABILITY

Under labor laws effective in Turkey, employees who worked for at least one year are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, completing 25 years of service (20 years for women), are called up for military service or die. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to an upper limit of YTL 1.857 as at 31 December 2006 (31 December 2005: YTL 1.727). The number of service years required before retirement is rising according to a sliding scale (60 for men, 58 for women) based on new legislation enacted in 1999. Provision for retirement pay liability is not subject to any kind of funding and no funding is required. The total provision recognized in the financial statements represents the estimated present value of the vested benefit obligation.

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

|                      | <u>31 December 2006</u> | <u>31 December 2005</u> |
|----------------------|-------------------------|-------------------------|
| Current service cost | 13.449.887              | 15.156.287              |
| Interest cost        | 6.493.785               | 5.594.993               |
|                      | <u>19.943.672</u>       | <u>20.751.280</u>       |

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

|                            | <u>31 December 2006</u> | <u>31 December 2005</u> |
|----------------------------|-------------------------|-------------------------|
| Provision at 1 January     | 113.641.242             | 104.312.102             |
| Charge for the year        | 19.943.672              | 20.751.280              |
| Payments during the period | (16.280.004)            | (6.887.415)             |
| Restatement effect         | -                       | (4.534.725)             |
| Provision at 31 December   | <u>117.304.910</u>      | <u>113.641.242</u>      |

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,71 % (31 December 2005: 5,61 %) per annum considering the effect of increase in eligible pay and its limit.

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### 25 SHARE CAPITAL

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

|   | Group | %         | 31 December<br>2006 | %         | 31 December<br>2005 |
|---|-------|-----------|---------------------|-----------|---------------------|
| Republic of Turkey Prime<br>Ministry Privatization<br>Administration(*) | A, C  | 49,12(**) | 85.963.662          | 75,18(**) | 131.565.696         |
| Others  | A     | 50,88(**) | 89.036.338          | 24,82(**) | 43.434.304          |
| Share capital (Historic)  |       |           | 175.000.000         |           | 175.000.000         |
| Restatement effect  |       |           | 1.825.994.542       |           | 1.825.994.542       |
| Restated share capital  |       |           | 2.000.994.542       |           | 2.000.994.542       |

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

As at 31 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:

- As defined in Article 3.1 of the Articles of Association, taking decisions that will negatively affect the Company's mission,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

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### 25 SHARE CAPITAL (cont'd)

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.

### 26 FOREIGN CURRENCY POSITION

Foreign currency risk arises from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debts. As of 31 December 2006, 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 31 December 2006 and 2005 in terms of YTL is as follows:

| <b>31 December 2006</b>                    | US Dollar          | Euro               | Sterling         | Other              | Total              |
|--|--------------------|--------------------|------------------|--------------------|--------------------|
| <i>Foreign currency denominated assets</i> |                    |                    |                  |                    |                    |
| Cash and cash equivalents                  | 52.188.763         | 224.456.764        | 1.196.876        | 49.621.686         | 327.464.089        |
| Accounts receivable (net)                  | 57.213.432         | 45.890.748         | 6.622.176        | 63.170.691         | 172.897.047        |
| Due from related parties                   | -                  | 36.130.613         | -                | -                  | 36.130.613         |
| Other short term receivables and assets    | 22.195.837         | 5.925.829          | 391.830          | 3.405.956          | 31.919.452         |
| Inventories-advances given                 | 258.862            | 646.499            | 2.208            | -                  | 907.569            |
| Other long term receivables and assets     | 17.195.810         | 663.214            | 85.602           | 630.406            | 18.575.032         |
| Advances given for the tangible assets     | 5.713.734          | 851.424            | 142.857          | -                  | 6.708.015          |
| Advances given for the aircraft            | 358.335.473        | -                  | -                | -                  | 358.335.473        |
|  | <u>513.101.911</u> | <u>314.565.091</u> | <u>8.441.549</u> | <u>116.828.739</u> | <u>952.937.290</u> |

