

**TÜRK HAVA YOLLARI
ANONİM ORTAKLIđI
US GAAP FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

We have audited the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı ("the Company") as of 31 December 2005, and the related statements of income, shareholders' equity, and cash flows for the year ended 31 December 2005, all expressed in thousand US Dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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.

Financial statements as of 31 December 2004 which are given for comparison purposes were audited by another audit firm, and unqualified opinion were issued.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations and its cash flows for the year ended 31 December 2005 in conformity with accounting principles generally accepted in the United States of America.

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

İsmail USLU
Partner

13 April 2006, İstanbul, Turkey

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS
AS AT DECEMBER 31, 2005 AND 2004

ASSETS	Note	December 31, 2005 US \$ 000	December 31, 2004 US \$ 000
Cash and Cash Equivalents	5	359,898	272,437
Accounts Receivable (net)	6	142,791	118,162
Due from Related Parties (Short-Term)	7	723	606
Inventories	8	62,780	42,718
Prepaid Taxes	21	9,960	38,228
Short Term Deferred Tax Assets	21	47,272	37,745
Other Receivables and Current Assets	9	39,185	26,355
Total Current Assets		662,609	536,251
Investments at Equity	10	13,035	12,448
Financial Assets Available For Sale (net)	10	14,321	18,766
Fixed Assets (net)	11	1,477,738	1,281,130
Advances Given for Aircraft	12	427,165	295,739
Other Long Term Receivables and Assets	13	8,614	9,945
Total Non-Current Assets		1,940,873	1,618,028
Total Assets		2,603,482	2,154,279

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS
AS AT DECEMBER 31, 2005 AND 2004

LIABILITIES	Note	December 31, 2005 US \$ 000	December 31, 2004 US \$ 000
Bank Borrowings	14	270,708	210
Short Term Portion of Finance Lease Obligations	15	133,472	151,041
Accounts Payable		188,016	138,998
Due to Related Parties	16	5,979	4,849
Other Short Term Payables	17	27,108	27,467
Deposits and Advances Received	18	41,458	28,816
Passenger Flight Liabilities	19	143,197	116,513
Other Accrued Liabilities	20	68,719	52,139
Total Current Liabilities		878,657	520,033
Long Term Portion of Finance Lease Obligations	15	638,494	713,605
Deposits and Advances Received	18	5,309	6,376
Manufacturers' Credit (net)	22	2,602	1,785
Long Term Deferred Tax Liabilities	21	102,926	76,399
Retirement Pay Liability	23	84,693	74,344
Other Long Term Payables	17	-	1,866
Total Non-Current Liabilities		834,024	874,375
SHAREHOLDERS' EQUITY			
Share Capital	24	775,381	775,381
Reserves	24	55,327	55,327
Accumulated Profit / Losses		60,093	(70,837)
TOTAL SHAREHOLDERS' EQUITY		890,801	759,871
Total Liabilities and Shareholders' Equity		2,603,482	2,154,279

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Not e	December 31, 2005 US \$ 000	December 31, 2004 US \$ 000
Operating Revenues	28	2,316,327	1,872,665
Operating Expenses	29	(2,176,118)	(1,725,553)
OPERATING PROFIT		140,209	147,112
Income from Other Operations	31	72,619	26,484
Loss from Other Operations	32	(24,871)	(10,941)
INCOME BEFORE FINANCIAL EXPENSE AND TAXATION		187,957	162,655
Financial Income / Expenses (net) (Net of Translation Gains and Losses)	30	(24,558)	19,594
INCOME BEFORE TAXATION		163,399	182,249
Taxation Charge	21	(32,469)	(7,193)
NET PROFIT FOR THE YEAR		130,930	175,056
Basic Earnings per Share (US \$, in Full)	4.17	0.0007	0.0010

