

CONVENIENCE TRANSLATION OF
REPORT AND FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

TÜRK HAVA YOLLARI A.O.
ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2010

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
Türk Hava Yolları A.O.**

We have audited the accompanying consolidated balance sheet of Türk Hava Yolları A.O. and its subsidiary (together the "Group") as at 31 December 2010 and the related consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year ended 31 December 2010, and a summary of significant accounting policies and other explanatory notes.

Management Responsibility on Financial Statements

The management is responsible for preparation and fair presentation of these financial statements in accordance with accounting standards published by Capital Markets Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards published by the Capital Markets Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusion


In our opinion, accompanying consolidated financial statements of the Group as of 31 December 2010 and for the year then ended have been properly prepared, in all material respects in accordance with generally accepted accounting standards issued by Capital Markets Board.

Without qualifying our opinion, we would like to draw attention to the following matter:

As explained in detail in Note 2.2 and Note 41, the Group has made certain reclassifications to its financial statements for the year ended 31 December 2009.

İstanbul, 23 March 2011

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**


Berkman Özata
Partner

(Convenience Translation of Report and Financial Statements Originally Issued in Turkish)

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY
AUDITED CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

ASSETS	Notes	31 December 2010	31 December 2009
Current Assets		3.491.777.500	2.798.163.528
Cash and cash equivalents	6	813.936.552	1.090.463.875
Financial assets	7	84.070.372	222.298.370
Trade receivables	10	577.622.814	443.690.225
Other receivables	11	1.649.525.777	749.041.369
Inventories	13	172.076.283	148.995.932
Other current assets	26	194.545.702	143.673.757
Non-current Assets		7.157.108.485	5.772.234.243
Other receivables	11	214.636.988	664.360.128
Financial assets	7	1.750.943	1.750.943
Investments accounted for using the equity	16	193.562.028	152.052.556
Investment property	17	49.570.000	48.810.000
Tangible assets	18	6.443.437.235	4.811.019.050
Intangible assets	19	33.099.101	10.669.612
Other non-current assets	26	221.052.190	83.571.954
TOTAL ASSETS		10.648.885.985	8.570.397.771

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

(Convenience Translation of Report and Financial Statements Originally Issued in Turkish)

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY
AUDITED CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

LIABILITIES	Notes	31 December 2010	31 December 2009
Current Liabilities		2.540.819.554	1.947.551.656
Financial debt	8	493.120.594	412.266.841
Other financial liabilities	9	63.750.323	46.078.943
Trade payables	10	735.874.026	559.109.822
Other payables	11	162.798.563	156.633.381
Current tax liabilities	35	-	2.419.544
Provisions	22	20.480.602	7.287.354
Provisions for employee benefits	24	102.214.757	54.734.480
Passenger flight liabilities	26	673.843.879	586.525.279
Other current liabilities	26	288.736.810	122.496.012
Non- current Liabilities		4.360.659.447	3.177.965.889
Financial debt	8	3.684.958.785	2.575.899.283
Other payables	11	9.831.914	8.941.613
Provisions for employee benefits	24	170.505.529	151.875.562
Deferred tax liability	35	435.385.525	362.243.105
Other non- current liabilities	26	59.977.694	79.006.326
SHAREHOLDERS' EQUITY			
Equity Attributable to Shareholders of Parent		3.747.406.984	3.444.880.226
Share capital	27	1.000.000.000	875.000.000
Inflation difference on shareholders' equity	27	1.123.808.032	1.123.808.032
Restricted reserves assorted from profit differences	27	39.326.341	22.686.727
Currency translation differences	27	3.589.635	4.641.339
Cash flow hedge fund	27	15.383.772	(1.751.329)
Retained earnings	27	1.278.855.843	861.419.177
Net profit for the period	27	286.443.361	559.076.280
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10.648.885.985	8.570.397.771

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

(Convenience Translation of Report And Financial Statements Originally Issued in Turkish)

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY
AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated .)

	<u>Notes</u>	<u>1 January- 31 December 2010</u>	<u>1 January- 31 December 2009</u>
Sales Revenues	28	8.422.771.140	7.035.882.903
Cost of Sales (-)	28	(6.609.264.529)	(5.200.371.472)
GROSS PROFIT		1.813.506.611	1.835.511.431
Marketing, Selling and Distribution Expenses (-)	29	(999.770.863)	(806.503.413)
Administrative Expenses (-)	29	(352.872.407)	(266.173.785)
Other Operating Income	31	149.669.257	91.136.104
Other Operating Expenses (-)	31	(128.343.992)	(130.079.895)
OPERATING PROFIT		482.188.606	723.890.442
Share of Investments Profit / Loss Accounted for			
Equity Method	16	(36.800.970)	12.813.703
Financial Income	32	72.851.263	172.982.144
Financial Expenses (-)	33	(152.549.546)	(172.708.672)
PROFIT BEFORE TAXES		365.689.353	736.977.617
Tax Expense (-)		(79.245.992)	(177.901.337)
Current Tax Expense (-)	35	(10.387.347)	(104.523.367)
Deferred Tax Expense (-)	35	(68.858.645)	(73.377.970)
PROFIT FOR THE PERIOD		286.443.361	559.076.280
OTHER COMPREHENSIVE INCOME / (EXPENSE)			
Change in Currency Translation Differences		(1.051.704)	181.933
Change in Cash Flow Hedge Fund		21.418.876	(2.189.161)
Tax (Expense) / Income on Items in			
Other Comprehensive Income		(4.283.775)	437.832
OTHER COMPREHENSIVE INCOME / (EXPENSE) (AFTER TAX)		16.083.397	(1.569.396)
TOTAL COMPREHENSIVE INCOME		302.526.758	557.506.884
Earnings Per Share (Kr)	36	0,29	0,56

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

(Convenience Translation of Report And Financial Statements Originally Issued in Turkish)

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY
AUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHARE HOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

Notes	Share capital	Inflation difference on shareholders' equity	Reserves assorted from profit	Currency translation differences	Cash flow hedge fund	Net profit for the period	Retained earnings	Total
As of 31 December 2008	175.000.000	1.672.901.479	-	4.459.406	-	1.134.226.211	-	2.986.587.096
Transfer of previous years' profit to capital reserves	-	-	22.686.727	-	-	(22.686.727)	-	-
Dividend paid	-	-	-	-	-	(99.213.754)	-	(99.213.754)
Capital increase	700.000.000	(549.093.447)	-	-	-	(150.906.553)	-	-
Transfer of previous years' profit to retained earnings	-	-	-	-	-	(861.419.177)	861.419.177	-
Total comprehensive income for the period	-	-	-	181.933	(1.751.329)	559.076.280	-	557.506.884
As of 31 December 2009	875.000.000	1.123.808.032	22.686.727	4.641.339	(1.751.329)	559.076.280	861.419.177	3.444.880.226
As of 31 December 2009	875.000.000	1.123.808.032	22.686.727	4.641.339	(1.751.329)	559.076.280	861.419.177	3.444.880.226
Transfer of previous years' profit to capital reserves	-	-	16.639.614	-	-	(16.639.614)	-	-
Capital increase	125.000.000	-	-	-	-	(125.000.000)	-	-
Transfer of previous years' profit to retained earnings	-	-	-	-	-	(417.436.666)	417.436.666	-
Total comprehensive income for the period	-	-	-	(1.051.704)	17.135.101	286.443.361	-	302.526.758
As of 31 December 2010	1.000.000.000	1.123.808.032	39.326.341	3.589.635	15.383.772	286.443.361	1.278.855.843	3.747.406.984

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

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TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY
AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated .)

	Notes	1 January- 31 December 2010	1 January- 31 December 2009
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before taxes		365.689.353	736.977.617
Adjustments to obtain net cash flow generated from operating activities:			
Depreciation and amortization	18-19	458.539.301	466.032.873
Provision for retirement pay liability	24	48.486.761	26.356.395
Provision for debts	22	13.193.248	(173.042)
Interest income	32	(38.397.854)	(159.789.136)
Gain on sale of fixed assets	31	(45.206.644)	(3.333.754)
Increase in provision for impairment	18	5.356.560	109.724.409
Loss/(profit) on equity investments accounted for using the equity method	16	36.800.970	(12.813.703)
Interest expense		87.999.221	116.763.052
Change in manufacturers' credit	26	(2.728.629)	(13.146.194)
Unrealized foreign exchange gain/(loss) on finance leases		13.262.857	(2.890.159)
Provision for doubtful receivables	10	37.489.876	22.513.003
Value increase or decrease on investment property	17	(760.000)	78.086
Change in fair value of derivative instruments	32-33	5.787.041	(9.016.534)
Dividend income	32	-	(42.014)
Operating profit before working capital changes		985.512.061	1.277.240.899
Increase in trade receivables	10	(171.422.465)	(118.750.751)
(Increase)/decrease in other short and long term receivables		(35.459.709)	2.298.881
Increase in inventories	13	(23.080.351)	(50.636.641)
Decrease in other current assets	26	8.798.815	19.889.671
(Increase)/decrease in other non-current assets	26	(137.480.236)	21.922.557
Increase in trade payables	10	176.764.204	125.692.267
Increase in other payables	11	7.055.483	41.742.703
Increase in other short and long term liabilities		104.740.795	35.344.127
Increase in short term employee benefits	24	47.480.277	6.916.055
Increase in passenger flight liabilities	26	87.318.600	99.131.282
Cash flow from operating activities		1.050.227.474	1.460.791.050
Payment of retirement pay liability	24	(29.856.794)	(16.939.915)
Interest paid		(86.727.275)	(117.019.197)
Taxes paid		(72.477.652)	(106.289.632)
Net cash flow from operating activities		861.165.753	1.220.542.306
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible and intangible fixed assets	18-19-31	116.003.254	129.348.500
Interest received		34.658.151	181.134.732
Dividends received	16	-	542.016
Purchase of of tangible and intangible fixed assets (*)	18-19	(629.433.434)	(278.557.603)
Prepayments for the purchase of aircrafts	11	(415.301.558)	(1.331.217.539)
(Increase)/decrease in short term financial investments	7	175.000.000	1.203.244.254
Cash outflow resulting from purchase of joint ventures		(34.162.146)	(39.418.996)
Net cash used in investing activities		(753.235.733)	(134.924.636)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal in finance lease liabilities		(371.225.019)	(397.692.584)
Decrease in financial borrowings		(13.503.240)	(6.803.885)
Increase in other financial liabilities	9	270.916	3.650.707
Dividends paid		-	(99.213.754)
Net cash used in financing activities		(384.457.343)	(500.059.516)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(276.527.323)	585.558.154
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD		1.090.463.875	504.905.721
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		813.936.552	1.090.463.875

(*) TL 1.560.106.711 portion of tangible and intangible assets purchases in total of TL 2.189.540.145 as of 31 December 2010 was financed through finance leases. (31 December 2009: 178.514.434 portion of tangible and intangible assets purchases in total of TL 407.150.331 was financed through finance leases.

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

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY

Audited Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2010
(All amounts are expressed in Turkish Lira (TL) 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. As of 31 December 2010 and 31 December 2009, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Republic of Turkey Prime Ministry		
Privatization Administration	49,12 %	49,12 %
Other (publicly held)	50,88 %	50,88 %
Total	<u>100,00 %</u>	<u>100,00 %</u>

The total number of employees working for Türk Hava Yolları A.O. and its subsidiary (the "Group") as of 31 December 2010 is 17.119 (31 December 2009: 15.269). The average number of employees working for the Group as of 31 December 2010 and 2009 is 16.027 and 14.696, respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

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

The Company's stocks are traded on the Istanbul Stock Exchange since 1990.

THY Teknik A.Ş. is a single subsidiary of the Company.

Group management decisions regarding resources to be allocated to departments and examines the results and the activities on the basis of air transport and aircraft technical maintenance services for the purpose of departments performance evaluation. Each member of The Group companies prepare their financial statements in accordance with accounting policies are obliged to comply. The Group's main business of topics can be summarized as follows;

Air Transport ("Aviation")

The Company's main activity is domestic and international passenger and cargo air transportation.