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

| 31 December 2006                                | US Dollar              | Euro                 | Sterling           | Other              | Total                  |
|---|------------------------|----------------------|--------------------|--------------------|------------------------|
| <b>Foreign currency denominated liabilities</b> |                        |                      |                    |                    |                        |
| Bank borrowings (short term)                    | 4.481.158              | -                    | -                  | -                  | 4.481.158              |
| Financial lease obligations (short term)        | 188.669.421            | 30.051.378           | -                  | -                  | 218.720.799            |
| Accounts payable (net)                          | 136.325.448            | 59.587.132           | 3.445.186          | 51.144.189         | 250.501.955            |
| Due to related parties                          | 35.939                 | 3.334.160            | -                  | -                  | 3.370.099              |
| Deposits and advances received (short term)     | 24.844.873             | 1.750.914            | 182.317            | 1.295.452          | 28.073.556             |
| Other long term payables                        | 347.062                | 497.785              | 126.712            | 156.487            | 1.128.046              |
| Passenger flight liabilities                    | 83.219.383             | 49.932.897           | 9.969.729          | 46.375.047         | 189.497.056            |
| Other accrued liabilities                       | 31.060.789             | 12.624.873           | 680.470            | 3.555.226          | 47.921.358             |
| Bank borrowings (long term)                     | 36.401.442             | -                    | -                  | -                  | 36.401.442             |
| Financial lease obligations (long term)         | 1.099.716.929          | 344.215.933          | -                  | -                  | 1.443.932.862          |
| Gross manufacturers' credit (net)               | 26.797.841             | -                    | -                  | -                  | 26.797.841             |
| Deposits and advances received (long term)      | 468.075                | 6.876.034            | 65.036             | 1.579.476          | 8.988.621              |
|   | <u>1.632.368.360</u>   | <u>508.871.106</u>   | <u>14.469.450</u>  | <u>104.105.877</u> | <u>2.259.814.793</u>   |
| <b>Net foreign currency position (*)</b>        | <u>(1.119.266.449)</u> | <u>(194.306.015)</u> | <u>(6.027.901)</u> | <u>12.722.862</u>  | <u>(1.306.877.503)</u> |

| 31 December 2005                           | US Dollar          | Euro               | Sterling         | Other             | Total                |
|--|--------------------|--------------------|------------------|-------------------|----------------------|
| <b>Foreign currency denominated assets</b> |                    |                    |                  |                   |                      |
| Cash and cash equivalents                  | 209.110.558        | 63.411.560         | 1.701.717        | 27.041.304        | 301.265.139          |
| Accounts receivable (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 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> |

| 31 December 2005                                | US Dollar            | Euro                | Sterling           | Other             | Total                |
|---|----------------------|---------------------|--------------------|-------------------|----------------------|
| <b>Foreign currency denominated liabilities</b> |                      |                     |                    |                   |                      |
| Bank borrowings (short term)                    | 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           |
| Other accrued liabilities                       | 17.657.538           | 6.848.702           | 2.836.665          | 4.149.043         | 31.491.948           |
| Passenger flight liabilities                    | 71.477.493           | 76.609.577          | 10.221.707         | 41.047.092        | 199.355.869          |
| 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>1.591.408.877</u> | <u>145.454.756</u>  | <u>16.357.550</u>  | <u>74.537.447</u> | <u>1.827.758.630</u> |
| <b>Net foreign currency position (*)</b>        | <u>(730.472.428)</u> | <u>(31.994.522)</u> | <u>(8.088.500)</u> | <u>2.505.416</u>  | <u>(768.050.034)</u> |

(\*) Whereas, the Company seems to be in an open position based on its monetary assets and liabilities, as explained in Note 3.5, the Company values its aircraft, spare engines and simulators according to their US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's those tangible assets which are carried by their US Dollar values should also be considered in the overall evaluation of the sensitivity of the Company's assets and liabilities against the changes in foreign exchange rates. As of 31 December 2006, the value of aircraft, spare engines and simulators, which are carried by their US Dollar selling prices, is YTL 2.747.836.474 (31 December 2005: YTL 1.916.522.751).

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### 27 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is YTL 55.363.981 as of 31 December 2006 (31 December 2005: YTL 38.040.225).

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 23 of these aircrafts are delivered on 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 255 million as of 31 December 2006 related to these aircrafts.

c) Letters of comfort:

|   | <u>31 December 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 Company's discounted retirement pay provision is YTL 117.304.910. The Company's liability for retirement pay would be approximately YTL 200.219.418 as of 31 December 2006, if all employees were dismissed on that date.

