

TÜRK HAVA YOLLARI ANONİM ORTAKLIđI

FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE PERIOD ENDED

30 JUNE 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have reviewed the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 30 June 2005, and the related statements of income, shareholders' equity and cash flows for the six-month period then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 30 June 2005. These financial statements are the responsibility of the Company’s management.

2. We conducted our review in accordance with International Standards on Auditing applicable for limited review engagements. Our review consisted of obtaining an understanding of the system for the preparation of the financial statements, applying analytical procedures to the underlying financial data and making inquiries of persons responsible for financial and accounting matters. This limited scope review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. Based on our limited scope review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with International Financial Reporting Standards.

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

Abdülkadir SAYICI
Partner

20 September 2005, İstanbul, Turkey

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS
AS AT 30 JUNE 2005 AND 31 DECEMBER 2004

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

	<u>Note</u>	<u>30 June 2005</u>	<u>31 December 2004</u>
ASSETS			
Cash and cash equivalents	5	554.442.117	377.530.556
Accounts receivable (net)	6	227.856.605	163.743.338
Due from related parties	7	213.217	839.363
Inventories	8	72.228.229	66.612.282
Prepaid tax	23	3.104.425	52.974.738
Other short-term receivables and assets	9	52.452.956	37.647.850
Total current assets		<u>910.297.549</u>	<u>699.348.127</u>
Investments at equity	10	18.473.222	17.249.395
Financial assets available for sale	10	23.971.860	26.773.500
Tangible fixed assets (net)	11	1.835.825.466	1.869.365.890
Intangible fixed assets (net)	12	6.940.188	7.706.346
Advances given for aircraft	13	597.139.972	409.822.156
Other long-term receivables and assets	14	12.500.729	13.781.475
Total non-current assets		<u>2.494.851.437</u>	<u>2.344.698.762</u>
Total assets		<u>3.405.148.986</u>	<u>3.044.046.889</u>

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS
AS AT 30 JUNE 2005 AND 31 DECEMBER 2004

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

	<u>Note</u>	<u>30 June 2005</u>	<u>31 December 2004</u>
LIABILITIES			
Bank borrowings	15	362.514.347	290.392
Short-term portion of finance lease obligations	16	209.364.831	209.305.866
Accounts payable		218.844.344	192.617.009
Due to related parties	17	10.551.375	6.719.914
Other short-term payables	18	33.598.926	39.212.087
Deposits and advances received	19	29.540.207	39.932.466
Passenger flight liabilities	20	276.419.604	182.553.813
Other accrued liabilities	21	95.332.395	72.252.499
Total current liabilities		<u>1.236.166.029</u>	<u>742.884.046</u>
Long-term portion of finance lease obligations	16	854.997.173	988.880.729
Manufacturers' credit (net)	22	1.542.495	2.468.999
Deposits and advances received	19	8.228.489	8.835.144
Long-term deferred tax liabilities	23	63.314.424	47.996.749
Retirement pay liability	24	108.671.168	103.022.825
Other long-term payables	18	2.596.425	3.736.019
Total non-current liabilities		<u>1.039.350.174</u>	<u>1.154.940.465</u>
SHAREHOLDERS' EQUITY			
Share capital	25	1.976.262.647	1.976.262.647
Reserves		145.752.459	145.752.459
Share Premium		924.621	924.621
Accumulated losses		(993.306.944)	(976.717.349)
Total shareholders' equity		<u>1.129.632.783</u>	<u>1.146.222.378</u>
Total liabilities shareholders' equity		<u>3.405.148.986</u>	<u>3.044.046.889</u>

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

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

	<u>Note</u>	<u>1 January – 30 June 2005</u>	<u>1 January – 30 June 2004</u>
Operating revenues	30 and 35	1.427.628.159	1.277.189.619
Operating expenses	31 and 35	<u>(1.436.531.704)</u>	<u>(1.250.154.858)</u>
Main operating profit/(loss)		(8.903.545)	27.034.761
Income from other operations	33 and 35	44.483.937	21.431.966
Loss from other operations	34	<u>(3.115.542)</u>	<u>(6.525.717)</u>
Operating income		32.464.850	41.941.010
Financial expense (net)	32	(45.621.026)	(85.750.507)
Monetary gain (net)		<u>13.396.263</u>	<u>82.152.750</u>
Income before taxation		240.087	38.343.253
Taxation charge	21	(16.829.682)	(29.650.897)
Net profit/(loss)		<u><u>(16.589.595)</u></u>	<u><u>8.692.356</u></u>
Basic earnings /(loss) per share (YTL in full)	3.17	(0,00009)	0,00005

The accompanying notes form an integral part of these financial statements

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

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

	<u>Share Capital</u>	<u>Reserves</u>	<u>Share Premium</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balances at 31 December 2003	1.976.262.647	145.752.459	924.621	(1.087.258.075)	1.035.681.652
Profit for the period	-	-	-	8.692.356	8.692.356
Balances at 30 June 2004	<u>1.976.262.647</u>	<u>145.752.459</u>	<u>924.621</u>	<u>(1.078.565.719)</u>	<u>1.044.374.008</u>
Balances at 31 December 2004	1.976.262.647	145.752.459	924.621	(976.717.349)	1.146.222.378
Loss for the period	-	-	-	(16.589.595)	(16.589.595)
Balances at 30 June 2005	<u>1.976.262.647</u>	<u>145.752.459</u>	<u>924.621</u>	<u>(993.306.944)</u>	<u>1.129.632.783</u>

The accompanying notes form an integral part of these financial statements

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF CASH FLOW
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