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Share Capital US \$ 000	Share Premium US \$ 000	Accumulated Profit / Losses US \$ 000	Total US \$ 000
Balances at December 31, 2003	775,381	55,327	(245,893)	584,815
Profit for The Year	-	-	175,056	175,056
Balances at December 31, 2004	<u>775,381</u>	<u>55,327</u>	<u>(70,837)</u>	<u>759,871</u>
Profit for The Year	-	-	130,930	130,930
Balances at December 31, 2005	<u>775,381</u>	<u>55,327</u>	<u>60,093</u>	<u>890,801</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit Prior to Taxation	163,399	182,249
Adjustments to reconcile net profit for the period to net cash provided by operating activities:		
Depreciation	151,502	137,899
Provision for Retirement Pay Liability	15,465	22,724
Interest Income	(31,564)	(28,207)
Gain on Sales of Fixed Asset	(600)	(606)
Translation (Gain)/ Loss on Deferred Tax Liability	(15,469)	1,211
Increase /(Decrease) in Provision for Diminution in Value of Fixed Assets	(36,527)	12,241
Income from Financial Investment Accounted per Equity Method	(587)	(7,356)
Interest Expense	43,076	34,175
Change in Provision for Diminution in Value of Financial Assets Available for Sale	3,773	(7,176)
Movement in Manufacturers' Credit	817	(1,260)
Amortization of Deferred Income from USAŞ Share Transfer	(990)	(1,866)
(Decrease) / Increase in Provision for Doubtful Receivables	(109)	(1,386)
Expensed Portion of Prepaid Tax of Previous Period	1,773	
Operating Profit Before Working Capital Changes	293,959	342,642
(Increase) / Decrease in Trade Receivables	(24,520)	(32,138)
(Increase) / Decrease in Due From Related Parties	(117)	36,986
(Increase) / Decrease in Inventories	(20,062)	(12,189)
(Increase) / Decrease in Other Short and Long Term Receivables	(11,499)	11,941
Increase / (Decrease) in Trade Payables	49,018	18,590
Increase / (Decrease) in Due to Related Parties	1,130	1,002
Increase / (Decrease) in Accrued Expenses and Other Payables	15,345	(11,337)
Increase / (Decrease) in Deposits and Advances Received	11,575	(11,044)
Increase / (Decrease) in Passenger Flight Liabilities	26,684	51,287
Retirement Benefits Paid	(5,116)	(4,722)
Interest Paid	(43,076)	(34,175)
Prepaid Taxes	(9,960)	(52,028)
Reimbursement of Prepaid Tax in Previous Period	36,455	-
Net Cash Provided by Operating Activities	319,816	304,815
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflow From Purchase of Financial Assets	672	(5)
Cash Proceeds from Sale of Fixed Assets	44,827	5,922
Interest Received	31,564	28,207
Acquisition of Fixed Assets	(355,810)	(78,771)
Advances Given for Aircraft	(131,426)	(289,956)
Net Cash Provided by / (Used in) Investing Activities	(410,173)	(334,603)
Principal Payment of Finance Leases	(92,680)	(170,685)
Change in Bank Borrowings	270,498	210
Net Cash used in Financing Activities	177,818	(170,475)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	87,461	(200,263)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	272,437	472,700
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	359,898	272,437

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Financial Statements

1 THE COMPANY'S 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 December 31, 2005, the shareholders and their respective shareholdings in the Company were as follows:

Turkish Republic Prime Ministry Privatization Administration	75.18 %
Others	24.82 %
Total	<u>100.00 %</u>

The total number of employees working for the Company as of December 31, 2005 is 11,121 (December 31, 2004: 10,956). The average number of employees working for the Company in 2005 and 2004 is 11,151 and 10,341, respectively.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company maintains its books of account and prepares its statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles in the Turkish Commercial Code (the "TCC") and tax legislation and generally accepted accounting principles promulgated by Capital Markets Board. The accompanying financial statements are based on these statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with Accounting Principles Generally Accepted in the United States of America ("US GAAP").

Principles of Translation of Financial Statements into US \$:

Remeasurement of the local currency denominated financial statements into US \$ has been performed in accordance with the provisions of SFAS No 52 "Foreign Currency Translation", as they relate to hyperinflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in US \$.

SFAS 52 defines a hyperinflationary economy as one that has cumulative inflation of approximately 100% or more over a three-year period. Such cumulative rates in Turkey is 35.61% for the three years ended December 31, 2005 based on the wholesale price index announced by the Turkish State Institute of Statistics. (December 31, 2004: 69.7%).

Although the three year cumulative inflation rate was below the rate indicated in the preceding paragraph, since majority of the people keep their savings in foreign currencies, the prices of services and goods are set in terms of foreign currencies, interest rates and wages are expressed in terms of the inflation indexes, and the market prices are determined taking into account the losses due to the credit sales including the short term transactions, the economy shows the characteristics of a hyperinflationary environment and therefore SFAS 52 was applied to the accompanying financial statements.

Non-monetary assets and liabilities and revenues and expenses related to non-monetary items have been translated to US \$ at historical exchange rates prevailing on the transaction date. Monetary assets and liabilities have been translated at the exchange rates prevailing at balance sheet dates. All exchange gains and losses arising from remeasurement of monetary assets and liabilities that are not denominated in US \$ have been included in the determination of net income as "translation gain or loss".