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

### 28 OPERATING LEASE COMMITMENTS

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

|                         | <u>31 December 2006</u> | <u>31 December 2005</u> |
|-------------------------|-------------------------|-------------------------|
| Not later than one year | 170.991.574             | 118.983.335             |
| Between 1-5 years       | 454.083.766             | 200.387.903             |
| Over 5 years            | 514.447.211             | 100.928.325             |
|                         | <u>1.139.522.551</u>    | <u>420.299.563</u>      |

### 29 SEGMENTAL REPORTING

#### 29.1. Total Assets and Shareholders' Equity

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| <b>Total Assets</b>  |                         |                         |
| Aviation   | 4.549.181.209           | 3.826.193.031           |
| Technical service  | 386.413.786             | -                       |
| <b>Total</b>   | <u>4.935.594.995</u>    | <u>3.826.193.031</u>    |
| Less: Eliminations of consolidation                                | <u>(329.153.918)</u>    | <u>-</u>                |
| <b>Total assets according to consolidated financial statements</b> | <u>4.606.441.077</u>    | <u>3.826.193.031</u>    |

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### 29 SEGMENTAL REPORTING (cont'd)

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

| Shareholders' Equity   | 31 December 2006     | 31 December 2005     |
|--|----------------------|----------------------|
| Aviation   | 1.584.187.981        | 1.253.790.036        |
| Technical service  | 320.873.605          | -                    |
| <b>Total</b>   | <b>1.905.061.586</b> | <b>1.253.790.036</b> |
| Less: Eliminations of consolidation  | (291.616.550)        | -                    |
| <b>Total shareholders' equity according to consolidated financial statements</b> | <b>1.613.445.036</b> | <b>1.253.790.036</b> |

#### 29.2. Main Operating Revenues

|   | 01 January 2006-<br>31 December 2006 | 01 January 2005-<br>31 December 2005 |
|---|--------------------------------------|--------------------------------------|
| Aviation  | 4.018.642.660                        | 3.139.178.553                        |
| Technical service   | 354.802.097                          | -                                    |
| <b>Total</b>  | <b>4.373.444.757</b>                 | <b>3.139.178.553</b>                 |
| Less: Eliminations of consolidation   | (323.468.454)                        | -                                    |
| <b>Total main operating revenues according to consolidated financial statements</b> | <b>4.049.976.303</b>                 | <b>3.139.178.553</b>                 |

#### 29.3. Main Operating Expenses (-)

|   | 01 January 2006-<br>31 December 2006 | 01 January 2005-<br>31 December 2005 |
|---|--------------------------------------|--------------------------------------|
| Aviation  | (3.975.035.477)                      | (3.054.728.897)                      |
| Technical service   | (320.739.466)                        | -                                    |
| <b>Total</b>  | <b>(4.295.774.943)</b>               | <b>(3.054.728.897)</b>               |
| Less: Eliminations of consolidation   | 320.176.601                          | -                                    |
| <b>Total main operating expenses according to consolidated financial statements (-)</b> | <b>(3.975.598.342)</b>               | <b>(3.054.728.897)</b>               |

### 30 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) The collective bargaining agreement between THY and Turkish Civil Aviation Labour Union ended at 31 December 2006. The collective bargaining agreement meetings have been continuing as of report date.

b) Market price of 1.026.000.000 USAŞ shares, which are traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of 19 April 2007, has decreased from YTL 4,62 at 31 December 2006 to YTL 3,68 at 19 April 2007. Hence, the total market value of these shares increased by YTL 964.440 compared to balance sheet date.

# TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

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## 31 OPERATING REVENUES

Operating revenues comprised the following:

|                          | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--------------------------|-------------------------|-------------------------|
| Scheduled flights        |                         |                         |
| - Passenger              | 3.496.322.502           | 2.717.095.846           |
| - Cargo and mail         | 318.081.256             | 269.339.731             |
| Other revenues           | 197.484.831             | 121.321.203             |
| Non-scheduled flights    | 38.087.714              | 31.421.773              |
| Total operating revenues | <u>4.049.976.303</u>    | <u>3.139.178.553</u>    |

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

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| - Europe                                 | 1.619.075.397           | 1.280.800.250           |
| - Far East                               | 677.132.939             | 491.566.887             |
| - Middle East                            | 354.450.880             | 286.121.764             |
| - North America                          | 187.696.225             | 155.834.997             |
| - North Africa                           | 92.325.647              | 78.602.574              |
| - Middle Africa                          | 8.026.229               | -                       |
| - West Africa                            | 4.646.894               | -                       |
| Abroad                                   | <u>2.943.354.211</u>    | <u>2.292.926.472</u>    |
| Domestic                                 | 871.049.547             | 693.509.105             |
| Total revenue from the scheduled flights | <u>3.814.403.758</u>    | <u>2.986.435.577</u>    |