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

	01 January –30 June 2005	01 January – 30 June 2004
Cash flows from operating activities:		
Profit prior to taxation	240.087	38.343.253
<i>Adjustments to reconcile profit for the period to net cash provided by operating activities:</i>		
Depreciation	152.248.128	157.222.008
Provision for retirement pay liability	7.945.634	8.911.307
Interest income	(14.393.116)	(17.733.800)
Gain on fixed asset sales	(396.100)	(55.985)
Monetary gain on deferred taxes liabilities	(1.512.007)	(3.861.738)
Impairment (gain)/loss	(13.889.652)	26.378.896
Income from financial investment accounted per equity method	(1.223.827)	(2.659.638)
Interest expense	22.808.585	25.945.897
Movement in manufacturers' credit	(926.504)	(1.098.055)
Foreign exchange gain on finance leases (net of monetary gain)	(38.237.671)	(20.124.084)
Provision for diminution in value of financial assets available for sale	5.715.236	2.766.108
Amortization of deferred income from USAŞ share transfer	(2.913.596)	(1.868.010)
Increase/(Decrease) in provision for doubtful receivable	853.966	(5.158.686)
Operating profit before working capital changes	116.319.163	207.007.473
Increase in trade receivables	(64.967.233)	(56.953.795)
(Increase)/Decrease in due from related parties	626.146	(810.211)
Increase in inventories	(5.615.947)	(7.469.662)
Increase in other receivables and short term assets	(14.805.106)	(14.922.006)
Decrease in other receivables and long term assets	1.280.746	1.984.982
Increase in trade payables	26.227.335	19.211.741
Increase in due to related parties	3.831.461	1.410.060
Increase/(Decrease) in other short and long term payables	16.327.141	(26.043.008)
Decrease in deposits and advances received	(10.998.914)	(33.419.054)
Increase in passenger flight liabilities	93.865.791	115.119.880
Cash generated from operations	162.090.583	205.116.400
Retirement benefits paid	(2.297.291)	(5.416.286)
Interest paid	(22.877.739)	(27.355.625)
Income taxes paid / (received)	49.870.313	(26.297.734)
Net cash provided by operating activities	186.785.866	146.046.755
Cash flows from investing activities		
Cash outflow from purchase of financial assets	-	(8.552)
Cash inflow from sale of tangible and intangible fixed assets	937.462	11.227.004
Interest received	14.393.116	17.733.800
Acquisition of tangible and intangible fixed assets	(104.593.255)	(58.162.549)
Advances given for aircrafts	(187.317.816)	361.167
Net cash provided by/(used) in investing activities	(276.580.493)	(28.849.130)
Cash flows from financing activities		
Principal payment of finance leases	(95.517.767)	(153.191.556)
Changes in bank borrowings	362.223.955	7.769.453
Net cash provided by/(used) in financing activities	266.706.188	(145.422.103)
Net (decrease)/ increase in cash and cash equivalents	176.911.561	(28.224.478)
Cash and cash equivalents at the beginning of period	377.530.556	775.563.275
Cash and cash equivalents at the end of period	554.442.117	747.338.797

The accompanying notes form an integral part of these financial statements

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 30 June 2005, the shareholders and their respective shareholdings in the Company were as follows:

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

The total number of employees working for the Company as of 30 June 2005 is 11.095 (30 June 2004: 10.142). The average number of employees working for the Company in 30 June 2005 and 2004 is 11.106 and 10.242, respectively. Financial assets of the Company are stated at note 10.

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

Inflation Accounting

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

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

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

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 55,7% for the three-year ended 30 June 2005 (31.12.2004: 69,7%) based on the wholesale price index announced by the Turkish State Institute of Statistics.

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

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

<u>Date</u>	<u>Index</u>	<u>Conversion Factor</u>	<u>Compounded Inflation Rates for 3 Years (%)</u>
30 June 2004	7.982,70	1,087	110,3
31 December 2004	8.403,80	1,033	69,7
30 June 2005	8.677,15	1,000	55,7

-As at 30 June 2005, the exchange rate announced by the Turkish Central Bank (which is a market rate) was YTL 1,3413=US Dollar 1 (31 December 2004: YTL 1,3421=US Dollar 1).

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

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

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

New Turkish Lira:

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

Comparative Information

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

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

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

3.2 Inventory Valuation

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

3.3 Financial Investments

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

Securities Held for Trading:

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their 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.

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial Investments (cont'd)

Investments Held to Maturity:

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

Investments Available for Sale:

Available-for-sale investments are those that the ownership rate is less than or equivalent to 20% and are not held for trading. Subsequent to acquisition, available for sale investments which are traded at stock markets are valued at market rate. Otherwise, they are accounted for in accordance with IAS 29. Gains or losses on available for sale investments are recognized in net profit or loss for the period in which they arise.

Investments At Equity:

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

3.4 Tangible and Intangible Fixed Assets

Tangible Fixed Assets

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

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

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

Intangible Fixed Assets

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Tangible and Intangible Fixed Assets (cont'd)

Impairment on Assets:

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

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

3.5 Borrowing Costs

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

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

3.6 Manufacturers' Credits

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

3.7 Maintenance and Repair Costs

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Frequent Flyer Program

THY provides a frequent flyer program which is called Miles and Miles in the form of free travel award to its members on accumulated mileage. The estimated cost of providing free travel, using the incremental cost method as adjusted for estimated redemption rates, is recognized as a liability and charged to operations as program members accumulate mileage.

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

3.9 Taxation and Deferred Taxes

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

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

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes.