Technical Maintenance Services ("Technical")

The Company's objective is become an important regional base for technical maintenance, in addition to this, repair and maintenance on civil aviation sector and give all kinds of technical and infrastructure support related to airline industry.

Approval of Financial Statements

Board of Directors has approved the financial statements as of 31 December 2010 and delegated authority for publishing it on 23 March 2011. General shareholders' meeting has the authority to modify the financial statements.

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY

Audited Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Basis of Preparation for Financial Statements and Significant Accounting Policies

The company and its subsidiaries registered in Turkey maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code and Tax Legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

The Capital Markets Board (“CMB”) has established principles, procedures and basis on the preparation of financial reports by enterprises and the representation of the reports with Communiqué Series XI, No: 29 “Communiqué on Capital Market Financial Reporting Standards”. This Communiqué is applicable for the first interim financial statements to be prepared after 1 January 2008 and with this Communiqué, the Communiqué Series XI, No: 25 “Communiqué on Capital Market Accounting Standards” has been repealed. In accordance with this Communiqué, the companies are supposed to prepare their financial statements in accordance with the International Financial Reporting Standards (“IAS/IFRS”) accepted by the European Union. Nevertheless, until the discrepancies between the IAS/IFRS accepted by the European Union, and the IAS/IFRS declared by IASB are announced by the Turkish Accounting Standards Board (“TASB”), IAS/IFRS will be in use. Under these circumstances, Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS/TFRS”), which are the standards published by TASB, not contradicting with IAS/IFRS will be predicated on.

The accompanying consolidated financial statements have been prepared in accordance with IFRS and comply with CMB’s decree announce on 17 April 2008 and 9 January 2009 regarding the format of the financial statements and footnotes since at the date of the issuance of these financial statements the differences of IAS/ IFRS accepted by the European Union are not declared by the TASB that are accounted at fair value.

All financial statements, except for investment property and derivative financial instruments, have been prepared on cost basis principal.

Currency Used in Financial Statements

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira (“TL”), which is the functional currency of the Company, and the reporting currency for the consolidated financial statements.

Adjustment of Financial Statements in Hyperinflationary Periods

As per the 17 March 2005 dated, 11/367 numbered decree of CMB, companies engaged in Turkey and those of which prepare their financial statements in accordance with the CMB Accounting Standards (including IAS/IFRS exercisers), use of inflationary accounting standards have been discontinued effective 1 January 2005. Pursuant effectuation, “Financial Reporting Standards in Hyperinflationary Economies” issued by the International Accounting Standards Committee (IASC), (“IAS 29”) was no longer applied henceforward.

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY

Audited Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.1 Basis of Presentation (Cont'd)

Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency, with current year consolidated financial statements, comparative information is reclassified and significant changes are disclosed if necessary. In the current year, the Group has made several reclasses in the prior year consolidated financial statements in order to maintain consistency, with current year consolidated financial statements. Nature, cause and amounts of classifications are explained in Note 41.

Basis of the Consolidation

a) The consolidated financial statements include the accounts of the parent company, Türk Hava Yolları A.O., its Subsidiary and its Jointly Controlled Entities on the basis set out in sections (b) and (c) below. Financial statements of subsidiary and Jointly Controlled Entities are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.

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

The table below sets out the consolidated Subsidiary and participation rate of the Group in this subsidiary as of 31 December 2010:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Participation Rate</u>		<u>Country of Registration</u>
		<u>31 December 2010</u>	<u>31 December 2009</u>	
THY Teknik A.Ş.	Aircraft Maintenance Services	100%	100%	Turkey

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

c) The Group has six joint ventures. These joint ventures are economical activities that decisions about strategic finance and operating policy are jointly controlled by the consensus of the Group and other participants. The Jointly Controlled are controlled by the Group jointly, and are valued by equity method.

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY

Audited Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.1 Basis of Presentation (Cont'd)

Basis of Consolidation (Cont'd)

The table below sets out consolidated affiliates and indicates the proportion of ownership interest of the Company in these affiliates at 31 December 2010 and 2009:

Company name	Country of registration and operation	Ownership Share (*)	Voting Power (*)	Principle Activity
Sun Express	Türkiye	50%	50%	Air transportation
Turkish DO&CO	Türkiye	50%	50%	Catering services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti	Türkiye	49%	49%	Maintenance services
Bosnia Herzegovina Airlines	Bosnia and Herzegovina	49%	49%	Air transportation
TGS	Türkiye	50%	50%	Ground services
THY OPET	Türkiye	50%	50%	Aviation fuel

(*) Share percentage and voting rights are the same in the year 2010 and 2009.

According to the equity method, subsidiaries are stated as the cost value adjusted as deducting the impairment in subsidiary from the change occurred in the subsidiary's assets after the acquisition date that is calculated by the Group's share in the consolidated balance sheet. Subsidiary's losses that exceed the Group's share are not considered (actually, that contains a long term investment which composes the net investment in the subsidiary).

2.2 Changes in Accounting Policies

Significant amendments in accounting policies and significant accounting errors are applied retrospectively and prior period financial statements should be restated. Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period.

The Group has reviewed its aircraft depreciation policy applied for its direct acquisitions or acquisitions through operating leases and has classified the cost of aircrafts into three parts, by considering the renewal of significant parts of the aircrafts identified during the major maintenance and repair of aircraft body and engine; body, major body repair; and engine and major engine repair. The Group also has decided to depreciate its major body repair and major engine repair parts over the shorter of the next repair's remaining period or the remaining period of the aircraft's useful life and to be capitalized subsequent to major body and major engine repairs for the depreciation over the shorter of the next repair period or the remaining period of the aircraft's useful life. As of 1 January 2009, the Group's financial statements are readjusted in accordance with International Financial Reporting Standards No: 8 ("IAS 8") "Accounting policies, Changes In Estimates and Errors". Following the readjustments, no change has been recorded in profit for the year ended as of 31 December 2009; however, depreciation charge recognized under cost of sales has increased by TL 118.981.293, maintenance costs has decreased by TL 49.921.706 and other operating expenses recognized under impairment loss of property, plant and equipment has increased by TL 69.059.587.

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY

Audited Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2010

(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.3 Offsetting

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

2.4 New and Revised International Financial Reporting Standards

a) There's no change in the current Standards which are related to the Group operations and are effective as of 31 December 2010.

b) There is no new and revised standards, amendments and interpretations affecting the Group's reported financial performance and/or financial positions as of 31 December 2010.

c) New and Revised IFRSs applied as of 31 December 2010 but has no effect on the consolidated financial statements:

IFRS 3 (revised), "Business Combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Major effects of adoption of the revised standards and changes in applications of existing standards are as follows:

a) to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquire.

b) to change the recognition and subsequent accounting requirements for contingent consideration.

c) to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred.

d) in step acquisitions, previously held interests are to be remeasured to fair value at the date of the subsequent acquisition with the value included in goodwill calculation. Gain or loss arising from the re-measurement shall be recognized as part of profit or loss.

e) IFRS 3 (2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

The Group does not have any acquisition during the current year.

TÜRK HAVA YOLLARI A.O. AND ITS SUBSIDIARY

Audited Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2010
(All amounts are expressed in Turkish Lira (TL) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 New and Revised International Financial Reporting Standards (Cont'd)

- c) New and Revised IFRSs applied as of 31 December 2010 but has no effect on the consolidated financial statements (Cont'd) :

IAS 27 (revised in 2008) "Consolidated and Separate Financial Statements"

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

The Group does not have any transactions with the non-controlling interests in the current year.

IAS 28 (revised in 2008) " Investments in Associates"

In accordance with the changes in IAS 28 (2008), when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

As part of Improvements to IFRSs issued in 2010, IAS 28(2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively.

IFRIC 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

IFRIC 18, "Transfers of assets from customers", effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 New and Revised International Financial Reporting Standards (Cont'd)

- c) New and Revised IFRSs applied as of 31 December 2010 but has no effect on the consolidated financial statements (Cont'd) :

“Additional exemptions for first-time adopters” (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.

IFRS 2, “Share-based Payments – Group Cash-settled Share Payment Arrangements” is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as the Group does not have share-based payment plans.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The improvements cover the following standards/intepretations: IFRS 2 Share-based Payments, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 8 Operating Segments, IAS 1 Presentation of Financial Statements, IAS 7 “Statement of Cash flows” IAS 17 Leases, IAS 18 Revenue, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IAS 39 Financial Instruments: Recognition and Measurement, IFRIC 9 Reassessment of Embedded Derivatives, IFRIC 16 Hedges of Net Investment in a Foreign Operation. The effective dates vary standard by standard but most are effective 1 January 2010. Amendments to IFRS 1 which are effective for annual periods on or after 1 July 2010 provide limited exemption for first time adopters to present comparative IFRS 7 fair value disclosures.

- d) Amendments and interpretations that not yet effective, and the standards which are not adopted early implementation by the Group and existing standards:

IFRS 1 (amendments) *First-time Adoption of IFRS –Other exceptional situation*

Amendments to IFRS 1 which are effective for annual periods on or after 1 July 2010 provide limited exemption for first time adopters to present comparative IFRS 7 fair value disclosures.

On 20 December, IFRS 1 is amended to;provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The amendment above will be effective for annual periods beginning on or after 1 July 2011.

These amendments are not relevant to the Group, as it is an existing IFRS preparer.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 New and Revised International Financial Reporting Standards (Cont'd)

- d) Amendments and interpretations that not yet effective, and the standards which are not adopted early implementation by the Group and existing standards (Cont'd):

IFRS 7 " Financial Instruments: Disclosures"

In October 2010, IFRS 7 Financial Instruments: Disclosures is amended by IASB as part of its comprehensive review of off balance sheet activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendment will be effective for annual periods beginning on or after 1 July 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IFRS 9 Financial Instruments: Classification and Measurement

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39 Financial Instruments: Recognition and Measurement. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or at fair value. The new standard is mandatory for annual periods beginning on or after 1 January 2013. The Group has not had an opportunity to consider the potential impact of the adoption of this standard.

IAS 12 " Income Taxes"

In December 2010, IAS 12 the standard of "Income Taxes" is amended. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The amendment will be effective for annual periods beginning on or after 1 January 2012. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IAS 24(Revised 2009) " Related Party Disclosures "

In November 2009, IAS 24 Related Party Disclosures was revised. The revision to the standard provides government-related entities with a partial exemption from the disclosure requirements of IAS 24. The revised standard is mandatory for annual periods beginning on or after 1 January 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 New and Revised International Financial Reporting Standards (Cont'd)

- d) Amendments and interpretations that not yet effective, and the standards which are not adopted early implementation by the Group and existing standards (Cont'd) :

IAS 32 (Amendments) “ Financial Instruments ” : Presentation and IAS 1 Presentation of Financial Statements

The amendments to IAS 32 and IAS 1 are effective for annual periods beginning on or after 1 February 2010. The amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

IFRIC 14 (Amendments) ” Pre-payment of a Minimum Funding Requirement “

Amendments to IFRIC 14 are effective for annual periods beginning on or after 1 January 2011. The amendments affect entities that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions. The amendment requires an asset to be recognized for any surplus arising from voluntary pre-payments made. The Group does not expect any impact of the adoption of this amendment on the financial statements.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or part, a financial liability. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

Annual Improvements May 2010

Further to the above amendments and revised standards, the IASB has issued Annual Improvements to IFRSs in May 2010 that cover 7 main standards/interpretations as follow: IFRS 1 First-time Adoption of International Financial Reporting Standards; IFRS 3 Business Combinations; IFRS 7 Financial Instruments: Disclosures; IAS 1 Presentation of Financial Statements, IAS 27 Consolidated and Separate Financial Statements; IAS 34 Interim Financial Reporting and IFRIC 13 Customer Loyalty Programmes. With the exception of amendments to IFRS 3 and IAS 27 which are effective on or after 1 July 2010, all other amendments are effective on or after 1 January 2011. Early adoption of these amendments are allowed. The Group has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies

Significant accounting policies applied in the preparation of accompanying financial statements are as follows:

2.5.1 Revenue

Rendering of services:

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (unflown) are recorded as passenger flight liabilities.