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

Notes to the Financial Statements

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

The comparison of the periodical change of the value of YTL against the US \$ with the Turkish countrywide Wholesale Price Index ("WPI") is set out below:

Years:	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Currency devaluation US \$	(0.02)%	(3.8)%	(14.6)%	13.5%	114.3%
WPI inflation	4.5%	13.8%	13.9%	30.8%	88.6%

New Turkish Lira:

As of 1 January 2005, a new local measurement and reporting currency unit has been introduced as YTL (New Turkish Lira) and YKr (New Turkish cents).

Basis of Consolidation:

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

For purposes of financial statements, the associate's principal activity and direct and indirect participation rate of the Company are given below:

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

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

3 SEGMENTAL REPORTING

3.1 Business Segments

The Company operates predominantly in one industry segment, its primary business being the air transportation of passengers and cargo within, to or from Turkey.

3.2. Geographical Segments

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Revenue Recognition and Commission Expenses

Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used are recorded as passenger flight liabilities. The Company develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets were recognized as operating revenue.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.2 Inventory Valuation

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

4.3. Financial Investments

The Company designates its investment portfolio in accordance with SFAS 115 (“Accounting for Certain Investments in Debt and Equity Securities”) 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 price. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are recognized in net profit or loss for the period in which they arise.

Investments Held to Maturity:

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

Investments Available for Sale:

Available-for-sale investments are those that the ownership rate is less than 20% and are not held for trading. Subsequent to acquisition, available for sale investments which are traded at stock markets are valued at market rate. Otherwise, they are accounted at cost.

Investments at Equity:

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

4.4 Tangible and Intangible Assets

Fixed assets are recorded at historical costs at the acquisition date. The Company makes an assessment for its fixed assets at the balance sheet date in accordance with SFAS 144 (“Accounting for Impairment or Disposal of Long Lived Assets”). Tangible and intangible assets are carried at historical cost as adjusted for their recoverable values; when the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. Recoverable amount is determined as higher of asset’s net selling price or its value in use. Net selling price is determined based on the Company’s management estimation developed from the international aircraft price guide. The decrease in carrying amount is recorded as impairment loss under operating expenses.

Depreciation is provided on a periodical basis for all categories of tangible and intangible assets.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.4 Tangible and Intangible Assets (cont'd)

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

	<u>Useful Life(Years)</u>	<u>Residual Value</u>
- Land	-	-
- Buildings	25-50	-
- Aircraft	15	%30
- Engines	15	%30
- Rotable assets	5-8-10	-
- Repairables	2-3	-
- Simulator	10	-
- Machinery and equipment	3-5-7-10	-
- Furniture and fixtures	3-4-5	-
- Motor vehicles	4-5-7	-
- Other equipments	5	-

4.5 Borrowing Costs

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

4.6 Manufacturers' Credits

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

4.7 Maintenance and Repair Costs

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

4.8 Frequent Flyer Program

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.9 Taxation and Deferred Taxes

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with SFAS 109 ("Accounting for Income Tax"), the Company does not recognize any deferred tax liability or assets for differences related to assets and liabilities that, under SFAS 52 Foreign Currency Translation, are remeasured from the local currency into the functional currency using historical exchange rates.

Further, the Company's deferred tax assets and liabilities have been remeasured into US \$ in accordance with the provisions of SFAS 109 and the translation gains and losses that result from such remeasurement have been included within the tax provision line in the financial statements.

Deferred tax is charged or credited in the statement of income.

4.10 Employee Retirement and Termination Indemnities

Employee retirement and termination benefits as required by Turkish Labor Law are recognized in the accompanying financial statements as earned. According to SFAS 106 ("Employers' Accounting for Postretirement Benefits other than Pensions") future retirement payments are discounted to their present value at the balance sheet date at an interest rate which is net of inflation rate. The interest rate included in employee retirement expense is shown in the financial result as interest expense.

4.11 Related Parties

The shareholders, key management personnel and board members of the Company, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties in the accompanying financial statements.

4.12 Foreign Currency Transactions

In the statutory accounts of the Company, transactions in foreign currencies are translated into New Turkish Lira at the rates of exchange ruling at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement and translation of foreign currency items are included in the statements of income.

4.13 Leases

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.14 Financial Instruments

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

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

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

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-time 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 receivables discounted to their present value when they hold significant credit periods.

Sun Express is accounted for using the equity method as the Company exercises a significant influence. Uçak Servisi A.Ş. and France Telecom shared are classified as available for sale investments and changes in fair value relating available for sale investments are recognized in net profit or loss.

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

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include accounts and other payables, due to related parties and finance lease obligations.