## 32 OPERATING EXPENSES (-)

Operating expenses comprised the following:

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| <b>Cost of Sales (-)</b>                |                         |                         |
| Fuel expenses                           | 1.106.553.053           | 735.752.048             |
| Staff expenses                          | 606.948.477             | 528.249.062             |
| Depreciation expenses                   | 336.274.426             | 297.770.441             |
| Landing and overflight expenses         | 332.533.505             | 247.780.680             |
| Maintenance expenses                    | 226.210.009             | 138.128.759             |
| Handling expenses                       | 193.980.518             | 159.531.910             |
| Passenger service and catering expenses | 178.470.351             | 148.563.895             |
| Operating lease expenses                | 173.603.826             | 101.903.865             |
| Insurance expenses                      | 42.638.453              | 51.914.206              |
| Aircraft wet-lease expenses             | 10.703.448              | 10.575.369              |
| Other rent expenses                     | 10.702.230              | 15.151.215              |
| Communication expenses                  | 8.418.467               | 8.043.138               |
| Service expenses                        | 6.881.500               | 7.014.244               |
| Other taxes                             | 4.806.297               | 5.164.437               |
| Lighting, heating and water expenses    | 3.040.590               | 3.842.818               |
| Transportation expenses                 | 2.335.751               | 2.705.369               |
| Cost of other sales                     | 18.487.015              | 6.392.867               |
|   | <u>3.262.587.916</u>    | <u>2.468.484.323</u>    |

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### 32 OPERATING EXPENSES (cont'd) (-)

|  | <b>31 December 2006</b> | <b>31 December 2005</b> |
|--|-------------------------|-------------------------|
| <b>Sales and marketing expenses (-)</b>      |                         |                         |
| Commission and promotion expenses            | 257.909.410             | 214.501.933             |
| Staff expenses                               | 143.569.983             | 126.781.998             |
| Reservation system expenses                  | 71.684.061              | 56.047.954              |
| Other renting expenses                       | 16.816.907              | 13.354.869              |
| Advertisement expenses                       | 14.998.735              | 7.673.850               |
| Communication expenses                       | 14.408.370              | 13.544.727              |
| Code share expenses                          | 14.202.646              | 2.075.866               |
| Service expenses                             | 9.484.523               | 8.291.621               |
| Passenger service and catering expenses      | 5.664.104               | 4.444.829               |
| Transportation expenses                      | 4.652.765               | 5.084.273               |
| Other taxes                                  | 4.288.302               | 4.157.010               |
| Lighting, heating, energy and water expenses | 1.828.496               | 1.507.183               |
| Maintenance expenses                         | 1.204.158               | 1.068.664               |
| Fuel expenses                                | 783.485                 | 531.717                 |
| Software and computer equipment expenses     | 681.903                 | 646.166                 |
| Insurance expenses                           | 392.860                 | 292.405                 |
| Depreciation expenses                        | 241.396                 | -                       |
| Other sales and marketing expenses           | 15.519.436              | 13.403.148              |
|  | <u>578.331.540</u>      | <u>473.408.213</u>      |
| <br>   |                         |                         |
| <b>General administrative expenses (-)</b>   |                         |                         |
| Staff expenses                               | 80.966.019              | 72.771.686              |
| Depreciation expenses                        | 13.476.761              | 13.984.912              |
| Other taxes                                  | 6.054.153               | 3.760.074               |
| Maintenance expenses                         | 4.869.631               | 3.921.390               |
| Service expenses                             | 4.432.819               | 2.034.056               |
| Other renting expenses                       | 4.425.143               | 1.257.747               |
| Software and computer equipment expenses     | 4.421.994               | 3.536.043               |
| Communication expenses                       | 3.533.695               | 2.483.204               |
| Commission and promotion expenses            | 3.128.220               | 2.259.052               |
| Lighting, heating, energy and water expenses | 1.547.531               | 1.659.631               |
| Insurance expenses                           | 992.138                 | 402.356                 |
| Fuel expenses                                | 199.910                 | 223.809                 |
| Other general administrative expenses        | 6.630.872               | 4.542.401               |
|  | <u>134.678.886</u>      | <u>112.836.361</u>      |
| Total operating expenses                     | <u>3.975.598.342</u>    | <u>3.054.728.897</u>    |