The Group develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

Aircraft maintenance and infrastructure support services are accrued with regard to invoices prepared subsequent to the services.

Dividend and interest income:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income generated from equity investments is registered as shareholders gain the dividend rights.

2.5.2 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Average cost method is applied in the calculation of cost of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

2.5.3 Tangible Assets

Tangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Tangible assets are measured at net book value calculated by deduction of accumulated depreciation from cost values. Assets under construction that are held for rental or any other administrative or undefined purposes are carried at cost less any impairment loss, if any. Legal fees are also included in cost. Borrowing costs are capitalized for assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.3 Tangible Assets (Cont'd)

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

Assets acquired under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The Group has classified the cost of assets that are acquired directly or through finance leases into the following three parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and repair of aircraft body and engine; body, overhaul maintenance for the body, engine and overhaul maintenance for the engines. Overhaul maintenance for the body and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life. They are capitalized subsequent to overhaul maintenance for the body and engines and are depreciated over the shorter of the next maintenance period or the remaining period of the aircraft's useful life.

Gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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

	<u>Useful Life (Years)</u>	<u>Residual Value</u>
- Buildings	25-50	-
- Aircrafts and Engines	15-20	10-30%
- Cargo Aircraft and Engines	30	10%
-Overhaul maintenance for aircrafts' body	6	-
- Overhaul maintenance for engines	3-5	-
- Components	7	-
- Repairable Spare Parts	3-7	-
- Simulators	10-20	0-10%
- Machinery and Equipments	3-15	-
- Furniture and Fixtures	3-15	-
- Motor Vehicles	4-7	-
- Other Equipments	4-15	-
- Leasehold improvements	Lease period	-

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.4 Leasing Transactions

Leasing - the Group as the lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.5.5 Intangible Assets

Intangible assets include, rights, information systems and software. Intangible assets are carried at the beginning cost including the restatement to the equivalent purchasing power for those accounted on or before 31 December 2004 less accumulated depreciation. Other intangible assets are depreciated over their useful life of 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with infinite useful life, once there are no time restrictions on them time.

2.5.6 Impairment on Assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted at the consolidated income statement.

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

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.6 Impairment on Assets (Cont'd)

Group determined aircrafts, spare engines and simulators together (“Aircrafts”) as lower-line cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively. In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used for determination of recoverable amounts. Net selling price for the aircrafts is determined according to second hand prices in international price guides.

Net selling price for spare engines and simulators is net book values based on US Dollar acquisition costs. In the accompanying consolidated financial statements, the change in the differences between net book values of these assets and recoverable amounts are recognized as provision income/losses under income/losses from other operations account. Changes in value due to exchange rate changes are shown under group of financial income/expenses.

2.5.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are directly recognized in the statement of income.

2.5.8 Financial Instruments

Financial assets and liabilities are recorded in the balance sheet when the Group is a legal party to these financial instruments.

a) Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity investments’, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.8 Financial Instruments (Cont'd)

a) Financial assets (Cont'd)

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as derivatives that are not designated and effective hedging instruments.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriates a shorter period.

Income is recognized on an effective interest basis for the financial assets except for the financial assets fair value through profit or loss.

Loans and receivables

Trade receivables, loans and after receivables recorded at fair value. At subsequent periods, loans and receivables are measured at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets shown at amortized cost the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.8 Financial Instruments (Cont'd)

a) Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously recognize written of fare credited against the allowance account are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below. Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value, and at each reporting period revalued at fair value as of balance sheet date. Changes in fair value are recognized in profit and loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.8 Financial Instruments (Cont'd)

b) Financial liabilities (Cont'd)

Other financial liabilities

Other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The major source of interest rate risk is finance lease liabilities. The Group's policy is to convert some financial liabilities with fixed interest rates into financial liabilities with variable interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in US Dollar. The derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments are directly accounted in the income statement. In 2009, Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments. Also, Group began to obtain derivative financial instruments to hedge against jet fuel price risks beginning from 2009. Group accounts for those transactions as hedging against cash flow risks arising from jet fuel prices. Use of derivative financial instruments is managed according to Group policy which is written principles approved by Board of Directors and compliant with risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivative financial instruments are calculated according to the fair value and again calculated for the next reporting period at fair value base. If the changes in the fair value of derivatives which are determined as the hedge of future cash flows are the inactive parts of shareholders' equity, then they're recorded directly under income statement.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.9 Foreign Currency Transactions

Transactions in foreign currencies are translated into Turkish Lira at the rates of exchange ruling at the transaction dates. Monetary 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.

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

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2010	1,5460	1,4990
Year ended 31 December 2009	1,5057	1,5457
Year ended 31 December 2008	1,5123	1,2976

The closing and average TL - Euro exchange rates for the periods are as follows:

	<u>Closing Rate</u>	<u>Average Rate</u>
Year ended 31 December 2010	2,0491	1,9886
Year ended 31 December 2009	2,1603	2,1508
Year ended 31 December 2008	2,1408	1,8969

2.5.10 Earnings per Share

Earnings per share is calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to share holders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

2.5.11 Events Subsequent to the Balance Sheet Date

An explanation for any event between the balance sheet date and the publication date of the balance sheet, which has positive or negative effects on the Group (should any evidence come about events that were prior to the balance sheet date or should new events come about) they will be explained in the relevant footnote.

If such an event were to arise, the Group restates its financial statements accordingly.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.12 Provisions, Contingent Assets and Liabilities

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous Contracts

Present liabilities arising from onerous contracts are calculated and accounted for as provision.

It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract.

2.5.13 Segmental Information

There are two operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Company management uses the operating profit calculated according to financial reporting standards issued by the Capital Markets Board while evaluating the performances of the segments.

2.5.14 Investment Property

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.15 Taxation and Deferred Tax

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.15 Taxation and Deferred Tax (Cont'd)

Deferred Tax (Cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

2.5.16 Employee Benefits / Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

2.5.17 Statement of Cash Flow

In statement of cash flow, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities reflect cash flows generated from sales of the Group.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

2.5.18 Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.5.19 Manufacturers' Credits

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

2.5.20 Maintenance and Repair Costs

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and finance leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft and delivery maintenance checks of operating leased aircraft are accrued on a periodical basis. The maintenance expenses for the operational leased aircrafts are accrued on a periodical basis.

2.5.21 Frequent Flyer Program

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s). A portion of the fair value of the consideration received in respect of the initial sale shall be allocated to the award credits and the consideration allocated to award credits should be recognized as revenue when awards credits are redeemed.

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

2.6 Changes and Errors in Accounting Estimates

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively.

Changes in accounting policies or accounting errors applied retroactively and the financial statements of the previous periods were adjusted.

2.7 Important Accounting Estimates and Assumptions

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.7 Important Accounting Estimates and Assumptions (Cont'd)

Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period were given below:

The Determination of Impairment on Long Term Assets:

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Disclosure 2.5.6.

Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.5.21, Group has programs called "Miles and Smiles" and "Shop & Miles" which are applied for its members. In the calculations of the liability related with concerned programs, the rate of use and mile values which are determined by using statistical methods over the historical data were used.

Useful Lives and Salvage Values of Tangible Assets:

Group has allocated depreciation over tangible assets by taking into consideration the useful lives and salvage values which were explained in Note 2.5.3.

Deferred Tax:

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. There are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future in the Group. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. As a result of the assessment made, the Group has recognized deferred tax assets because it is probable that taxable profit will be available sufficient to recognize deferred tax assets.

3. BUSINESS COMBINATIONS

None.

4. JOINT VENTURES

See note 16.

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5. SEGMENTAL REPORTING

The management of the Group investigates the results and operations based on air transportation and aircraft technical maintenance services in order to determine in which resources to be allocated to segments and to evaluate the performances of segments. The detailed information on the sales data of the Group is given in Note 28.

5.1 Total Assets and Liabilities

Income statement items related to impairment of tangible fixed assets:

Total Assets	31 December 2010	31 December 2009
Aviation	10.539.002.128	8.541.116.335
Technic	775.767.109	534.901.509
Total	11.314.769.237	9.076.017.844
Less: Eliminations due to consolidation	(665.883.252)	(505.620.073)
Total assets in consolidated financial statements	<u>10.648.885.985</u>	<u>8.570.397.771</u>
Total Liabilitites	31 December 2010	31 December 2009
Aviation	6.791.595.144	5.095.933.402
Technic	192.513.058	100.305.913
Total	6.984.108.202	5.196.239.315
Less: Eliminations due to consolidation	(82.629.201)	(70.721.770)
Total liabilitites in consolidated financial statements	<u>6.901.479.001</u>	<u>5.125.517.545</u>

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5. SEGMENTAL REPORTING (Cont'd)

5.2 Operating Profit / (Loss)

Segment Results:

1 January - 31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	8.223.653.220	199.117.920	-	8.422.771.140
Inter-segment sales	50.470.804	521.588.023	(572.058.827)	-
Segment revenue	8.274.124.024	720.705.943	(572.058.827)	8.422.771.140
Cost of sales (-)	(6.597.577.591)	(584.975.934)	573.288.996	(6.609.264.529)
Gross profit	1.676.546.433	135.730.009	1.230.169	1.813.506.611
Marketing, sales and expenses (-)	(993.491.805)	(6.677.116)	398.058	(999.770.863)
Administrative expenses (-)	(302.964.757)	(54.533.025)	4.625.375	(352.872.407)
Other operating income	128.435.697	25.608.193	(4.374.633)	149.669.257
Other operating expense (-)	(102.163.087)	(28.963.851)	2.782.946	(128.343.992)
Operating profit	406.362.481	71.164.210	4.661.915	482.188.606
Share of investments' profit/ (loss) accounted for using the equity method	(12.034.246)	(24.766.724)	-	(36.800.970)
Financial income	20.168.084	57.422.792	(4.739.613)	72.851.263
Financial expenses (-)	(100.988.494)	(51.638.750)	77.698	(152.549.546)
Profit before tax	313.507.825	52.181.528	-	365.689.353

1 January - 31 December 2009	Aviation	Technic	Inter-segment elimination	Total
Sales to external customers	6.845.308.852	190.574.051	-	7.035.882.903
Inter-segment sales	17.973.830	526.831.414	(544.805.244)	-
Segment revenue	6.863.282.682	717.405.465	(544.805.244)	7.035.882.903
Cost of sales (-)	(5.151.969.975)	(579.093.922)	530.692.425	(5.200.371.472)
Gross profit	1.711.312.707	138.311.543	(14.112.819)	1.835.511.431
Marketing, sales and distribution expenses (-)	(801.665.991)	(5.171.892)	334.470	(806.503.413)
Administrative expenses (-)	(226.219.697)	(44.046.329)	4.092.241	(266.173.785)
Other operating income	82.872.341	17.160.521	(8.896.758)	91.136.104
Other operating expense (-)	(132.983.065)	(15.679.696)	(18.582.866)	(130.079.895)
Operating profit	633.316.295	90.574.147	-	723.890.442
Share of investments' profit/ (loss) accounted for using the equity method	15.512.901	(2.699.198)	-	12.813.703
Financial income	168.769.873	4.212.271	-	172.982.144
Financial expenses (-)	(173.547.353)	838.681	-	(172.708.672)
Profit before tax	644.051.716	92.925.901	-	736.977.617

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5. SEGMENTAL REPORTING (Cont'd)

5.2 Operating Profit / (Loss) (Cont'd)

1 January -31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Real decrease on tangible fixed asset impairment provision (Loss from other operations)	(5.356.560)	-	-	(5.356.560)
Decrease on tangible fixed asset impairment provision due to exchange rate changes (Financial expense)	-	-	-	-

1 January-31 December 2009	Aviation	Technic	Inter-segment elimination	Total
Real decrease on tangible fixed asset impairment provision (Loss from other operations)	(85.203.475)	-	-	(85.203.475)
Decrease on tangible fixed asset impairment provision due to exchange rate changes (Financial expense)	(24.520.934)	-	-	(24.520.934)

Income statement items related to investments accounted for equity method

1 January-31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/ (loss) accounted for using the equity method	(12.034.246)	(24.766.724)	-	(36.800.970)