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

Credit Risk

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.14 Financial Instruments (cont'd)

Price Risk

- Currency Risk

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

- Interest Risk

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

- Market Risk

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

- Liquidity Risk

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

4.15 Offsetting

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

4.16 Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America 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.

4.17 Earnings per Share

SFAS 128 "Earnings per Share" requires disclosure of basic earnings per share and diluted earnings per share (if applicable) for companies whose shares are publicly traded or which are in the process of issuing shares in a public market.

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.17 Earnings per Share (cont'd)

A summary of the weighted average number of shares outstanding during December 31, 2005 and 2004 and the basic earnings per share calculation is as follows:

	<u>2005</u>	<u>2004</u>
Number of shares outstanding at January 1 (in full)	175,000,000,000	175,000,000,000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at December 31, (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 year (US \$ 000)	130,930	175,056
Basic earnings per share (US \$ in full)	0.0007	0.0010

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	<u>US \$ 000</u>	<u>US \$ 000</u>
Banks	355,542	271,096
Cash	146	121
Cheques received	103	87
Other liquid assets	4,107	1,133
	<u>359,898</u>	<u>272,437</u>

Foreign currency bank balances are US \$ 220,308,579 at December 31, 2005. (2004: US \$ 184,453,682).

Time Deposits:

<u>Principal</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>December 31, 2005</u>
				<u>US \$ 000</u>
170.390.000	YTL	22.07.2005 - 30.12.2005	02.01.2006 - 30.01.2006	126,986
149.163.000	US \$	27.12.2005 - 30.12.2005	02.01.2006 - 30.01.2006	149,163
31.653.000	Euro	30.12.2005	02.01.2006	37,449
				<u>313,598</u>
				<u>313,598</u>
<u>Principal</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>December 31, 2004</u>
				<u>US \$ 000</u>
112,500,000	YTL	25.10.2004 - 31.12.2004	03.01.2005 - 24.01.2005	83,824
22,500,000	US \$	31.12.2004	03.01.2005	22,500
89,790,000	Euro	31.12.2004	03.01.2005	122,218
				<u>228,542</u>
				<u>228,542</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
Notes to the Financial Statements

6 ACCOUNTS RECEIVABLE (NET)

Accounts receivable consists of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Trade receivables	156,840	130,834
Provision for doubtful receivables	(12,309)	(12,418)
Discount on receivables	(1,740)	(254)
	<u>142,791</u>	<u>118,162</u>

7 DUE FROM RELATED PARTIES

Short term due from related parties consists of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Güneş Ekspres Havacılık A.Ş. (Sun Express)	723	606
	<u>723</u>	<u>606</u>

8 INVENTORIES

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Spare parts, flight equipment	51,903	35,241
Other inventories	10,877	7,477
	<u>62,780</u>	<u>42,718</u>

9 OTHER RECEIVABLES AND CURRENT ASSETS

Other receivables and current assets consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Prepaid sales commissions	8,125	6,946
Other prepaid expenses	7,659	6,542
Third party maintenance service income accrual	7,547	4,599
Prepaid operating lease expenses	3,960	2,967
Interline passenger income accrual	2,864	136
Due from insurance firms	2,379	-
Tax to be refunded	2,210	1,999
Receivables from personnel	488	428
Prepaid rent expenses	428	328
VAT deductible	326	114
Receivable from SITA deposit certificates	116	112
Business advances given	72	258
Restriction on transfer of funds from banks (*)	-	630
Other receivables	3,011	1,296
	<u>39,185</u>	<u>26,355</u>

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

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10 FINANCIAL ASSETS

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

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Güneş Ekspres Havacılık A.Ş. (Sun Express)	13,035	12,448

ii) Financial assets available for sale are as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
France Telecom shares	8,723	8,723
Uçak Servisi A.Ş. (USAŞ)	4,429	5,053
Increase in value of USAŞ shares	4,108	6,194
Sita Inc.	737	785
Emek İnşaat ve İşletme A.Ş.	12	12
Diminution in value of France Telecom shares	(3,688)	(2,001)
	14,321	18,766

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on January 1, 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 September 21, 2002, 1.25% of shares was transferred on January 2, 2003 and 1.25% of shares was transferred on January 2, 2004, 1.25% of shares was transferred on January 3, 2005 and the transfer will be completed to 15% by transferring 1.25% of shares in the year 2006. Consequently, 1.140 million shares corresponding to 13.75% of USAŞ's share capital, transferred to the Company, were recorded to "financial assets" and "deferred income" accounts at market value of US \$ 9,783,507. "Deferred Income" amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in 2003 and 1.026 million shares in 2005 at İstanbul Stock Exchange.