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

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

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

3.10 Employee Retirement and Termination Indemnities

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

3.11 Related Parties

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Foreign Currency Transactions

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

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

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2003	1,3958	1,4953
30 June 2004	1,4859	1,3976
31 December 2004	1,3421	1,4223
30 June 2005	1,3413	1,3388

3.13 Leases

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

3.14 Financial Instruments and Financial Risk Management

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

Financial Assets

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

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

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

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Financial Assets(cont'd)

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

Book values of trade liabilities and due to related parties are estimated to be their fair value except liabilities discounted to their present value when they hold significant credit periods.

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

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

Financial Liabilities

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

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

Credit Risk

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

Price Risk

• Currency Risk:

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

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Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

- Interest Risk:

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

- Market Risk:

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

- Liquidity Risk

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

3.15 Offsetting

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

3.16 Use of Estimates

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

Actual results could differ from those estimations.

3.17 Earnings Per Share

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

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

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Notes to the financial statements as at 30 June 2005

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Earnings Per Share (cont'd)

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

	<u>30 June 2005</u>	<u>30 June 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 30 June (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/(loss) for the period	(16.589.595)	8.692.356
Basic earnings/(loss) per share (YTL, full amount)	(0,00009)	0,00005

4 SEGMENTAL REPORTING

4.1 Business Segments

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

4.2 Geographical Segments

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

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Cash	333.995	167.300
Cheques received	47.364	120.679
Banks	547.139.620	375.672.792
Other liquid assets	6.921.138	1.569.785
	<u>554.442.117</u>	<u>377.530.556</u>

Foreign currency bank balances are YTL 376.868.126 at 30 June 2005 (31 December 2004: YTL 255.607.505).

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

5 CASH AND CASH EQUIVALENTS (cont'd)

Time Deposits:

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>30 June 2005</u>
166.250.000	YTL	18.05.2005-30.06.2005	01.07.2005-07.09.2005	166.250.000
24.400.000	US Dollar	30.06.2005	01.07.2005	32.727.720
166.245.000	Euro	03.06.2005- 30.06.2005	01.07.2005-01.09.2005	268.768.291
				<u>467.746.011</u>

<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Maturity</u>	<u>31 December 2004</u>
116.159.282	YTL	25.10.2004-31.12.2004	03.01.2005-.01.2005	116.159.282
22.500.000	US Dollar	31.12.2004	03.01.2005	31.179.475
89.790.000	Euro	31.12.2004	03.01.2005	169.363.715
				<u>316.702.472</u>

6 ACCOUNTS RECEIVABLE (Net)

Accounts receivable consists of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Trade receivables	248.494.856	181.303.381
Discount on receivables	(2.576.647)	(352.405)
Provision for doubtful receivables	(18.061.604)	(17.207.638)
	<u>227.856.605</u>	<u>163.743.338</u>

7 DUE FROM RELATED PARTIES

Short term due from related parties consists of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Güneş Ekspres Havacılık A.Ş.(Sun Express)	213.217	839.200
Uçak Servisi A.Ş. (USAŞ)	-	163
	<u>213.217</u>	<u>839.363</u>

8 INVENTORIES

Inventories consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Spare parts, flight equipment	55.998.890	56.255.727
Other inventories	16.229.339	10.356.555
	<u>72.228.229</u>	<u>66.612.282</u>

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

9 OTHER SHORT TERM RECEIVABLES AND ASSETS

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

	<u>30 June 2005</u>	<u>31 December 2004</u>
Prepaid sales commissions	20.495.762	10.753.139
Prepaid operating lease expenses	4.883.611	4.111.778
Tax to be refunded	3.341.797	2.770.061
Maintenance service income accrual	3.253.937	6.372.762
Due from insurance firms	3.197.083	-
Interline passenger income accrual	3.105.058	188.519
Prepaid other expenses	2.352.764	1.702.395
Prepaid financial expense of bank borrowing	2.220.372	-
Deferred insurance expense	1.970.034	6.354.416
Restriction on transfer of funds from banks(*)	1.578.876	873.004
Prepaid Eximbank USA guarantee and exposure fee	1.092.408	1.127.942
Foreign receivables re-technical equipment	1.069.690	950.742
Business advances given	964.903	357.219
VAT deductible	722.158	157.763
Prepaid rent expenses	605.988	454.458
Prepaid aircraft financing expense	543.043	557.049
Personnel salary advance	394.685	336.979
Due from personnel	230.559	255.895
Receivable from SITA deposit certificates	150.153	155.129
Other receivables	280.075	168.600
	<u>52.452.956</u>	<u>37.647.850</u>

(*) As of 30 June 2005, the balance of this account is related to bank balance in Egypt.

10 FINANCIAL ASSETS

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

	<u>30 June 2005</u>	<u>31 December 2004</u>
Güneş Ekspress Havacılık A.Ş. (Sun Express)	18.473.222	17.249.395

Financial assets available for sale are as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
France Telecom	20.871.847	20.871.847
Diminution in value of France Telecom shares	(12.953.125)	(11.556.512)
Uçak Servis A.Ş. (USAŞ)	11.394.535	8.480.875
Appreciation in value of USAŞ shares	2.785.640	7.104.263
Sita Inc.	1.843.822	1.843.822
Emek İnşaat ve İşletme A.Ş.	27.733	27.733
Other financial assets	1.408	1.472
	<u>23.971.860</u>	<u>26.773.500</u>

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

10 FINANCIAL ASSETS (cont'd)

Tender for the catering service was won by Uçak Servis A.Ş. (USAŞ) and service agreement was signed on 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1,25% of shares was transferred on 2 January 2003 and 1,25% of shares were transferred on 2 January 2004, 1,25% of shares was transferred on 3 January 2005 and it will be completed to 15% by transferring the ownership of 1,25% share in the year 2006. Consequently, 1.140 million shares corresponding to first 13,75% of share of USAŞ's share capital, which was transferred to the Company, was recorded to "financial assets" and "deferred income" accounts at market value of YTL 19.650.109. "Deferred income" amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in İstanbul Stock Exchange Market in 2003.