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### 33 FINANCIAL EXPENSES (NET) (-)

Financial income/ (expense) comprised the following:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Foreign exchange gains                                       | 643.998.988             | 211.917.117             |
| Interest income  | 25.766.202              | 42.433.556              |
| Discount income  | 881.913                 | 596.515                 |
| Income from financial investment accounted per equity method | -                       | 784.282                 |
| Financial income   | <u>670.647.103</u>      | <u>255.731.470</u>      |
|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
| Foreign exchange losses                                      | (621.821.787)           | (241.601.663)           |
| Financial lease interest expense                             | (71.807.751)            | (45.658.088)            |
| Loss from financial investment accounted per equity method   | (11.960.380)            | -                       |
| Interest expenses for bank borrowings                        | (10.078.109)            | (12.163.552)            |
| Retirement pay interest cost                                 | (6.493.785)             | (5.594.993)             |
| Discount expense   | -                       | -                       |
| Diminution in value of financial assets                      | -                       | (5.779.778)             |
| Other financial expense                                      | (748.542)               | (2.220.372)             |
| Financial expense  | <u>(722.910.354)</u>    | <u>(313.018.446)</u>    |
| Financial income / (expense) (net)                           | <u>(52.263.251)</u>     | <u>(57.286.976)</u>     |

### 34 INCOME FROM OTHER OPERATIONS

Income from other operations comprised the following:

|   | <u>31 December 2006</u> | <u>31 December 2005</u> |
|---|-------------------------|-------------------------|
| Change in provision for diminution in value of fixed assets | 133.681.763             | 59.560.153              |
| Dividend income   | 15.102.947              | 8.356.877               |
| Discounts received from spare parts suppliers               | 11.932.007              | 10.555.819              |
| Reversal of unnecessary provision                           | 8.224.104               | 10.751.884              |
| Cost free materials income                                  | 6.489.584               | 5.109.245               |
| Compensation received                                       | 6.291.637               | 3.517.714               |
| Profit on sale of marketable securities                     | 5.491.073               | 3.579.775               |
| Yapı Kredi protocol income                                  | 2.964.893               | 2.664.604               |
| Manufacturers' credit income                                | 921.667                 | 1.774.210               |
| Gain on sale of fixed assets                                | 109.463                 | 3.035.861               |
| Other   | 25.921.811              | 2.109.748               |
|   | <u>217.130.949</u>      | <u>111.015.890</u>      |

### 35 LOSS FROM OTHER OPERATIONS

Loss from other operations comprised the followings:

|  | <u>31 December 2006</u> | <u>31 December 2005</u> |
|--|-------------------------|-------------------------|
| Provision expenses                             | 30.935.262              | 24.385.555              |
| Indemnity and penalty expenses                 | 8.256.573               | 272.027                 |
| Loss on sale of marketable securities          | 2.203.869               | -                       |
| Expenses incurred for passengers with no visas | 1.425.731               | 800.524                 |
| Loss on sale of fixed assets                   | 331.724                 | -                       |
| Other expenses                                 | 7.429.386               | 1.701.797               |
|  | <u>50.582.545</u>       | <u>27.159.903</u>       |

## TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the consolidated financial statements as at 31 December 2006  
(All amounts expressed in New Turkish Lira (YTL) unless otherwise stated)

### 36 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprised the following:

|   | <b>31 December 2006</b> | <b>31 December 2005</b> |
|---|-------------------------|-------------------------|
| Services rendered to Sun Express        | 4.926.339               | 3.682.604               |
| Services rendered to USAŞ               | 461.158                 | 376.002                 |
|   | <u>5.387.497</u>        | <u>4.058.606</u>        |
|   | <b>31 December 2006</b> | <b>31 December 2005</b> |
| Services received from USAŞ             | 98.159.997              | 80.172.618              |
| Services received from Sun Express      | 11.667.348              | 873.363                 |
|   | <u>109.827.345</u>      | <u>81.045.981</u>       |
| Dividend received from related parties: | <b>31 December 2006</b> | <b>31 December 2005</b> |
| Sun Express                             | 14.350.920              | 7.066.005               |
| Uçak Servisi A.Ş. (USAŞ)                | 409.135                 | 1.131.509               |
| Emek İnşaat ve İşletme A.Ş.             | 103                     | 69                      |
| France Telecom                          | 342.789                 | 159.294                 |
|   | <u>15.102.947</u>       | <u>8.356.877</u>        |