USAŞ distributed 1,852,500,000 of free shares to the Company based on the decision of General Assembly held on December 8, 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement.

Details of the Company's long-term financial assets at December 31, 2005 are as follows:

<u>Name of the Company</u>	<u>Place of Incorporation and Operation</u>	<u>Proportion of Ownership Interest</u>	<u>Proportion of Voting Power Held</u>	<u>Principal Activity</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Holland	Less than 0,1%	Less than 0,1%	Information & telecommunication serv.
Uçak Servisi A.Ş.(USAŞ)	Turkey	4,75% (*)	4,75% (*)	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

(*) As of December 31, 2004: 6,5% .

11 TANGIBLE FIXED ASSETS (NET)

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Tangible fixed assets (net)	1,470,676	1,281,130
Advances given for other tangible fixed assets	7,062	-
	1,477,738	1,281,130

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Notes to the Financial Statements

11 FIXED ASSETS (NET) (cont'd)

	Land, Land Improvements & Building	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Softwares	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction In Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets & Simulators	Total Leased Assets	Total
<u>Cost</u>											
Opening balance 1 January 2005	66,834	127,165	136,072	512,322	154,844	255	997,492	1,485,472	7,588	1,493,060	2,490,552
Transfers from leased assets (*)	-	-	-	327,403	-	-	327,403	327,403	-	327,403	-
Additions	-	4,971	5,263	68,916	79,150	1,244	159,544	189,204	-	189,204	348,748
Disposals	-	(1,335)	(8,894)	(42,518)	(39,440)	(285)	(92,472)	-	-	-	(92,472)
Closing balance December 31, 2005	66,834	130,801	132,441	866,123	194,554	1,214	1,391,967	1,347,273	7,588	1,354,861	2,746,828
<u>Accumulated Depreciation</u>											
Opening balance 1 January 2005	18,598	107,782	119,917	305,158	70,469	-	621,924	413,258	2,162	415,420	1,037,344
Transfers from leased assets (*)	-	-	-	97,682	-	-	97,682	(97,682)	-	(97,682)	-
Depreciation for the year	1,106	7,338	5,586	28,412	53,596	-	96,038	54,870	594	55,464	151,502
Disposal	-	(1,327)	(7,147)	(331)	(39,440)	-	(48,245)	-	-	-	(48,245)
Closing balance December 31, 2005	19,704	113,793	118,356	430,921	84,625	-	767,399	370,446	2,756	373,202	1,140,601
Accumulated impairment	-	-	-	106,275	-	-	106,275	29,276	-	29,276	135,551
December 31, 2005 net book value	47,130	17,008	14,085	328,927	109,929	1,214	518,293	947,551	4,832	952,383	1,470,676
December 31, 2004 net book value	48,236	19,383	16,155	150,936	84,375	255	319,340	956,364	5,426	961,790	1,281,130

(*) Finance leased assets which their legal title has passed to the Company due to their repayment of finance lease liabilities were completed, were classified to owned assets from leased assets.

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12 LONG TERM ADVANCES GIVEN FOR AIRCRAFT

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Prepayments for aircraft purchases	425,199	294,814
Advances given for operational leases	1,966	925
	<u>427,165</u>	<u>295,739</u>

13 OTHER LONG TERM RECEIVABLES AND ASSETS

Other long term receivables and assets consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Prepaid Eximbank USA guarantee and exposure fee	4,389	5,217
Prepaid aircraft financing expense	1,541	2,003
Deposits given	988	1,291
Due from personnel	750	840
Receivables from SITA deposit certificate	599	524
Prepaid operating lease expenses	279	-
Other receivables	68	70
	<u>8,614</u>	<u>9,945</u>

14 BANK BORROWINGS

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
T.İş Bankası / Citibank NA London	270,000	-
Others (*)	708	210
	<u>270,708</u>	<u>210</u>

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

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

15 FINANCE LEASE OBLIGATIONS

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

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Not later than one year	164,745	183,048
Between 1 – 5 years	521,294	580,066
Over 5 years	223,436	209,318
	<u>909,475</u>	<u>972,432</u>
Less: Future interest expense	(137,509)	(107,786)
Present value of future rentals shown in the balance sheets	<u>771,966</u>	<u>864,646</u>
Represented by :		
Current liabilities	133,472	151,041
Long term liabilities	638,494	713,605
	<u>771,966</u>	<u>864,646</u>
Interest Range:		
Floating rate obligations	732,006	650,417
Fixed rate obligations	39,960	214,229
	<u>771,966</u>	<u>864,646</u>

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15 FINANCE LEASE OBLIGATIONS (cont'd)

As of 31 December 2005, the US Dollar denominated lease obligations interest rates for the fixed rate obligations are between 7.12% and 7.70% (December 31, 2004: 5.96% - 7.68%) and for the floating rate obligations are a margin ranging between LIBOR minus 0.05% and LIBOR plus 3.00% (December 31, 2004: LIBOR – LIBOR plus 3.00%).