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

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

<u>Name of the Company</u>	<u>Place of Incorporation and Operation</u>	<u>Proportion of Ownership Interest</u>	<u>Proportion of Voting Power Held</u>	<u>Principal Activity</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction
Sita Inc.	Holland	Less than 0,1%	Less than 0,1%	Information & Telecommunication Services
Uçak Servisi A.Ş. (USAŞ)	Turkey	7,75%	7,75%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

11 TANGIBLE FIXED ASSET (Net)

	<u>30 June 2005</u>	<u>31 December 2004</u>
Tangible fixed assets (net)	1.832.802.455	1.869.365.890
Advances given for other tangible fixed assets	3.023.011	-
	<u>1.835.825.466</u>	<u>1.869.365.890</u>

Türk Hava Yolları Anonim Ortaklığı

Notes to the financial statements as at 30 June 2005

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

11 TANGIBLE 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
Cost											
Opening balance 1 January 2005	169.741.239	302.661.221	223.674.107	1.312.812.080	293.641.112	398.826	2.302.928.585	3.468.487.200	18.375.467	3.486.862.667	5.789.791.252
Additions	-	1.945.989	695.413	57.238.160	39.955.283	752.663	100.587.508	-	-	-	100.587.508
Disposals	-	(1.399.062)	(678.207)	-	(14.546.701)	(344.202)	(16.968.172)	-	-	-	(16.968.172)
Closing balance 30 June 2005	169.741.239	303.208.148	223.691.313	1.370.050.240	319.049.694	807.287	2.386.547.921	3.468.487.200	18.375.467	3.486.862.667	5.873.410.588
Accumulated depreciation											
Opening balance 1 January 2005	47.121.403	260.881.766	203.112.092	803.760.503	144.414.414	-	1.459.290.178	967.020.940	5.436.427	972.457.367	2.431.747.545
Depreciation for the period	1.412.783	6.925.691	4.176.305	13.729.502	42.653.715	-	68.897.996	80.931.368	718.022	81.649.390	150.547.386
Disposals	-	(1.381.994)	(546.268)	-	(14.546.701)	-	(16.474.963)	-	-	-	(16.474.963)
Closing balance 30 June 2005	48.534.186	266.425.463	206.742.129	817.490.005	172.521.428	-	1.511.713.211	1.047.952.308	6.154.449	1.054.106.757	2.565.819.968
Accumulated impairment	-	7.391.051	-	295.149.850	-	-	302.540.901	1.167.380.645	4.866.619	1.172.247.264	1.474.788.165
30 June 2005 net book value	121.207.053	29.391.634	16.949.184	257.410.385	146.528.266	807.287	572.293.809	1.253.154.247	7.354.399	1.260.508.646	1.832.802.455
31 December 2004 net book value	122.619.836	33.587.309	20.562.016	209.530.558	149.226.697	398.824	535.925.241	1.325.253.890	8.186.760	1.333.440.650	1.869.365.890

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Notes to the financial statements as at 30 June 2005

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

12 INTANGIBLE FIXED ASSETS (Net)

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost			
Opening balance 1 January 2005	62.053.266	19.441.671	81.494.937
Additions	786.983	195.753	982.736
Disposals	-	(59.941)	(59.941)
Closing balance 30 June 2005	<u>62.840.249</u>	<u>19.577.483</u>	<u>82.417.732</u>
Accumulated depreciation			
Opening balance 1 January 2005	55.035.127	18.753.463	73.788.590
Amortization charge for the period	1.447.634	253.108	1.700.742
Disposals	-	(11.788)	(11.788)
Closing balance 30 June 2005	<u>56.482.761</u>	<u>18.994.783</u>	<u>75.477.544</u>
Accumulated impairment	-	-	-
30 June 2005 net book value	<u>6.357.488</u>	<u>582.700</u>	<u>6.940.188</u>
31 December 2004 net book value	<u>7.018.138</u>	<u>688.208</u>	<u>7.706.346</u>

13 ADVANCES GIVEN FOR AIRCRAFT

	<u>30 June 2005</u>	<u>31 December 2004</u>
Prepayments for aircraft purchases	594.509.367	408.540.468
Advances given for operational leases	2.630.605	1.281.688
	<u>597.139.972</u>	<u>409.822.156</u>

14 OTHER LONG TERM RECEIVABLES AND ASSETS

	<u>30 June 2005</u>	<u>31 December 2004</u>
Prepaid eximbank USA guarantee and exposure fee	6.438.445	7.228.947
Prepaid aircraft financing expense	2.461.617	2.775.554
Deposits given	1.746.632	1.793.362
Due from personel	1.068.100	1.164.105
Receivables from SITA deposit certificate	694.884	725.594
Other receivables	91.051	93.913
	<u>12.500.729</u>	<u>13.781.475</u>

15 BANK BORROWINGS

	<u>30 June 2005</u>	<u>31 December 2004</u>
T.İş Bankası /Citibank NA London	362.192.647	-
Other (*)	321.700	290.392
	<u>362.514.347</u>	<u>290.392</u>