1 January-31 December 2009	Aviation	Technic	Inter-segment elimination	Total
Share of investment profit/ (loss) accounted for using the equity method	15.512.901	(2.699.198)	-	12.813.703

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5. SEGMENTAL REPORTING (Cont'd)

5.3 Investment Operations

1 January-31 December 2010	Aviation	Technic	Inter-segment elimination	Total
Purchase of tangible and intangible fixed assets	2.040.545.240	148.994.905	-	2.189.540.145
Current period amortization and depreciation	405.284.021	53.255.280	-	458.539.301
Investments accounted for using the equity method	139.869.760	53.692.268	-	193.562.028
1 January-31 December 2009	Aviation	Technic	Inter-segment elimination	Total
Purchase of tangible and intangible fixed assets	336.729.429	120.342.608	-	457.072.037
Current period amortization and depreciation	412.438.206	53.594.667	-	466.032.873
Investments accounted for using the equity method	129.630.762	22.421.794	-	152.052.556

6. CASH AND CASH EQUIVALENTS

	<u>31 December 2010</u>	<u>31 December 2009</u>
Cash	728.092	540.180
Cheques Receivable	32.002	769
Banks – Time deposits	686.094.724	974.329.053
Banks – Demand deposits	92.757.084	96.796.068
Other liquid assets	34.324.650	18.797.805
	<u>813.936.552</u>	<u>1.090.463.875</u>

Time Deposits:

<u>Principal</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2010</u>
194.300.000	TL	8,03%-9,45%	21.02.2011	195.646.658
41.490.000	EUR	3,25%-3,60%	17.01.2011 - 07.03.2011	85.094.255
261.895.582	USD	3,06%-3,60%	23.03.2011	405.353.811
				<u>686.094.724</u>

<u>Principal</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2009</u>
238.174.400	TL	5,85%-13,70%	04.01.2010 - 22.02.2010	238.174.400
87.427.313	EUR	1,75%-4,50%	18.01.2010 - 20.01.2010	188.869.224
363.475.745	USD	2,00%-6,00%	04.01.2010 - 25.02.2010	547.285.429
				<u>974.329.053</u>

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7. FINANCIAL ASSETS

Short-term financial assets are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Time deposits with maturity of more than 3 months	-	175.000.000
Fair value of derivative instruments (Note 39)	84.070.372	47.298.370
	<u>84.070.372</u>	<u>222.298.370</u>

Time deposits with maturity of more than 3 months:

<u>Principal</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2009</u>
175.000.000	TL	11.55%	20.07.2010	175.000.000
				<u>175.000.000</u>

Long-term financial assets are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Sita Inc.	1.679.619	1.679.619
Star Alliance GMBH	44.465	44.465
Emek İnşaat ve İşletme A.Ş.	26.859	26.859
	<u>1.750.943</u>	<u>1.750.943</u>

Sita Inc., Star Alliance GMBH and Emek İnşaat ve İşletme A.Ş are disclosed at cost since they are not traded in an active market.

Details of the long-term financial assets of the Group at 31 December 2010 are as follows:

<u>Company name</u>	<u>Country of registration and operation</u>	<u>Ownership Share</u>	<u>Voting Right</u>	<u>Principle Activity</u>
Sita Inc.	Netherlands	Less than 0,1%	Less than 0,1%	Information & Telecommunication Services
Star Alliance GMBH	Germany	5,55%	5,55%	Coordination Between Star Alliance Member Airlines
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3%	0,3%	Construction

8. FINANCIAL BORROWINGS

Short-term financial borrowings are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Bank loans	14.696.729	14.439.256
Finance lease obligations	478.423.865	397.827.585
	<u>493.120.594</u>	<u>412.266.841</u>

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8. FINANCIAL BORROWINGS (Cont'd)

The details of short-term part of long-term bank loans as of 31 December 2010 and 31 December 2009 are as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TL</u>
17.10.2011	Libor+3,50%	USD	9.422.728	83.565	14.696.729

<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>Interest Accrual</u>	<u>TL</u>
17.10.2011	Libor+3,50%	USD	9.422.728	167.002	14.439.256

Long-term financial borrowings are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Bank loans	-	14.187.801
Finance lease obligations	3.684.958.785	2.561.711.482
	<u>3.684.958.785</u>	<u>2.575.899.283</u>

The details of long-term bank loans as of 31 December 2009 is as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Currency</u>	<u>Original Amount</u>	<u>TL</u>
17.10.2011	Libor + 3,50%	USD	9.422.728	14.187.801

Financial lease obligations are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Less than 1 year	574.170.632	469.617.973
Between 1 – 5 years	1.904.550.140	1.438.363.567
Over 5 years	2.205.369.454	1.548.610.096
	<u>4.684.090.226</u>	<u>3.456.591.636</u>
Less: Future interest expenses	(520.707.576)	(497.052.569)
Principal value of future rentals stated in financial statements	<u>4.163.382.650</u>	<u>2.959.539.067</u>
Interest Range:		
Floating rate obligations	1.956.645.410	1.133.986.718
Fixed rate obligations	2.206.737.240	1.825.552.349
	<u>4.163.382.650</u>	<u>2.959.539.067</u>

As of 31 December 2010, the US Dollars and Euro denominated lease obligations' weighted average interest rates for the fixed rate obligations are 4,52% (31 December 2009: 4,91%) and for the floating rate obligations are 0,66% (31 December 2009: 0,78%).

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9. OTHER FINANCIAL LIABILITIES

Short-term other financial liabilities of the Group are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Fair value of derivative instruments (Note 39)	62.632.636	45.232.172
Borrowings to banks	1.117.687	846.771
	<u>63.750.323</u>	<u>46.078.943</u>

Borrowings to banks account consists of overnight interest-free borrowings obtained for settlement of monthly tax and social security premium payments.

10. ACCOUNTS RECEIVABLE AND PAYABLE

Short-term trade receivables are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Trade receivables	613.963.860	455.045.487
Due from related parties (Note 37)	31.289.397	30.436.630
Allowance for doubtful receivables	(67.630.443)	(41.791.892)
	<u>577.622.814</u>	<u>443.690.225</u>

The Group provided provision for the receivables carried to legal proceedings and for the others by making historical statistical calculations. Movement of the doubtful receivables for the period ended 31 December 2010 and 2009 are as follows:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Opening balance	41.791.892	37.042.788
Charge for the period	37.489.876	22.513.003
Collections during the period	(11.136.802)	(15.357.120)
Foreign exchange loss	(74.649)	-
Receivables written-off	(439.874)	(2.406.779)
Closing balance	<u>67.630.443</u>	<u>41.791.892</u>

Explanations about the credit risk of Group's receivables are provided in Note 38 Credit Risk.

Short-term trade payables are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Trade receivables	672.370.479	536.177.325
Due from related parties (Note 37)	61.509.126	20.971.493
Other	1.994.421	1.961.004
	<u>735.874.026</u>	<u>559.109.822</u>

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11. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Prepayments made for aircrafts, to be received back in cash (net)	1.610.230.030	724.055.005
Restriction on transfer of funds from banks (*)	15.851.565	5.647.994
Receivables from training of captain candidates	9.382.173	-
Receivables from purchasing transactions abroad	7.813.311	938.235
Receivables from foreign technical suppliers	1.656.654	265.974
Receivables from employees	1.321.982	1.165.585
Deposits and guarantess given	906.115	1.153.878
Receivables from tax office	52.323	1.933.804
Non-trade receivables from related parties (Note37)	-	12.581.316
Other receivables	2.311.624	1.299.578
	<u>1.649.525.777</u>	<u>749.041.369</u>

(*)These amounts are related with the accounts held in the banks in Tashkent, Benghazi and Adissababa as of December 31, 2010.

Long-term other receivables are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Prepayments made for aircrafts, to be received back in cash (net)	166.510.045	637.383.512
Deposits for interest swap agreement	14.656.095	7.663.566
Receivables from employees	11.207.991	6.045.185
Advance payments for operating leases	7.498.785	7.211.446
Receivables from purchasing transactions abroad	7.306.887	-
Deposits and guarantess given	6.234.707	4.863.237
Receivables from Sita deposit certificates	1.222.478	1.193.182
	<u>214.636.988</u>	<u>664.360.128</u>

Short-term other payables are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Miscellaneous charge order advances	63.227.440	69.550.656
Social security premiums payable	32.540.402	25.835.403
Taxes and funds payable	32.434.572	31.244.933
Payables to insurance companies	16.448.096	14.832.195
Deposits and guarantees received	13.314.559	9.665.768
Charter advances	1.124.749	895.143
Other advances received	1.001.100	1.150.351
Other liabilities	2.707.645	3.458.932
	<u>162.798.563</u>	<u>156.633.381</u>

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11. OTHER RECEIVABLES AND PAYABLES (Cont'd)

Long-term other payables are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Deposits and guarantees received	9.831.914	8.941.613

12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS

None (31 December 2009: None).

13. INVENTORIES

	<u>31 December 2010</u>	<u>31 December 2009</u>
Spare parts	150.027.358	133.739.727
Other inventories	36.417.572	29.624.852
	186.444.930	163.364.579
Provision for impairment (-)	(14.368.647)	(14.368.647)
	<u>172.076.283</u>	<u>148.995.932</u>

Movement in change of diminution in value of inventories as of 31 December 2010 and 2009 are as follows:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Provision at the beginning of the period	14.368.647	14.724.718
Provision recognized for the period	-	1.290.280
Cancellation of provisions recognized	-	(1.646.351)
Provision at the end of the period	<u>14.368.647</u>	<u>14.368.647</u>

14. BIOLOGICAL ASSETS

None (31 December 2009: None).

15. ASSETS FROM CONSTRUCTION CONTRACTS IN PROGRESS

None (31 December 2009: None).

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	23.360.765	26.698.068
THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO)	46.516.347	34.054.590
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)	53.692.268	22.421.794
TGS Yer Hizmetleri A.Ş. (TGS)	56.501.684	63.482.168
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)	13.490.964	2.459.495
Bosnia-Herzegovina Airlines (Air Bosna)	-	2.936.441
	<u>193.562.028</u>	<u>152.052.556</u>

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Cont'd)

Financial information for Sun Express as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total assets	574.856.563	232.316.502
Total liabilities	528.135.034	178.920.367
Shareholders' equity	46.721.529	53.396.135
Group's share in associate's shareholders' equity	23.360.765	26.698.068
	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Revenue	994.879.582	899.836.648
Profit/ (loss) for the period	(3.810.100)	25.409.528
Group's share in profit/(loss) for the period	(1.905.050)	12.704.764

Financial information for THY DO&CO Catering Services as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total assets	154.372.009	122.594.934
Total liabilities	61.339.316	52.485.754
Shareholders' equity	93.032.693	68.109.180
Group's share in associate's shareholders' equity	46.516.347	34.054.590
	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Revenue	332.540.555	267.960.365
Profit/ (loss) for the period	29.923.513	16.987.205
Group's share in profit/ (loss) for the period	14.961.757	8.493.603

Financial information for P&W T.T Uçak Bakım Merkezi Ltd. Şti as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total assets	221.389.592	104.846.886
Total liabilities	111.813.535	59.088.122
Shareholders' equity	109.576.057	45.758.764
Group's share in associate's shareholders' equity	53.692.268	22.421.794
	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Revenue	115.968.274	119.754
Profit/ (loss) for the period	(50.544.335)	(5.508.567)
Group's share in profit/ (loss) for the period	(24.766.724)	(2.699.198)

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Cont'd)

Financial information for Bosnia and Herzegovina Airlines as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total assets	50.735.303	49.653.830
Total liabilities	58.714.113	43.661.093
Shareholders' equity	(7.978.810)	5.992.737
Group's share in associate's shareholders' equity	-	2.936.441
	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Revenue	33.146.759	20.721.502
Profit/ (loss) for the period	(33.963.163)	(13.524.756)
Group's share in profit/ (loss) for the period	(16.641.951)	(6.627.130)

Financial information for TGS as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total assets	199.967.385	142.871.824
Total liabilities	86.964.018	15.904.488
Shareholders' equity	113.003.367	126.964.336
Group's share in associate's sharehold- ers' equity	56.501.684	63.482.168
	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Revenue	159.317.791	-
Profit/ (loss) for the period	(13.960.968)	1.964.336
Group's share in profit/ (loss) for the period	(6.980.484)	982.168

By the protocol and capital increase dated on 17 September 2009, 50 % of TGS' capital, which has a nominal value of 6.000.000 TL, was acquired by HAVAŞ for 119.000.000 TL and a share premium at an amount of 113.000.000 TL has arisen in the TGS's capital. Because the share premium is related to the 5-year service contract between the Company and TGS, the Company's portion (50 %) of the share premium under the shareholders' equity of TGS was recognized as 'Deferred Income' (Note 26) to be amortized during the contract period.