16 DUE TO RELATED PARTIES

Due to related parties consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Uçak Servisi A.Ş. (USAŞ)	5,637	4,692
Sun Express	342	157
	<u>5,979</u>	<u>4,849</u>

17 OTHER SHORT TERM AND LONG TERM PAYABLES

Other short term payables consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Taxes and funds payable	12,077	14,411
Social security premiums payable	11,060	9,082
Deferred income from USAŞ share transfer	2,742	1,866
Debt to personnel	206	189
State Airport Administration (DHMI) protocol payable	-	1,358
Discount on DHMI protocol payable	-	(27)
Other liabilities	1,023	588
	<u>27,108</u>	<u>27,467</u>

Other long term payables consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Deferred income from USAŞ share transfer	-	1,866
	<u>-</u>	<u>1,866</u>

18 DEPOSITS AND ADVANCES RECEIVED

Short term advances received consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Advances received for mileage credit sales	16,135	17,213
MCO advances	11,536	6,229
E-pos ticket advance	7,211	260
Deposits and guarantees received	2,769	3,146
Special rent advances	2,544	1,784
Advances received for financial leases	857	-
Other advances received	406	184
	<u>41,458</u>	<u>28,816</u>

Long term advances received consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Deposits and advances received	5,309	6,376
	<u>5,309</u>	<u>6,376</u>

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19 PASSENGER FLIGHT LIABILITIES

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Flight liability – advanced ticket sales	115,023	87,567
Flight liability resulting from sales of mileage	28,174	28,946
	<u>143,197</u>	<u>116,513</u>

20 OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Accrued frequent flyer liability	22,788	5,211
Accrued salaries	13,410	11,638
Accrued maintenance costs	9,380	11,880
Provision for legal claims	6,859	6,889
Sales incentive premium accrual	4,982	5,763
Fuel-oil privilege expense accrual	-	544
DHMI expense accrual	-	1,199
Other liabilities	11,300	9,015
	<u>68,719</u>	<u>52,139</u>

21 TAXATION

Corporate Tax Payable is as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Corporate Tax Payable	-	-
Prepaid taxes and funds	(9,960)	(38,228)
	<u>(9,960)</u>	<u>(38,228)</u>

Major components of tax charge consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Current tax charge	-	-
Deferred tax charge	32,469	7,193
Tax charge	<u>32,469</u>	<u>7,193</u>

Corporate Tax:

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated tax liabilities based on the Company's financial results for the period.

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

The effective tax rates are as follows:

- In 2005: 30%
- In 2004: 33%.

21 TAXATION (cont'd)

Corporate Tax (cont'd):

In Turkey, prepaid corporate taxes are calculated and accrued on a quarterly basis. In 2005, the prepaid corporate tax rate is 30%. (2004: 33%).

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

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

Income Withholding Tax:

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

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

Deferred Tax:

The Company recognized deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements as reported for US GAAP purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for US GAAP and tax purposes and are calculated over accounts like retirement pay provision and provision for doubtful receivables. The deferred tax rate is 30% (2004: 33%).

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21 TAXATION (cont'd)

Deferred Tax (cont'd):

Temporary Differences: Deferred Tax Assets / (Liabilities)

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Short term finance lease obligation	27,105	35,666
Unused investment incentives	14,942	2,760
Accrued liabilities	13,211	9,780
Discount on receivables	576	76
Unused tax losses	470	3,643
Appreciation / (Diminution) in value of financial assets	349	(1,106)
Prepaid expenses	340	216
Provision for doubtful receivables	172	310
Provision for advance ticket sales	(9,252)	(13,630)
Discount on payables	(605)	(15)
Changes in inventories	(36)	-
Changes in other short term assets	-	45
Short term deferred tax asset	<u>47,272</u>	<u>37,745</u>
Long term finance lease obligation	138,073	214,081
Retirement pay liability	25,408	22,303
Manufacturers' credit	1,038	536
Deferred income	822	1,120
Useful life of fixed assets and finance lease adjustment	(268,267)	(313,977)
Adjustments to long term assets	-	(462)
Long term deferred tax liability	<u>(102,926)</u>	<u>(76,399)</u>
Total deferred tax liability	<u>(55,654)</u>	<u>(38,654)</u>