<u>Bank Name</u>	<u>Maturity</u>	<u>Currency</u>	<u>Interest accruals</u>	<u>YTL</u>
T.İş Bankası / Citibank NA London	31.03.2006	270.000.000 US Dollar	31.050 US Dollar	362.192.647

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

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

16 FINANCE LEASE OBLIGATIONS

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

	<u>30 June 2005</u>	<u>31 December 2004</u>
Not later than one year	247.302.828	245.532.829
Between 1 - 5 years	757.222.433	803.828.806
Over 5 years	200.057.169	290.063.690
	<u>1.204.582.430</u>	<u>1.339.425.325</u>
Less: Future interest expense	<u>(140.220.426)</u>	<u>(141.238.730)</u>
Principal value of future rentals shown in the balance sheets	<u>1.064.362.004</u>	<u>1.198.186.595</u>
	<u>30 June 2005</u>	<u>31 December 2004</u>
Represented by :		
Current liabilities	209.364.831	209.305.866
Long term liabilities	854.997.173	988.880.729
	<u>1.064.362.004</u>	<u>1.198.186.595</u>
Interest range:		
Floating rate obligations	813.676.785	901.318.160
Fixed rate obligations	250.685.219	296.868.435
	<u>1.064.362.004</u>	<u>1.198.186.595</u>

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

17 DUE TO RELATED PARTIES

Due to related parties consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Sun Express	196.140	217.919
Uçak Servisi A.Ş. (USAŞ)	10.355.235	6.501.995
	<u>10.551.375</u>	<u>6.719.914</u>

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Notes to the financial statements as at 30 June 2005

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

18 OTHER SHORT TERM AND LONG TERM PAYABLES

Other short term payables consist of the following:

	30 June 2005	31 December 2004
Tax and funds payable	17.016.146	19.969.535
Social security premiums payable	10.048.032	12.584.778
Deferred income from USAŞ share transfer	5.192.850	3.736.019
Payable to personel	178.633	261.671
State Airport Administration ("DHMI") protocol payable	-	1.881.482
Discount on DHMI protocol payable	-	(37.585)
Other liabilities	1.163.265	816.187
	<u>33.598.926</u>	<u>39.212.087</u>

Other long term payables consist of the following:

	30 June 2005	31 December 2004
Deferred income from USAŞ share transfer	2.596.425	3.736.019
	<u>2.596.425</u>	<u>3.736.019</u>

19 DEPOSITS AND ADVANCES RECEIVED

Short term deposits and advances received consist of the following:

	30 June 2005	31 December 2004
MCO advances	15.152.699	8.632.020
Deposits and guarantees received	6.134.853	4.359.142
Advances received for mileage credit sales	6.038.519	23.852.982
E-pos ticket advance	1.354.528	360.152
Other advances received	619.148	301.203
Deposits received from Turkish Republic Religious Affairs	240.460	2.426.967
	<u>29.540.207</u>	<u>39.932.466</u>

Long term deposits and guarantees received consist of the following:

	30 June 2005	31 December 2004
Deposits and guarantees received	8.228.489	8.835.144

20 PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities consist of the following:

	30 June 2005	31 December 2004
Flight liability - advanced ticket sales	221.305.883	128.788.216
Flight liability resulting from sales of mileage	55.113.721	53.765.597
	<u>276.419.604</u>	<u>182.553.813</u>

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Notes to the financial statements as at 30 June 2005

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21 OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Collective agreement expense accruals	20.228.485	-
Accrued salaries	19.149.264	16.128.018
Accrued maintenance costs	16.057.205	16.463.203
Expense accruals of insurance premiums	10.617.291	10.401.972
Provision for legal claims	8.542.430	9.546.475
Accrued frequent flyer liability	8.217.839	7.220.634
Sales incentive premium accrual	4.375.588	7.985.966
Fuel oil privilege expense accrual	730.598	754.362
Other accrued liabilities	355.370	368.911
Other expense accruals	7.058.325	3.382.958
	<u>95.332.395</u>	<u>72.252.499</u>

22 MANUFACTURERS' CREDIT (NET)

Unearned income about manufacturers' credit consists of the following:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Gross manufacturers' credit	16.945.984	17.507.622
Accumulated amortization(-)	(15.403.489)	(15.038.623)
	<u>1.542.495</u>	<u>2.468.999</u>

23 TAXATION

Corporation tax payable is as follows:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Prepaid taxes and funds	3.104.425	52.974.738
	<u>3.104.425</u>	<u>52.974.738</u>

Tax expense is as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Current year tax expense	-	12.171.830
Deferred tax expense	16.829.682	17.479.067
Tax expense	<u>16.829.682</u>	<u>29.650.897</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.

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Notes to the financial statements as at 30 June 2005

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

23 TAXATION (cont'd)

Corporate tax: (cont'd)

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

The effective tax rates are as follows:

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

In Turkey, prepaid taxes are calculated and accrued on a quarterly basis. The prepaid corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003. In 2004, the prepaid corporate income tax rate was applied 33%. Prepaid corporate income tax rate is 30% in 2005.