Financial information for THY Opet Havacılık Yakıtları A.Ş. as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total assets	190.798.801	5.745.326
Total liabilities	163.816.873	826.333
Shareholders' equity	26.981.928	4.918.993
Group's share in associate's sharehold- ers' equity	13.490.964	2.459.495

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16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Cont'd)

	1 January - 31 December 2010	1 January - 31 December 2009
Revenue	431.015.063	-
Profit/ (loss) for the period	(2.937.036)	(81.009)
Group's share in profit/ (loss) for the period	(1.468.518)	(40.504)

Details of investments accounted for using the equity method as of 31 December 2010 are as follows:

	1 January - 31 December 2010	1 July - 31 December 2009
Sun Ekspres	(1.905.050)	12.704.764
Turkish DO&CO	14.961.757	8.493.603
P&W T.T. Uçak Bakım Merkezi Ltd. Şti.	(24.766.724)	(2.699.198)
Bosnia and Herzegovina Airlines	(16.641.951)	(6.627.130)
TGS	(6.980.484)	982.168
THY Opet	(1.468.518)	(40.504)
Total	<u>(36.800.970)</u>	<u>12.813.703</u>

17. INVESTMENT PROPERTY

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	48.810.000	48.130.000
Purchases	-	758.086
Gain from the change in fair value/(loss)	760.000	(78.086)
Closing balance	<u>49.570.000</u>	<u>48.810.000</u>

Fair values of Group's investment property were obtained from the valuation performed by an independent valuation firm, which is not a related party to Group. Valuation was performed by the independent valuation firm, which is authorized by Capital Markets Board with reference to market prices.

The Group does not have any rent income from investment property.

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18. TANGIBLE ASSETS

Cost	Land		Technical		Other		Components		Aircrafts		Total
	improvements and buildings	simulators and vehicles	equipment, fixtures and spare engines	aircraft and spare parts	and repairable	Leasehold	Construction	acquired by	leasing		
Opening balance at 1 January 2010	164.645.538	320.921.611	172.635.436	2.563.804.909	319.829.494	47.421.962	17.713.152	5.026.527.470	8.633.499.572		
Additions	7.315.558	57.101.651	26.337.828	98.420.857	76.359.882	9.925.932	65.082.621	1.821.775.555	2.162.319.884		
Disposals	(23.718.680)	(100.881.839)	(15.755.594)	(15.779.348)	(68.643.740)	(146.117)	-	(29.519.883)	(254.445.201)		
Transfers	7.547.231	-	-	448.477.342	-	891.707	(9.079.123)	(447.837.157)	-		
Closing balance at 31 December 2010	155.789.647	277.141.423	183.217.670	3.094.923.760	327.545.636	58.093.484	73.716.650	6.370.945.985	10.541.374.255		
Accumulated depreciation											
Opening balance at 1 January 2010	58.398.566	253.105.940	135.673.684	1.852.152.821	147.045.447	26.183.316	-	1.349.920.748	3.822.480.522		
Depreciation charge for the period	5.287.256	14.393.456	14.194.072	103.678.746	42.340.502	8.933.265	-	264.921.232	453.748.529		
Disposals	(12.853.638)	(79.164.050)	(15.476.632)	(14.103.848)	(36.834.569)	(41.153)	-	(25.174.701)	(183.648.591)		
Real increase/(decrease) at impairment	-	-	-	248.101.229	-	-	-	(248.101.229)	-		
Impairment, increase/(decrease) due to exchange rate changes	-	-	672.729	(273.944.823)	-	-	-	278.628.654	5.356.560		
Closing balance 31 December 2010	50.832.184	188.335.346	135.063.853	1.915.884.125	152.551.380	35.075.428	-	1.620.194.704	4.097.937.020		
Net book value 31 December 2010	104.957.463	88.806.077	48.153.817	1.179.039.635	174.994.256	23.018.056	73.716.650	4.750.751.281	6.443.437.235		

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18. TANGIBLE ASSETS (Cont'd)

	Land improvements and buildings	Technical equipments, simulators and vehicles	Other equipments, fixtures and equipment	Aircraft and spare engines	Components and repairable spare parts	Leasehold improvements	Construction in Progress	Aircrafts acquired by leasing	Total
Cost									
Opening balance at 1 January 2009	164.645.538	311.294.139	166.561.736	2.755.313.950	366.092.558	29.093.614	62.709.927	4.855.582.307	8.711.293.76
Additions	-	19.336.919	20.689.613	60.122.026	93.157.533	2.311.972	27.889.945	230.255.083	453.763.091
Disposals	-	(9.709.447)	(14.615.913)	(283.401.122)	(139.420.597)	(2.850)	-	(84.407.359)	(531.557.288)
Transfers	-	-	-	31.770.055	-	16.019.226	(72.886.720)	25.097.439	-
Closing balance 31 December 2009	164.645.538	320.921.611	172.635.436	2.563.804.909	319.829.494	47.421.962	17.713.152	5.026.527.470	8.633.499.57
Accumulated depreciation									
Opening balance at 1 January 2009	55.667.061	248.016.427	139.815.066	2.023.627.036	185.009.980	22.559.087	-	980.614.975	3.655.309.63
Depreciation charge for the period	2.731.505	14.943.907	10.371.000	81.359.580	45.729.773	3.624.704	-	303.470.468	462.230.93
Disposals	-	(9.340.289)	(14.512.382)	(256.514.451)	(83.694.306)	(475)	-	(40.722.553)	(404.784.450)
Real increase/(decrease) at impairment	-	(551.167)	-	(14.512.305)	-	-	-	100.266.947	85.203.475
Impairment, increase/(decrease) due to exchange rate changes	-	37.062	-	18.192.961	-	-	-	6.290.911	24.520.93
Closing balance 31 December 2009	58.398.566	253.105.940	135.673.684	1.852.152.821	147.045.447	26.183.316	-	1.349.920.748	3.822.480.52
Net book value 31 December 2009	106.246.972	67.815.671	36.961.752	711.652.088	172.784.047	21.238.646	17.713.152	3.676.606.722	4.811.019.05

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19. INTANGIBLE ASSETS

	<u>Slot Rights</u>	<u>Other Rights</u>	<u>Total</u>
<u>Cost</u>			
Opening balance at 1 January 2010	-	80.264.956	80.264.956
Additions	20.007.450	7.212.811	27.220.261
Disposals	-	(648)	(648)
Closing balance at 31 December 2010	<u>20.007.450</u>	<u>87.477.119</u>	<u>107.484.569</u>
<u>Amortization</u>			
Opening balance at 1 January 2010	-	69.595.344	69.595.344
Amortization charge for the period	-	4.790.772	4.790.772
Disposals	-	(648)	(648)
Closing balance at 31 December 2010	<u>-</u>	<u>74.385.468</u>	<u>74.385.468</u>
Net book value 31 December 2010	<u>20.007.450</u>	<u>13.091.651</u>	<u>33.099.101</u>
	<u>Slot Rights</u>	<u>Other Rights</u>	<u>Total</u>
<u>Cost</u>			
Opening balance at 1 January 2009	-	76.958.343	76.958.343
Additions	-	3.308.946	3.308.946
Disposals	-	(2.333)	(2.333)
Closing balance at 31 December 2009	<u>-</u>	<u>80.264.956</u>	<u>80.264.956</u>
<u>Amortization</u>			
Opening balance at 1 January 2009	-	65.795.741	65.795.741
Amortization charge for the period	-	3.801.936	3.801.936
Disposals	-	(2.333)	(2.333)
Closing balance at 31 December 2009	<u>-</u>	<u>69.595.344</u>	<u>69.595.344</u>
Net book value 31 December 2009	<u>-</u>	<u>10.669.612</u>	<u>10.669.612</u>

The Group considers the slot rights as an intangible asset having infinitive useful life.

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20 GOODWILL

None (31 December 2009: None).

21 GOVERNMENT GRANTS AND INCENTIVES

None (31 December 2009: None).

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions for short-term liabilities are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Provisions for legal claims	20.480.602	7.287.354

Changes in the provisions for legal claims at 31 December 2010 and 2009 periods set out below:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Provision at the beginning of the period	7.287.354	7.460.396
Charge for the period	13.944.777	1.346.190
Provisions released	(751.529)	(1.519.232)
Provision at the end of the period	<u>20.480.602</u>	<u>7.287.354</u>

The Group recognizes provisions for lawsuits against it due to its operations. The lawsuits against the Group are usually reemployment lawsuits by former employees or damaged luggage or cargo.

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22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

a) Guarantees/Pledge/Mortgage ("GPM") given by the group: Amount of letter of guarantees given is TL 94.785.952 (31 December 2009: TL 92.014.638).

	31 December 2010		31 December 2009	
	Foreign currency amount	TL equivalent	Foreign currency amount	TL equivalent
A. Total amounts of GPM given on the behalf of its own legal entity		94.785.952		92.014.638
-Collaterals				
TL		6.035.525		19.717.897
EUR	5.550.118	11.372.746	3.806.312	8.222.775
USD	48.939.024	75.659.732	41.880.532	63.059.517
Other		1.717.949		1.014.449
B. Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C. Total amounts of GPM given in order to guarantee third partie debts for routine trade operations	-	-	-	-
D. Total amounts of other GPM given	-	-	-	-
		<u>94.785.952</u>		<u>92.014.638</u>

The other CPMs given by the Company constitute 0% of the Company's equity (31 December 2009: %0).

b) At the beginning of 2006, US Ministry of Justice Antitrust Unit and Europe Antitrust Authorities synchronously initiated an investigation in Europe and the United States about the fix of the air cargo prices that covers the leading airline companies. Within the context of this investigation, information and documents that the Company holds are requested to be presented by USA Columbia (Washington) Regional Court through official notification in April 6, 2006. Similar notifications are sent to the other concerning airline companies. Within the context of this investigation, the Company's inviolation of the agreement is declared to Anti-trust department of US Ministry of Justice, negotiations are continued by the American lawyers on behalf of the Company. As of the report date, the Company management thinks that the results of this investigation initiated by the US Ministry of Justice cannot be reliably measured. For this reason, no provision is provided for this issue in the accompanying financial statements. But, there is a possibility of financial liability to the Group as the result of this issue.

c) The Group's discounted retirement pay provision is TL 170.505.529. The Group's liability for retirement pay would be approximately TL 320.367.926 as of 31 December 2010, if all employees were dismissed on that date.

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22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

d) The Competition Authority has ruled to run an investigation on the Company's operations in its meeting held on 1 July 2010. The investigation is based on the Company's operations to determine whether it has involved any exclusive activities for its domestic and international passenger transportation services against other airline companies. As of the report date, the Company management believes that the financial outcome of the investigation cannot be measured reliably. Therefore, the Company has not funded any provision amount in the accompanying consolidated financial statements.

23. COMMITMENTS

The Group's not accrued operational leasing debts details are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Less than 1 year	357.740.489	312.850.973
Between 1 – 5 years	902.887.434	853.516.736
More than 5 years	319.073.603	422.992.569
	<u>1.579.701.526</u>	<u>1.589.360.278</u>

To be delivered between the years 2010-2015, the Group signed a contract for 89 aircrafts with a total value of 11.8 billion US Dollars, according to the price lists before the discounts made by the aircraft manufacturing firms. 10 of these aircrafts were delivered in 2010. The Group has made an advance payment of 1.152 Million US Dollars relevant to these purchases as of 31 December 2010.