Movement in deferred tax liability per balance sheet can be reconciled with net deferred tax charge per income statement as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Deferred tax charge related to the origination and reversal of temporary differences	32,469	7,193
Deferred tax charge resulting from change in effective tax rate	-	-
Net deferred tax charge	<u>32,469</u>	<u>7,193</u>
Translation (gain)/loss on deferred tax liabilities	(15,469)	1,211
Changes in net deferred tax	<u>17,000</u>	<u>8,404</u>

22 MANUFACTURERS' CREDIT (NET)

Manufacturers' credits consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Gross manufacturers' credit	14,675	12,634
Accumulated amortization (-)	(12,073)	(10,849)
	<u>2,602</u>	<u>1,785</u>

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23 RETIREMENT PAY LIABILITY

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, complete 25 years of service (20 years for women), or 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 that at the date of termination, but subject to an upper limit of YTL 1,727 (US \$ 1,287) as at December 31, 2005.(December 31, 2004: YTL 1,574.7 - US \$ 1,173). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision presented in the financial statements represents the estimated present value of the vested benefit obligation.

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

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Current service cost	11,295	19,085
Interest cost	4,170	3,639
	<u>15,465</u>	<u>22,724</u>

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

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Provision at January 1	74,344	56,342
Charge for the year	15,465	22,724
Payments during the year	(5,116)	(4,722)
Provision at December 31	<u>84,693</u>	<u>74,344</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5.61 % per annum after considering the effect of increase in eligible pay and its limit. (December 31, 2004: 5.45%).

24 SHARE CAPITAL

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

	Class	%	31 December 2005	%	31 December 2004
			US \$ 000		US \$ 000
Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	75,18(**)	582,854	75,17	582,854
Others	A	24,82(**)	192,527	24,83	192,527
			<u>775,381</u>		<u>775,381</u>
Nominal Share Capital (YTL)			<u>175,000,000</u>		<u>175,000,000</u>

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

(**) YTL 26,748 nominal valued shares of the Company subject to the second public offering during December 1, 2 and 3, 2004 were transferred to the accounts of Republic of Turkey Prime Ministry Privatization Administration by İş Yatırım Menkul Değerler A.Ş. The transfer was made due to default of private shareholders who did not transfer the amounts of the shares following the conclusion of last installment.

24 SHARE CAPITAL (cont'd)

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

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

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

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

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

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

25 CONTINGENT LIABILITIES

- a) Guarantees Given:

Amount of letter of guarantees given is US \$ 28,350,145 as of December 31, 2005 (December 31, 2004: US \$ 25,366,931).

- b) Purchase Commitments:

The Company has signed agreements for delivery of 59 aircraft with delivery dates between years 2005-2008. Total value of these aircraft 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 421 million as of December 31, 2005 related to these aircrafts.

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25 CONTINGENT LIABILITIES (cont'd)

c) Letter of Comfort:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Letters of Comfort Given to Sun Express	US \$ 2,900,000	US \$ 2,900,000
	EURO 2,556,459	EURO 2,556,459

d) The Company discounted its retirement pay provision to US \$ 84,693,130 (see note 23). The Company's total undiscounted liability for retirement pay would be US \$ 137 million as of December 31, 2005, if all employees were dismissed on that date.

26 OPERATING LEASE COMMITMENTS

Commitments for future operating leases are as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	<u>US \$ 000</u>	<u>US \$ 000</u>
Not later than one year	88,674	55,752
Between 1 and 5 years	149,343	88,825
Over than 5 years	75,219	-
	<u>313,236</u>	<u>144,577</u>

27 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) Market price of 202.735 France Telecom securities, which is quoted at Paris Stock Exchange, included in the financial investments available for sale as of December 31, 2005, has decreased from Euro 20,99 at December 31, 2005 to Euro 17,82 at April 12, 2006. Hence, the total market value of these securities decreased by US \$ 760,351 compared to balance sheet date.

b) Market price of 1.624,5 million USAŞ securities, which is traded in İstanbul Stock Exchange, and included in the financial investments available for sale as of March 29, 2006, has decreased from YTL 7,05 at December 31, 2005 to YTL 7,00 at April 12, 2006. Hence, the total market value of these securities decreased by US \$ 60,534 compared to balance sheet date.

c) The Company has sold 1.026 million of USAŞ shares in January 2006 at İstanbul Stock Exchange. After the transaction, the percentage of the shares owned by the company within the capital of USAŞ is 3 %.

d) According to the decision dated 20.03.2006 and numbered 2006/19 of Privatization High Commission, 25% of A group shares of the Company owned by Turkish Republic Prime Ministry Privatization Administration have been decided to be sold through public offering. It has been also decided to use the right for the selling of additional shares and to complete public offering within the twelve months beginning from the decision date.

e) Retirement pay ceiling has been increased to US \$ 1,319.59 as of January 1, 2006.

f) The company has cancelled financial the lease contracts of two A340 aircraft of which lease contracts would be due by July 22, 2006 and June 19, 2007, by paying the remaining lease payments before the maturity date thus having the ownership of these two aircraft.

g) The Company took the delivery of 3 aircraft within January and February 2006 whose purchase agreements was signed before.