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

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

Income withholding tax:

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

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

Deferred tax:

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

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23 TAXATION (cont'd)

Temporary differences: deferred tax assets / (liabilities)

	<u>30 June 2005</u>	<u>31 December 2004</u>
Allowance for unrecoverable bank accounts	246	285
Provision for doubtful receivables	861.118	430.246
Restatement of inventory	(351.567)	8.999.973
Appreciation in value of financial assets	(878.096)	(1.532.084)
Changes in other short term assets	-	62.943
Short term lease obligation	49.445.484	49.423.979
Deferred income and expense	391.679	299.841
Expense accruals	8.588.288	13.552.477
Provision for advance ticket sales	(22.073.243)	(18.558.573)
Deferred income	2.336.779	1.912.034
Adjustments to long term assets	67.909	(640.713)
Fixed assets	(410.064.977)	(439.216.331)
Long term lease obligation	256.499.152	296.664.219
Retirement pay liability	32.601.349	30.906.849
Manufacturers' credit	462.749	740.700
Discount on receivables	772.994	105.392
Discount on payables	(1.021.022)	(20.646)
Unused investment incentives	5.380.233	3.824.698
Unused tax losses	13.666.501	5.047.962
Deferred tax liability	<u>(63.314.424)</u>	<u>(47.996.749)</u>

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

	<u>30 June 2005</u>	<u>30 June 2004</u>
Deferred tax charge related to the origination and reversal of temporary differences	16.829.682	12.732.515
Deferred tax charge resulting from change in effective tax rate	-	4.746.552
Net deferred tax charge	<u>16.829.682</u>	<u>17.479.067</u>
Monetary gain on deferred tax liabilities	<u>(1.512.007)</u>	<u>(3.861.738)</u>
Net change in deferred tax	<u>15.317.675</u>	<u>13.617.326</u>

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

	<u>30 June 2005</u>	<u>30 June 2004</u>
Profit before taxation	240.087	38.343.253
Expected tax expense (2005:30%, 2004:33%)	72.026	12.653.273
<i>Reconciling items:</i>		
Non-deductible expenses	4.671.595	3.924.201
Tax-exempt income	(13.222.535)	-
Non-deductible monetary losses	25.308.596	8.972.209
Deferred tax charge resulting from change in effective tax rate	-	4.746.549
Investment incentive used	-	(645.335)
Actual tax charge	<u>16.829.682</u>	<u>29.650.897</u>

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24 RETIREMENT PAY LIABILITY

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, complete 25 years of service (20 years for women), are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of YTL 1.649 as at 30 June 2005 (31 December 2004: YTL 1.575). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

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

	<u>30 June 2005</u>	<u>30 June 2004</u>
Current service cost	8.469.881	6.172.327
Interest cost	2.721.201	2.738.980
	<u>11.191.082</u>	<u>8.911.307</u>

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

	<u>30 June 2005</u>	<u>31 December 2004</u>
Provision at 1 January	103.022.825	92.440.678
Charge for the period	11.191.082	20.037.095
Payments during the period	(2.297.291)	(6.542.856)
Restatement effect	(3.245.448)	(2.912.092)
Provision at 30 June	<u>108.671.168</u>	<u>103.022.825</u>

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

25 SHARE CAPITAL

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

	<u>Group</u>	<u>%</u>	<u>30 June 2005</u>	<u>%</u>	<u>31 December 2004</u>
Turkish Republic of Turkey Prime Ministry Privatization Administration(*)	A, C	75,18(**)	131.565.696	75,17	131.538.948
Others	A	24,82(**)	43.434.304	24,83	43.461.052
Share capital (historic)			175.000.000		175.000.000
Restatement effect			1.801.262.647		1.801.262.647
Restated			<u>1.976.262.647</u>		<u>1.976.262.647</u>

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

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25 SHARE CAPITAL (cont'd)

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

As at 30 June 2005, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to name. The Class C share, which belongs to the Privatization Administration, is a unique share with a par value of YKr 0.1 with the following privileges:

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

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

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

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

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

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26 FOREIGN CURRENCY POSITION

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

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

30 June 2005	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency based assets</i>					
Cash and cash equivalents	46.823.805	290.029.688	4.728.620	42.361.837	383.943.950
Account receivables (net)	25.268.219	15.682.170	10.014.746	104.888.852	155.853.987
Due from related parties (short term)	-	213.217	-	-	213.217
Other short term receivables and assets	11.153.807	5.302.139	233.695	11.085.014	27.774.655
Inventories-advances given	161.453	2.241	2.219	6.077.387	6.243.300
Other long term receivables and assets	15.074.731	441.223	72.991	1.739.918	17.328.863
Advances given for the aircrafts	597.316.758	167.183	48.437	-	597.532.378
	<u>695.798.773</u>	<u>311.837.861</u>	<u>15.100.708</u>	<u>166.153.008</u>	<u>1.188.890.350</u>
<i>Foreign currency based liabilities</i>					
Bank borrowings	362.192.647	-	-	-	362.192.647
Short term finance lease obligation	209.364.831	-	-	-	209.364.831
Accounts payable (short term) (net)	32.895.816	36.104.200	4.575.381	76.320.503	149.895.900
Due to related parties	199.603	32.583	2.089	-	234.275
Deposits and advances received	6.269.893	106.865	942	387.780	6.765.480
Other accrued liabilities	11.196.640	6.501.735	1.643.098	2.324.396	21.665.869
Passenger flight liabilities	55.113.721	-	-	-	55.113.721
Long term finance lease obligations	854.997.173	-	-	-	854.997.173
Accounts payable	377.509	5.793.771	533.166	1.524.043	8.228.489
	<u>1.532.607.833</u>	<u>48.539.154</u>	<u>6.754.676</u>	<u>80.556.722</u>	<u>1.668.458.385</u>
Net foreign currency position (*)	(836.809.060)	263.298.707	8.346.032	85.596.286	(479.568.035)

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

As of 30 June 2005, the net book values of aircraft and spare engines, which are carried from US Dollar acquisition costs or US Dollar selling prices is YTL 1.470.036.716 (31 December 2004: YTL 1.553.305.893).