24. EMPLOYEE BENEFITS

Short-term employee benefits are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Salary accruals	50.239.944	38.827.130
Labor union agreement accrual (Note:31)	37.574.079	-
Due to personnel	541.330	1.437.729
Provisions for unused vacation	13.859.404	14.469.621
	<u>102.214.757</u>	<u>54.734.480</u>

Provision for long-term retirement pay liability are comprised of the following:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Provisions for retirement pay liability	170.505.529	151.875.562

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24. EMPLOYEE BENEFITS (Cont'd)

Provision for retirement pay liability is recorded according to following explanations:

Under labor laws effective in Turkey, it is a liability to make legal retirement pay to employees whose employment is terminated in such way to receive retirement pay. In addition, according to Article 60 of Social Security Law numbered 506 which was changed by the laws numbered 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is also a liability to make legal retirement pay to those who entitled to leave their work by receiving retirement pay. Some transfer provisions related to service conditions prior to retirement are removed from the Law by the changed made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly TL 2.623 as of 1 January 2011 (1 January 2010: TL 2.427).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees.

IAS 19 ("Employee Benefits") stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

Main assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. So, provisions in the accompanying financial statements as of 31 December 2010 are calculated by estimating present value of contingent liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 5,10% annual inflation rate (31 December 2009: 4,80%) and 10% discount rate. (31 December 2009: 11%). Estimated amount of retirement pay not paid due to voluntary leaves and retained in the Company is also taken into consideration as 2,99 % (2009: 2,10%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of TL 2.623 which is in effect since 1 January 2011 is used in the calculation of Group's provision for retirement pay liability.

Movement in the provision for retirement pay liability is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Provisions at the beginning of the period	151.875.562	142.459.082
Charge for the period	29.993.375	15.405.411
Interest charges	8.990.304	8.870.209
Actueryal loss /(gain)	9.503.082	2.080.775
Payments	(29.856.794)	(16.939.915)
Provisions at the end of the period	<u>170.505.529</u>	<u>151.875.562</u>

25. RETIREMENT BENEFITS

None (31 December 2009: None).

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26. OTHER ASSETS AND LIABILITIES

Details of other current assets are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Prepaid taxes and funds	59.670.760	33.751.118
Technical maintenance income accruals	42.533.116	18.049.297
Prepaid operating lease expenses	19.457.461	19.410.997
Credit note accruals for received aircrafts and simulators	18.743.129	34.479.378
Other prepaid expenses	12.178.549	3.551.004
VAT to be refunded	11.091.767	9.825.050
Prepaid sales commissions	10.456.293	9.418.953
Prepaid insurance expenses	7.697.001	5.197.278
Deferred VAT	6.062.222	-
Interline passenger income accruals	2.554.403	3.409.593
Advances given for orders	1.680.460	3.788.745
Advances for business purposes	1.368.189	903.082
Other current assets	1.052.352	1.889.262
	<u>194.545.702</u>	<u>143.673.757</u>

Other non-current assets are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Advances given for fixed asset purchases	169.283.390	45.347.530
Maintenance reserves for engines	35.285.248	26.581.865
Prepaid aircraft financing expenses	12.735.035	7.543.182
Prepaid operating lease expenses	2.455.512	2.776.711
Prepaid Eximbank guarantee and exposure fee	482.667	1.183.491
Prepaid expenses	810.338	139.175
	<u>221.052.190</u>	<u>83.571.954</u>

Other short-term liabilities are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Accruals for maintenance expense	231.895.137	98.389.811
Incentive premium accruals	17.466.706	5.049.461
Credit note for received aircrafts	12.495.245	-
Unearned revenue from share transfer of TGS (Note 16)	11.300.000	11.300.000
Accruals for other expenses	9.058.900	2.142.564
Unearned revenue accruals	6.360.139	5.534.473
Other liabilities	160.683	79.703
	<u>288.736.810</u>	<u>122.496.012</u>

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26. OTHER ASSETS AND LIABILITIES (Cont'd)

Other long-term liabilities are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Gross manufacturer's credits	40.474.695	39.419.630
Unearned revenue from share transfer of TGS (Note 16)	33.900.000	45.200.000
Unearned revenue accruals	904.107	5.904.110
Accumulated depreciations of manufacturer's credit	(15.301.108)	(11.517.414)
	<u>59.977.694</u>	<u>79.006.326</u>

Passenger flight liabilities are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Flight liability generating from ticket sales	342.348.911	282.983.563
Flight liability generating from mileage sales	199.888.160	179.318.749
Frequent flyer program liability	131.606.808	124.222.967
	<u>673.843.879</u>	<u>586.525.279</u>

27. SHAREHOLDERS' EQUITY

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

	Type	%	31 December 2010	%	31 December 2009
Republic of Turkey Prime Ministry Privatization Adm(*)	A, C	49,12	491.218.308	49,12	429.818.308
Other (Publicly held)	A	50,88	508.781.692	50,88	445.181.692
Paid-in capital			1.000.000.000		875.000.000
Restatement difference			1.123.808.032		1.123.808.032
Restated capital			<u>2.123.808.032</u>		<u>1.998.808.032</u>

(*)1.644 shares belonging to various private shareholders were not taken into consideration when the Group 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 Group, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

As of 31 December 2010, the Group's issued and paid-in share capital consists of 99.999.999.999 Class A shares and 1 Class C share, all with a par value of Kr 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.

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27. SHAREHOLDERS' EQUITY (Cont'd)

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.

Restricted Reserves Assorted from Profit

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Foreign Currency Conversion Differences

Foreign currency translation differences are the changes due to foreign exchange rate changes in the shareholders' equity Sun Express and Bosnia-Herzegovina Airlines which are subsidiary accounted for equity method.

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27. SHAREHOLDERS' EQUITY (Cont'd)

Distribution of Dividends

Companies whose shares are traded at Istanbul Stock Exchange (ISE) are subject to the following dividend rules determined by Capital Markets Board:

According to the Serial:IV No:27 communiqué of Capital Markets Board, depending on the decision made in shareholders' meeting, the profit distribution can be made either by giving bonus shares to shareholders which are issued either in cash or by adding dividend to capital or giving some amount of cash and some amount of bonus shares to shareholders. If the primary dividend amount determined is less than 5% of the paid-in capital, the decision gives the option of not to distribute the related amount as to keep within the equity.

According to the CMB's decision on 9 January 2009, in calculation of distributable profit, the companies are required to prepare consolidated financial statements, those companies enabled to calculate distributable profit by taking into consideration the profit in the financial statements prepared and announced to the public in accordance with Serial:XI No:29. Regarding the same decision, retained earnings of the companies in legitimate records, profit for the period and total amount of the assets generating profit are to be stated in the accompanying notes of financial statements in accordance with Serial:XI No:29 communiqué.

As per the 27 January 2011 dated, 02/51 numbered decree of The Capital Markets Board ("CMB") in relation to the profit distribution of earnings, minimum profit distribution is not required for listed companies, and accordingly, profit distribution should be made based on the requirements set out in the Board's Communiqué Serial:IV,No: 27 "Principles of Dividend Advance Distribution of Companies That Are Subject To The Capital Markets Board Regulations", terms of articles of corporations and profit distribution policies publicly disclosed by the companies;

Furthermore, based on the afore-mentioned decree, companies that are required to prepare consolidated financial statements should calculate their net distributable profits, to the extent that they can be recovered from equity in their statutory records, by considering the net profit for the period in the consolidated financial statements which are prepared and disclosed in accordance with the Communiqué Serial: XI, No: 29;

Within the frame of Communiqué Series: XI, No: 29, amount disclosed in notes to financial statements; following the deduction of companies' retained earnings, total of remaining profit for the period and other total resources that may apply to profit distribution;

Within the frame of 6th bulletin of Communiqué Series: IV No: 27, application of related period about profit distribution time;

- a) If all dividends are distributed in cash, dividends made to continue the adoption of distributing until the end of following fifth month of the fiscal period.
- b) If dividends are distributed as share, the Entity should apply for Capital Markets Board until the end of following fifth month of the fiscal period and finish profit distribution until the end of following sixth month of the fiscal period as the purpose of exported shares are recorded by Capital Markets Board.

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27. SHAREHOLDERS' EQUITY (Cont'd)

Distribution of Dividends (Cont'd)

c) In the case of combination of the options "a" and "b", it was decided that operations described earlier should be performed separately but within the time that referred to in subparagraph

TL 125.000.000 of the Company's profit for 2009 has decided to be distributed as the 1st dividend payment in the form of bonus shares in accordance with the resolution issued in the General Shareholders' Meeting held on 20 April 2010.

The items of shareholders' equity of the Company in the statutory accounts as of 31 December 2010 as the dividends distributed not reflected are as follows:

Paid-in capital	1.000.000.000
Share premium	181.185
Legal reserves	55.692.565
Extraordinary reserves (*)	198.959.553
Other profit reserves	9
Special funds	49.727.910
Retained earnings (*)	303.035.058
Net profit for the period (*)	(102.228.443)
Total shareholders' equity	<u>1.505.367.837</u>

* Per legal records total amount which will be subject to distribution of dividends is TL 399.766.168.

Hedge Fund against the Cash Flow Risk

Hedge fund against cash flow risk arises from the accounting under shareholders' equity for the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows. Total deferred gain/loss arising from hedging against financial risk are accounted when the effect of the hedged item goes into the income statement.

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28. SALES AND COST OF SALES

Details of gross profit are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Scheduled flights		
Passenger	7.387.449.566	6.242.396.046
Cargo and mail	626.771.496	442.452.326
Total scheduled flights	8.014.221.062	6.684.848.372
Unscheduled flights	68.549.374	60.234.596
Other revenue	340.027.137	290.836.108
Gross sales	8.422.797.573	7.035.919.076
Less: discounts and sales returns	(26.433)	(36.173)
Net sales	8.422.771.140	7.035.882.903
Cost of sales (-)	(6.609.264.529)	(5.200.371.472)
Gross profit	1.813.506.611	1.835.511.431

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

	1 January - 31 December 2010	1 January - 31 December 2009
- Europe	2.889.916.772	2.621.154.415
- Far East	1.493.066.719	1.113.861.041
- Middle East	1.036.566.346	858.064.501
- America	523.157.884	380.388.615
- Africa	521.520.175	317.489.740
Total international flights	6.464.227.896	5.290.958.312
Domestic flights	1.549.993.166	1.393.890.060
Total revenue	8.014.221.062	6.684.848.372

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28. SALES AND COST OF SALES (Cont'd)

The details of the cost of sales are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Fuel expense	2.161.733.716	1.523.170.749
Personnel expense	1.300.526.286	1.044.182.478
Landing and navigation expense	610.543.663	552.646.148
Ground services expenses	523.017.629	378.811.863
Maintenance expenses	490.503.070	331.881.235
Depreciation expenses	426.492.568	436.687.493
Passenger service and catering expenses	400.241.525	325.039.231
Operating lease expenses	367.477.243	275.052.324
Other airlines' seat rents	134.361.438	160.695.562
Short term leasing expenses	42.235.496	62.753.715
Other rent expenses	30.682.204	12.393.476
Insurance expenses	22.438.600	35.344.992
Service expenses	22.276.927	25.126.699
Utility expenses	8.234.983	6.075.303
Other tax expenses	7.456.084	5.763.728
Communication expenses	7.145.661	6.914.020
Transportation expenses	6.682.619	7.481.692
Cost of other sales	47.214.817	10.350.764
	<u>6.609.264.529</u>	<u>5.200.371.472</u>

29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2010	1 January - 31 December 2009
Marketing, sales and distribution expenses	999.770.863	806.503.413
Administrative expense	352.872.407	266.173.785
	<u>1.352.643.270</u>	<u>1.072.677.198</u>

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29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (Cont'd)

Marketing, sales and distribution expenses are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Personnel expenses	277.956.963	221.533.668
Commissions and incentive expenses	263.302.642	206.925.465
Reservation systems expense	165.359.495	154.300.075
Advertising expenses	124.418.782	84.163.376
Special passenger program mileage expenses	25.995.372	17.731.434
Service expenses	25.974.923	24.116.304
Passenger service and catering expense	18.893.343	14.014.565
Rent Expenses	17.740.737	23.857.845
Communication expense	12.843.288	11.727.334
Transportation expense	11.341.558	7.444.732
Membership fees	8.810.512	5.118.475
Tax expenses	8.334.247	7.990.340
Utility Expenses	3.753.851	3.291.672
Maintenance expenses	2.364.886	1.539.270
Depreciation expenses	1.006.904	868.435
Insurance expenses	776.036	751.543
Fuel expense	757.054	866.661
Other sales and marketing expenses	30.140.270	20.262.219
	<u>999.770.863</u>	<u>806.503.413</u>

General administrative expenses are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Personnel expenses	185.591.789	144.413.318
Depreciation expenses	31.039.829	28.476.945
Insurance expenses	20.047.909	16.633.619
Tax expenses	16.789.756	11.669.858
Service expenses	16.485.952	12.020.015
Rent expenses	13.727.308	11.395.026
Aircraft financing administrative expenses	13.239.816	3.856.581
Fuel expense	11.352.455	6.598.695
Communication expense	9.495.881	7.632.253
Maintenance expenses	6.058.195	8.630.075
Utility expenses	2.756.973	2.488.024
Other administrative expenses	26.286.544	12.359.376
	<u>352.872.407</u>	<u>266.173.785</u>

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30. EXPENSES ACCORDING TO CATEGORIES

Expenses according to categories are explained in Notes 28 and 29.