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28 OPERATING REVENUES

Operating revenues are as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Scheduled services		
Passenger	2,004,768	1,468,730
Cargo and mail	198,785	170,931
	<u>2,203,553</u>	<u>1,639,661</u>
Non-Scheduled services	23,035	30,433
Other revenue	89,739	202,571
Total revenue	<u><u>2,316,327</u></u>	<u><u>1,872,665</u></u>

Geographical analysis of scheduled services traffic revenue is as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
International		
- Europe	945,807	688,094
- Far East	362,723	279,755
- Middle East	210,058	160,457
- North America	115,033	94,992
- North Africa	58,004	43,855
	<u>1,691,625</u>	<u>1,267,153</u>
Domestic	511,928	372,508
Total scheduled services traffic revenue	<u><u>2,203,553</u></u>	<u><u>1,639,661</u></u>

29 OPERATING EXPENSES

Operating expenses consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Fuel-oil expenses	544,122	343,945
Staff expenses	536,766	400,993
Marketing and selling expenses	249,572	212,008
Landing and navigation expenses	182,889	160,680
Depreciation expenses	151,502	137,899
Handling and station expenses	117,341	120,901
Passenger service and catering expenses	112,631	108,293
Maintenance expenses	108,925	96,549
Operating lease expenses	75,215	39,747
Insurance expenses	38,597	20,930
General operations	33,597	31,180
General administrative expenses	15,813	21,640
Aircraft and seat rent expense	9,148	18,547
Impairment loss	-	12,241
	<u>2,176,118</u>	<u>1,725,553</u>

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30 FINANCIAL INCOME / EXPENSES (NET)

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Foreign exchange gains	157,028	169,119
Interest income	31,564	28,207
Income from investment accounted from equity method	587	10,244
Discount income	445	432
Increase in value of available for sale financial assets	-	7,176
Financial income	<u>189,624</u>	<u>215,178</u>
Foreign exchange losses	(177,627)	(152,516)
Finance lease interest expense	(34,027)	(31,553)
Interest expenses- Third parties	(9,049)	(2,622)
Retirement pay interest cost	(4,170)	(3,639)
Decrease in value of available for sale financial assets	(3,773)	-
Discount expense	-	(1,016)
Other financial expenses	(1,639)	-
Financial expenses	<u>(230,285)</u>	<u>(191,346)</u>
Translation gain / loss	16,103	(4,238)
Financial income / expenses (net)	<u>(24,558)</u>	<u>19,594</u>

31 INCOME FROM OTHER OPERATIONS

Income from other operations consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Impairment gain	36,527	-
Reversal of unnecessary provision	8,163	10,244
Discounts received from spare parts suppliers	7,825	5,727
Dividend income	6,172	3,018
Free of cost materials income	3,750	1,038
Compensations received	2,588	920
Manufacturers' credit income	817	1,263
Gain from sale of fixed assets	600	606
Commission income	-	214
Insurance claims received	-	3,073
Other	6,177	381
	<u>72,619</u>	<u>26,484</u>

32 LOSS FROM OTHER OPERATIONS

Losses from other operations consist of the following:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Provision expenses	22,722	5,940
Rent expense of RJ aircraft to be returned	-	3,118
Other expenses	2,149	1,883
	<u>24,871</u>	<u>10,941</u>

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33 TRANSACTIONS WITH RELATED PARTIES

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

Transactions with related parties are as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Services given to Sun Express	2,723	1,269
Services given to USAŞ	277	173
	<u>3,000</u>	<u>1,442</u>
Services taken from USAŞ	59,151	44,781
Services taken from Sun Express	646	1,699
	<u>59,797</u>	<u>46,480</u>

Dividend income from equity investments are as follows:

	December 31, 2005	December 31, 2004
	US \$ 000	US \$ 000
Sun Express	5,240	2,888
Uçak Servisi A.Ş.	815	125
France Telecom	117	-
Emek İnşaat ve İşletim A.Ş.	-	5
	<u>6,172</u>	<u>3,018</u>