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26 FOREIGN CURRENCY POSITION (cont'd)

31 December 2004	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency based assets</i>					
Cash and cash equivalents	41.666.394	184.101.674	2.393.198	29.230.168	257.391.434
Account receivables (net)	36.676.609	33.975.034	5.598.287	39.898.848	116.148.778
Due from related parties	493.178	321.540	-	-	814.718
Other short term receivables and assets	19.074.273	2.028.176	447.633	2.060.142	23.610.224
Advances given for the aircrafts	409.822.154	-	-	-	409.822.154
Other long term receivables and assets	12.261.075	548.713	79.942	858.489	13.748.219
	<u>519.993.683</u>	<u>220.975.137</u>	<u>8.519.060</u>	<u>72.047.647</u>	<u>821.535.527</u>
<i>Foreign currency based liabilities</i>					
Short term finance lease obligations	209.305.866	-	-	-	209.305.866
Accounts payable	83.592.196	50.285.376	4.940.599	22.403.070	161.221.241
Due to related parties	222.983	1.309	-	-	224.292
Other short and long term liabilities (net)	569.417	522.367	102.890	78.419	1.273.093
Deposits and advances received	28.423.123	8.667.402	709.370	1.924.877	39.724.772
Other accrued liabilities	17.612.788	2.888.675	2.796.975	1.682.379	24.980.817
Long term finance lease obligations	988.880.729	-	-	-	988.880.729
Manufacturers' credit (net)	2.468.999	-	-	-	2.468.999
	<u>1.331.076.101</u>	<u>62.365.129</u>	<u>8.549.834</u>	<u>26.088.745</u>	<u>1.428.079.809</u>
Net foreign currency position(*)	<u>(811.082.418)</u>	<u>158.610.008</u>	<u>(30.774)</u>	<u>45.958.902</u>	<u>(606.544.282)</u>

27 CONTINGENT LIABILITIES

a) Guarantees Given:

Amount of letter of guarantees given is 37.649.133 YTL as of 30 June 2005 (31 December 2004: 35.152.337 YTL).

b) Purchase Commitments:

The Company has signed agreements to purchase 51 aircraft which will be obtained between years 2005-2008. Total value of these aircraft is approximately US Dollar 4.1 billion according to the list prices before any discounts to be applied by aircraft producer firms. THY paid a deposit of US Dollar 439 million as of 30 June 2005 related to these new purchases.

c) Letter of comfort:

	<u>30 June 2005</u>		<u>31 December 2004</u>	
	US Dollar	2.900.000	US Dollar	2.900.000
Letters of comfort given to Sun Express	Euro	2.556.459	Euro	2.556.459

d) The Company's discounted retirement pay provision is YTL 108.671.168. The Company's total undiscounted liability for retirement pay would be approximately YTL 171 million as of 30 June 2005, if all employees had been dismissed as at that date.

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28 OPERATING LEASE COMMITMENTS

Operating lease commitments of the Company consist of the following:

	<u>30 June 2005</u>	<u>31 December 2004</u>
Not later than one year	102.752.398	77.258.067
Between 1-5 years	168.987.891	123.089.819
Over 5 years	4.451.564	-
	<u>276.191.853</u>	<u>200.347.886</u>

29 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a) THY sold the A 319 CJ VIP aircraft registered as TC-ANA to Turkish Republic Prime Ministry on 25 July 2005 upon the 15 July 2005 dated resolution of Board of Directors.

b) Market price of 202.735 France Telecom securities, which is quoted at the Paris Stock Exchange, included in the financial investments available for sale as of 30 June 2005, has decreased from Euro 24,16 at 30 June 2005 to Euro 24,14 at 20 September 2005. Hence, the total market value of these securities decreased by YTL 6.555 compared to balance sheet date.

c) Market price of 2.650,5 million USA\$ securities, which is traded in İstanbul Stock Exchange Market, and included in the financial investments as available for sale as of 30 June 2005, has increased from YTL 5,35 at 30 June 2005 to YTL 5,55 on 20 September 2005. Hence, the total market value of these securities increased by YTL 530.100 compared to balance sheet date.

d) Retirement pay ceiling has been increased to YTL 1.725,15 as of 1 July 2005.

30 OPERATING REVENUES

Operating revenues are as follows :

	<u>30 June 2005</u>	<u>30 June 2004</u>
Scheduled services		
- Passenger	1.123.469.369	1.001.782.566
- Cargo and mail	123.984.281	128.008.861
Non-scheduled services	19.477.639	15.526.340
Other revenues	160.696.870	131.871.852
Total revenues	<u>1.427.628.159</u>	<u>1.277.189.619</u>

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

	<u>30 June 2005</u>	<u>30 June 2004</u>
- Europe	505.865.602	444.740.772
- Middle East	135.491.431	131.012.851
- North Africa	33.457.782	30.632.432
- North America	62.507.224	65.159.886
- Far East	215.004.728	195.431.448
	<u>952.326.767</u>	<u>866.977.389</u>
Domestic	295.126.883	262.814.038
Total scheduled services' flight revenue	<u>1.247.453.650</u>	<u>1.129.791.427</u>

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31 OPERATING EXPENSES

Operating expenses are given below:

Cost of Sales	30 June 2005	30 June 2004
Fuel expenses	310.654.885	212.005.254
Staff expenses	226.105.564	193.970.779
Depreciation expenses	146.578.733	151.381.832
Handling and station expenses	112.598.755	110.952.726
Landing and navigation expenses	83.424.083	76.659.431
Passenger service and catering expenses	69.665.856	60.939.186
Maintenance expenses	66.203.798	43.974.906
Operating lease expenses	45.176.106	23.122.881
Insurance expenses	30.954.131	26.091.452
Other renting expenses	7.357.798	4.757.546
Aircraft rent expenses	6.898.273	8.533.698
Service expenses	3.639.584	3.008.207
Communication expenses	3.426.927	4.458.691
Other taxes	2.012.572	857.930
Lighting, heating and water expenses	1.922.938	2.403.190
Transportation expenses	1.041.350	640.750
Impairment loss	-	26.378.896
Cost of other sales	5.446.287	2.565.773
	<u>1.123.107.640</u>	<u>952.703.128</u>

Sales and marketing expenses	30 June 2005	30 June 2004
Commission and promotion expenses	96.104.181	103.019.541
Staff expenses	58.004.378	53.954.499
Reservation system expenses	31.554.878	27.397.521
Communication expenses	6.924.659	7.511.749
Rent expenses	6.180.796	6.879.853
Service expenses	3.878.305	2.582.377
Advertisement expenses	3.456.685	2.006.786
Transportation expenses	2.080.342	1.775.201
Passenger service and catering expenses	2.036.894	1.663.345
Other taxes	1.447.812	1.298.389
Seat rent expenses	912.676	807.369
Lighting, heating and water expenses	676.404	739.532
Maintenance expenses	635.340	568.744
Software and computer equipment expenses	376.567	460.400
Fuel expenses	253.697	191.980
Insurance expenses	162.367	292.318
Other sales and marketing expenses	7.555.243	5.592.649
	<u>222.241.224</u>	<u>216.742.253</u>

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31 OPERATING EXPENSES (cont'd)

	30 June 2005	30 June 2004
General administrative expenses		
Staff expenses	71.645.344	61.688.470
Depreciation expenses	5.669.395	5.840.176
Other taxes	1.878.243	1.681.302
Maintenance expenses	1.799.475	1.814.860
Software and computer equipment expenses	1.787.026	2.018.127
Communication expenses	1.658.522	1.260.142
Commission and promotion expenses	1.071.182	911.047
Lighting, heating and water expenses	792.100	367.708
Service expenses	716.739	1.038.591
Other renting expenses	664.844	287.697
Insurance expenses	198.960	904.978
Fuel expenses	115.378	4.757
Other general administrative expenses	3.185.632	2.891.622
	<u>91.182.840</u>	<u>80.709.477</u>
	<u>1.436.531.704</u>	<u>1.250.154.858</u>

32 FINANCIAL EXPENSE (NET)

Financial income/ (expense) consist of the following:

	30 June 2005	30 June 2004
Interest income	14.393.116	17.733.800
Income from investment accounted for equity method	1.767.223	2.659.638
Foreign exchange gains	127.363.126	134.383.491
Discount income	3.414.601	32.288
Financial income	<u>146.938.066</u>	<u>154.809.217</u>

	30 June 2005	30 June 2004
Foreign exchange losses	(154.266.325)	(207.512.269)
Interest expenses-third parties	-	(3.485.202)
Finance lease interest expense	(22.808.585)	(22.460.695)
Retirement pay interest cost	(4.084.534)	(2.738.980)
Diminution in value of financial assets	(4.813.715)	(2.766.108)
Discount expense	(2.368.251)	(1.596.470)
Interest expense-bank borrowings	(3.477.558)	-
Other financial expense	(740.124)	-
Financial expense	<u>(192.559.092)</u>	<u>(240.559.724)</u>
Financial expense (net)	<u>(45.621.026)</u>	<u>(85.750.507)</u>

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33 INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Provision for diminution in value of fixed assets	23.001.365	-
Reversal of unnecessary provision	6.369.800	8.295.493
Discounts received from spare parts suppliers	5.873.680	5.141.179
Free of cost of materials income	3.248.108	738.479
Compensation received	1.610.017	1.511.518
Dividend income	1.355.665	309.507
Manufacturers' credit income	847.299	1.020.307
Gain from sale of fixed assets	396.100	55.985
Other income	1.781.903	4.359.498
	<u>44.483.937</u>	<u>21.431.966</u>

34 LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the followings:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Provision expenses	2.804.395	1.972.628
Rent expense of RJ aircraft to be returned	-	2.209.490
Rent expense of RJ aircraft for the non-operating period	-	1.896.451
Other expenses	311.147	447.148
	<u>3.115.542</u>	<u>6.525.717</u>

35 TRANSACTIONS WITH RELATED PARTIES

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

Transactions with related parties are as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Services given to Sun Express	1.378.153	1.827.965
Services given to USAŞ	163.066	119.032
	<u>1.541.219</u>	<u>1.946.997</u>
	<u>30 June 2005</u>	<u>30 June 2004</u>
Services taken from Sun Express	357.194	1.558.881
Services taken from USAŞ	37.117.729	31.449.609
	<u>37.474.923</u>	<u>33.008.490</u>

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35 TRANSACTIONS WITH RELATED PARTIES (cont'd)

Dividend income from equity investments are as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Sun Express	80.816	-
Uçak Servisi A.Ş. (USAŞ)	1.117.524	-
Emek İnşaat ve İşletme A.Ş.	-	309.507
France Telecom	157.325	-
	<u>1.355.665</u>	<u>309.507</u>