31. OTHER OPERATING INCOME / EXPENSES

Other operating income consists of the following:

	1 January - 31 December 2010	1 January - 31 December 2009
Gain on sale of fixed assets	45.206.644	3.333.754
Insurance, indemnities, penalties income	25.624.334	24.459.577
Discounts received from maintenance spare parts suppliers	17.329.148	9.060.636
Provisions no longer required	11.888.331	16.876.352
TGS share premium (Note: 16)	11.300.000	-
Returns received from rent firms	7.411.203	16.559.675
Banks protocol revenue	5.000.000	4.730.845
Purchase discounts	4.287.088	5.857.946
Star Alliance membership revenue	3.945.375	2.891.509
Other operating income	17.677.134	7.365.810
	<u>149.669.257</u>	<u>91.136.104</u>

	1 January - 31 December 2010	1 January - 31 December 2010
Provisisons expenses	51.434.653	24.037.694
Labor union agreement salary difference (*)	51.130.281	-
Real increase in provisions for impairment of fixed assets (Note 18)	5.356.560	85.203.475
Expenses due to passengers without visa	6.192.781	4.796.605
Loss for transfer of buildings on General Directorate of State Airports Authority's lands	4.965.214	-
Expenses due to aircraft crash	766.804	5.503.191
Other operating expense	8.497.699	10.538.930
	<u>128.343.992</u>	<u>130.079.895</u>

* The Company made a wage increase of 6% on its own initiative regarding to the year 2009. Per labor union agreement which is signed in 2010; from 1 January 2009; wages of 31 December 2008 is increased by 8% for first half of 2009 and for the second half of the 2009 wages of 30 June 2009 is increased by 2%. The difference between wage increase per labor union agreement and the company's own initiative is shown as labor union agreement salary difference. As of 31.12.2010 the Company will be paid 37.574.097 TL.

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32. FINANCIAL INCOME

Financial income consists of the following:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Interest income	38.397.854	159.789.136
Finance lease foreign exchange rate income	21.142.242	-
Discount interest income	13.311.167	4.134.460
The fair value of derivatives exchange income	-	9.016.534
Dividend income	-	42.014
	<u>72.851.263</u>	<u>172.982.144</u>

33. FINANCIAL EXPENSES

Finance expenses are as follows:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Finance lease interest expense	120.231.843	116.382.383
Finance lease foreign exchange loss	12.876.525	-
Retirement pay interest cost	8.990.304	8.870.209
The fair value of derivatives exchange expense	5.787.041	-
Discount interest expense	3.252.322	17.530.474
Financial liabilities foreign exchange loss	386.332	2.890.159
Increase in the provisions for impairment of fixed assets due to changes in exchange rate	-	24.520.934
Foreign exchange loss	-	1.845.975
Other financial expense	1.025.179	668.538
	<u>152.549.546</u>	<u>172.708.672</u>

34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None (31 December 2009: None).

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35. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Provisions for corporate tax	10.387.347	70.893.068
Prepaid taxes and funds (*)	(70.058.107)	(68.473.524)
	<u>(59.670.760)</u>	<u>2.419.544</u>

(*) Prepaid taxes, excess part of corporate taxes to be paid as at 31 December 2010, are shown under other current assets.

Tax liability consists of the following items:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Current period tax expense	8.213.633	70.893.068
Change in corporate tax for the year 2009 (other)	2.173.714	-
Change in deferred tax for the year 2008 (foreign branch earning exemption) (*)	-	33.121.716
Change in corporate tax for the year 2008 (other)	-	508.583
Deferred tax expense	68.858.645	42.171.544
Change in corporate tax for the year 2008 (foreign branch earning exemption) (*)	-	31.206.426
Tax expense	<u>79.245.992</u>	<u>177.901.337</u>

(*) As a result of changes in accounting estimates related to the calculation method of foreign branch income, additional tax amount of 64.328.144 TL (33.121.716 TL corporate tax liabilities and 31.206.428 TL deferred tax liabilities that as a result of disappearance accumulated losses) is reflected in the financial statements dated 31 December 2009.

Tax effect regarding other comprehensive income is as follows:

	<u>1 January - 31 December 2010</u>		
	<u>Amount before tax</u>	<u>Tax (expense) /income</u>	<u>Amount after tax</u>
Foreign currency translation differences	(1.051.704)	-	(1.051.704)
Change in cash flow hedge fund	21.418.876	(4.283.775)	17.135.101
Other comprehensive income for the period	<u>20.367.172</u>	<u>(4.283.775)</u>	<u>16.083.397</u>

Change in translation differences of foreign currency that is included in other comprehensive income, is TL 1.051.704 for the period 1 January – 31 December 2010. In addition, the effect on taxation does not exist for the period.

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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35. TAX ASSETS AND LIABILITIES (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 rate in 2010 is 20% (2009: 20%) for the Group

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2010 is 20%. (2009: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. 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 Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising 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 and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2009: 20%) is used.

In Turkey, the companies cannot declare a consolidated tax return, therefore subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

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35. TAX ASSETS AND LIABILITIES (Cont'd)

The deferred tax assets and (liabilities) as of 31 December 2010 and 31 December 2009 are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Fixed assets	(525.486.010)	(437.228.761)
Provisions for ticket sales advance	(57.133.510)	(48.624.219)
Accrued expense	70.912.827	41.874.247
Provisions for ETB	33.895.715	30.375.112
Accumulated loss	19.490.674	-
Long-term lease obligations	19.236.155	21.625.506
Adjustment on inventories	(19.172.440)	(1.165.198)
Short-term lease obligations	13.647.501	21.321.316
Allowance for doubtful receivables	4.352.313	3.752.304
Provisions for impairment in inventories	2.873.729	2.873.729
Provisions for unused vacation	2.771.881	2.739.207
Income and prepaid expenses	(1.420.257)	(756.009)
Other	645.897	969.661
Deferred tax (liabilities)	<u>(435.385.525)</u>	<u>(362.243.105)</u>

The changes of deferred tax liability as of 31 December 2010 and 2009 are as follows:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Deferred tax liabilities at the beginning period	362.243.105	289.302.967
Deferred tax expense	68.858.645	73.377.970
Hedge fund tax income	4.283.775	(437.832)
Deferred tax liabilities at the ending period	<u>435.385.525</u>	<u>362.243.105</u>
	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
<u>Reconciliation of provision for taxes:</u>		
Profit from operations before tax	365.689.353	736.977.617
Domestic income tax rate of 20%	73.137.871	147.395.523
Taxation effects on:		
- revenue that is exempt from taxation	4.029.468	233.564
- effect of change in corporate tax for the year 2008/2009	2.173.714	-
- change in corporate tax for 2009	-	(2.846.785)
- non-deductible expenses	-	33.121.716
- exceptions to overseas earnings	-	-
- other	(95.061)	(2.681)
Provisions for tax expense in income statement	<u>79.245.992</u>	<u>177.901.337</u>

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36. EARNINGS PER SHARE

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

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

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

Number of total shares and calculation of earnings per share at 31 December 2010 and 2009 are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Number of shares outstanding at 1 January (in full)	87.500.000.000	87.500.000.000
New shares issued (in full)	12.500.000.000	-
Number of shares outstanding at 31 December (in full)	100.000.000.000	87.500.000.000
Weighted average number of shares outstanding during the year (in full)	100.000.000.000	100.000.000.000
Net profit for period	286.443.361	559.076.280
Earnings per share (kr) (*)	0,29	0,56

(*) The earnings per share with par value of TL 1 is TL 0, 29 in December 2010; TL 0,56 in December 2009.

37. RELATED PARTY TRANSACTIONS

Short-term trade receivables from related parties (Note 10) are as follows:

	31 December 2010	31 December 2009
P & W T.T Uçak Bakım Merkezi	30.114.504	26.705.625
Sun Express	1.174.893	-
TGS	-	1.517
Bosnia Herzegovina Airlines	2.737.156	3.729.488
Doubtful Receivables (-)	(2.737.156)	-
	31.289.397	30.436.630

Short-term non-trade receivables to related parties (Note 11) are as follows:

	31 December 2010	31 December 2009
TGS	-	12.546.944
Bosnia Herzegovina Airlines	-	34.372
	-	12.581.316

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37. RELATED PARTY TRANSACTIONS (Cont'd)

Short-term trade payables to related parties that are valued by equity method (Note 10) are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
TGS	29.890.972	-
THY Opet	25.999.690	-
THY DO&CO	5.618.464	7.629.804
Sun Express	-	13.341.689
	<u>61.509.126</u>	<u>20.971.493</u>

Transactions with related parties that are valued by equity method for the period ended as of 31 December 2010 are as follows:

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Service rendered to □P&W T.T. (*)	52.748.735	23.467.921
Services rendered to TGS(*)	52.018.689	-
Services rendered to Sun Express	15.084.575	46.068.132
Services rendered to Bosnia Herzegovina Airlines	10.564.680	4.399.906
Services rendered to THY DO&CO	1.743.035	1.001.534
Services rendered to THY OPET	81.993	-
	<u>132.241.707</u>	<u>74.937.493</u>

(*) Majority of services rendered to TGS and P&W T.T Uçak Bakım Merkezi is comprised of fixed asset disposals.

	<u>1 January - 31 December 2010</u>	<u>1 January - 31 December 2009</u>
Services received from THY OPET	424.790.209	-
Services received from THY DO&CO	280.173.198	224.579.638
Services received from TGS	162.827.775	-
Services received from P&W T.T Uçak Bakım Merkezi	99.494.701	-
Services received from Sun Express	29.470.829	57.017.608
Services received from Bosnia Herzegovina Airlines	7.935.222	2.435.000
	<u>1.004.691.934</u>	<u>284.032.246</u>

Transactions between the Group , Sun Express and Bosnia Herzegovina airlines are codeshare operations; transactions between the Group and Turkish DO&CO are catering services and loan financing, transactions between the Group and TGS are ground services, transactions between the Group and P&W T.T are engine maintenance services, transactions between the Group and THY OPET are supply of aviation fuel service. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Chairman and the Members of Board of Directors, General Manager, General Coordinator and Deputy General Managers are TL 4.220.465 TL (2009: 3.693.289 TL).

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 8, cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analysis, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Group remains the same since the year 2009.

	<u>31 December 2010</u>	<u>31 December 2009</u>
Total debts	4.977.703.728	3.595.046.545
Less: Cash and cash equivalents	(813.936.552)	(1.090.463.875)
Net debt	4.163.767.176	2.504.582.670
Total shareholders' equity	3.747.406.984	3.444.880.226
Total capital stock	7.911.174.160	5.949.462.896
Net debt/total capital stock ratio	0,53	0,42

(b) Financial Risk Factors

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from various financial risks.

Risk management, in line with policies approved by the Board of Directors, is carried out. According to risk policy, financial risk is identified and assessed. By working together with Group's operational units, relevant instruments are used to reduce the risk.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

b.1) Credit Risk Management

Credit risk of financial instruments

	Receivables						Derivative Instruments
	Trade receivables		Other receivables		Deposits in Banks		
31 December 2010	Related Party	Third Party	Related Party	Third Party	Third Party	Banks	
Maximum credit risk as of balance sheet date (*)	31.289.397	546.333.417	-	-	#VALUE!	778.851.808	84.070.372
The part of maximum risk under guarantee with collateral etc. (**)	-	6.903.023	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	31.289.397	459.996.786	-	-	#VALUE!	778.851.808	84.070.372
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	86.336.631	-	-	-	-	-
-The part under guarantee with collateral etc.	-	2.447.478	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-	-
-Past due (gross carrying amount)	2.737.156	64.893.287	-	-	-	-	-
-Impairment(-)	(2.737.156)	(64.893.287)	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

b.1) Credit Risk Management (Cont'd)

Credit Risk of Financial Instruments

	Receivables						Derivative Instruments
	Trade receivables		Other receivables		Deposits in Banks		
31 December 2009	Related Party	Third Party	Related Party	Third Party			
Maximum credit risk as of balance sheet date (*)	30.436.630	413.253.595	12.581.316	1.400.820.181	1.246.125.121		47.298.370
The part of maximum risk under guarantee with collateral etc. (**)	-	3.437.802	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	30.436.630	331.244.557	12.581.316	1.400.820.181	1.246.125.121		47.298.370
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired varlıkların defter değeri	-	-	-	-	-	-	-
C. Net book value of financial assets that are past due but not impaired	-	82.009.038	-	-	-	-	-
-The part under guarantee with collateral etc.	-	2.442.335	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-	-
-Past due (gross carrying amount)	-	40.576.100	-	-	-	-	-
-Impairment(-)	-	(40.576.100)	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	1.215.792	-	-	-	-	-
-Impairment (-)	-	(1.215.792)	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-	-

(*)The factors that increase in credit reliability such as guarantees received are not considered in the balance.

(**)Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.1) Credit risk management (Cont'd)

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

The Group's credit risk is basically related to its receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on its previous experience and current economical conditions. Because there are so many customers, the Group's credit risk is dispersed and there is not important credit risk concentration.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.1) Credit risk management (Cont'd)

The aging of past due receivables as of 31 December 2010 are as follows:

31 December 2010	<u>Receivables</u>		<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>
	<u>Trade Receivables</u>	<u>Other Receivables</u>			
Past due 1-30 days	48.905.501	-	-	-	-
Past due 1-3 month	46.738.115	-	-	-	-
Past due 3-12 months	49.262.290	-	-	-	-
Past due 1-5 years	8.696.618	-	-	-	-
Past due more than 5 years	364.550	-	-	-	-
Total past due receivables	153.967.074	-	-	-	-
The part under guarantee with collateral etc.	2.447.478	-	-	-	-

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.1) Credit risk management (Cont'd)

The aging of past due receivables as of 31 December 2009 are as follows:

31 December 2009	<u>Receivables</u>				
	<u>Trade Receivables</u>	<u>Other Receivables</u>	<u>Deposits in Banks</u>	<u>Derivative Instruments</u>	<u>Other</u>
Past due 1-30 days	31.024.457	-	-	-	-
Past due 1-3 month	30.409.900	-	-	-	-
Past due 3-12 months	19.120.026	-	-	-	-
Past due 1-5 years	42.030.755	-	-	-	-
Total past due receivables	122.585.138	-	-	-	-
The part under guarantee with collateral etc.	2.442.335	-	-	-	-

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.1) Credit risk management (Cont'd)

As of balance sheet date, total amount of cash collateral and letter of guarantee, which is received by Group for past due not impaired receivable, is TL 2.447.478 (31 December 2009: TL 2.442.335).

As of the balance sheet date, Group has no guarantee for past due receivables for which provisions were recognized.

b.2) Liquidity risk management

The main responsibility of liquidity risk management rests upon Board of Directors. The Board built an appropriate risk management for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities. The adjustment column shows the item which causes possible cash flow in the future periods. The item in question is included in the maturity analysis and is not included balance sheet amount of financial liabilities in the balance sheet.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities..

Liquidity risk table:

31 December 2010

<u>Due date on the contract</u>	<u>Book value</u>	<u>Total cash outflow according to the contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non-derivative financial liabilities						
Bank borrowings	14.696.729	15.022.192	-	15.022.192	-	-
Finance lease obligations	4.163.382.650	4.684.090.226	131.528.838	442.641.794	1.904.550.140	2.205.369.454
Trade payables	735.874.026	749.280.248	662.394.432	86.885.816	-	-
Other financial liabilities	1.117.687	1.117.687	1.117.687	-	-	-
Total	4.915.071.092	5.449.510.353	795.040.957	544.549.802	1.904.550.140	2.205.369.454

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.1) Credit risk management (Cont'd)

Liquidity risk table (Cont'd):

31 December 2009

Due date on the contract	Book value	Total cash	Less than 3	3-12 months (II)	1-5 years (III)	More than 5
		outflow				
		according to the				
		contract				
		(I+II+III+IV)				
Non-derivative						
financial liabilities						
Bank borrowings	28.627.057	29.847.936	7.680.629	7.536.703	14.630.604	-
Finance lease obligations	2.959.539.067	3.456.591.636	103.436.047	366.181.926	1.438.363.567	1.548.610.096
Trade payables	559.109.822	559.920.492	488.863.129	71.057.363	-	-
Other financial liabilities	846.771	846.771	846.771	-	-	-
Total	3.548.122.717	4.047.206.835	600.826.576	444.775.992	1.452.994.171	1.548.610.096

b.3) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

b.3.1) Foreign currency risk management

Transactions in foreign currencies expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.3) Market risk management (Cont'd)

b.3.1) Foreign currency risk management (Cont'd)

	31 December 2010				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	401.348.898	145.176.463	87.020.463	12.210.604	156.941.368
2a.Monetary financial assets	2.316.370.081	2.098.839.409	110.826.542	612.421	106.091.709
2b.Non monetary financial assets	-	-	-	-	-
3.Other	66.293.167	61.852.539	2.598.539	144.937	1.697.152
4.Current assets (1+2+3)	2.784.012.146	2.305.868.411	200.445.544	12.967.962	264.730.229
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	(166.510.045)	(166.510.045)	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	180.292.325	144.001.412	29.331.543	888.663	6.070.707
8.Non current asstes (5+6+7)	13.782.280	(22.508.633)	29.331.543	888.663	6.070.707
9.Total assets (4+8)	2.797.794.426	2.283.359.778	229.777.087	13.856.625	270.800.936
10.Trade payables	348.866.521	84.844.541	165.949.619	8.686.835	89.385.526
11.Financial liabilities	631.463.497	379.137.239	252.326.258	-	-
12a.Other liabilities, monetary	(4.731.681)	2.198.278	(10.958.333)	243.455	3.784.919
12b.Other liabilities, non monetary	489.632	56.367	433.265	-	-
13.Current liabilities (10+11+12)	976.087.969	466.236.425	407.750.809	8.930.290	93.170.445
14.Trade payables	-	-	-	-	-
15.Financial liabilities	3.781.139.557	1.801.134.839	1.980.004.718	-	-
16a.Other liabilities, monetary	9.829.695	3.453.108	5.418.972	2.604	955.011
16b.Other liabilities, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	3.790.969.252	1.804.587.947	1.985.423.690	2.604	955.011
18.Total liabilities (13+17)	4.767.057.221	2.270.824.372	2.393.174.499	8.932.894	94.125.456
19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)	(2.281.685)	(244.025.867)	241.744.182	-	-
19a.Off-balance sheet foreign currency derivative assets	241.744.182	-	241.744.182	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	244.025.867	244.025.867	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(1.971.544.480)	(231.490.461)	(1.921.653.230)	4.923.731	176.675.480
21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(2.215.358.655)	(193.262.178)	(2.194.894.229)	3.890.131	168.907.621
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	6.528.219.249	924.361.219	2.349.790.637	153.310.525	3.100.756.868
26.Imports	2.634.053.757	1.771.619.115	599.994.315	30.330.811	232.109.519

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.3) Market risk management (Cont'd)

b.3.1) Foreign currency risk management (Cont'd)

	31 December 2009				
	TL Equivalent	US Dollar	Euro	GBP	Other
1.Trade receivables	318.804.899	91.640.001	108.281.865	8.393.269	110.489.764
2a.Monetary financial assets	1.596.717.983	1.276.912.740	214.803.790	12.413.729	92.587.724
2b.Non monetary financial assets	-	-	-	-	-
3.Other	1.982.078	1.066.174	94.361	103.224	718.319
4.Current assets (1+2+3)	1.917.504.960	1.369.618.915	323.180.016	20.910.222	203.795.807
5.Trade receivables	-	-	-	-	-
6a.Monetary financial assets	637.383.512	637.383.512	-	-	-
6b.Non monetary financial assets	-	-	-	-	-
7.Other	65.373.959	48.743.839	12.586.766	2.119.701	1.923.653
8.Non current asstes (5+6+7)	702.757.471	686.127.351	12.586.766	2.119.701	1.923.653
9.Total assets (4+8)	2.620.262.431	2.055.746.266	335.766.782	23.029.923	205.719.460
10.Trade payables	297.880.412	120.793.475	107.571.626	5.863.884	63.651.427
11.Financial liabilities	457.499.014	252.991.955	204.507.059	-	-
12a.Other liabilities, monetary	14.337.275	7.789.570	3.479.885	336.138	2.731.682
12b.Other liabilities, non monetary	-	-	-	-	-
13.Current liabilities (10+11+12)	769.716.701	381.575.000	315.558.570	6.200.022	66.383.109
14.Trade payables	-	-	-	-	-
15.Financial liabilities	2.575.899.284	975.801.038	1.600.098.246	-	-
16a.Other liabilities, monetary	8.941.614	2.354.919	5.734.714	2.605	849.376
16b.Other liabilities, non monetary	-	-	-	-	-
17.Non current liabilities (14+15+16)	2.584.840.898	978.155.957	1.605.832.960	2.605	849.376
18.Total liabilities (13+17)	3.354.557.599	1.359.730.957	1.921.391.530	6.202.627	67.232.485
19.Net asset / liability position of Off-balance sheet derivatives (19a-19b)	27.416.849	(257.400.455)	284.817.304	-	-
19a.Off-balance sheet foreign currency derivative assets	284.817.304	-	284.817.304	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	257.400.455	257.400.455	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(706.878.319)	438.614.854	(1.300.807.444)	16.827.296	138.486.975
21.Net foreign currency asset / liability position of monetary items (UFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(801.651.205)	646.205.296	(1.598.305.875)	14.604.371	135.845.003
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-
25.Exports	5.356.374.684	756.866.783	2.821.421.134	152.119.413	1.625.967.354
26.Imports	1.684.743.255	1.003.419.468	488.549.014	19.535.389	173.239.384

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.3) Market risk management (Cont'd)

b.3.1) Foreign currency risk management (Cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from US dollar, Euro and GBP. The following table details the Group's sensitivity to a 10% increase and decrease in exchange rate of US Dollars, Euro and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss.

	31 December 2010	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated against TL by 10%	If foreign currency depreciated against TL by 10%
1 - US Dollar net asset / liability	(23.149.046)	23.149.046
2- Part of hedged from US Dollar risk (-)	-	-
3- US Dollar net effect (1 +2)	(23.149.046)	23.149.046
4 - Euro net asset / liability	(192.165.323)	192.165.323
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(192.165.323)	192.165.323
7 - GBP net asset / liability	492.373	(492.373)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	492.373	(492.373)
10 - Other foreign currency net asset / liability	17.667.548	(17.667.548)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	17.667.548	(17.667.548)
TOTAL (3 + 6 + 9 + 12)	(197.154.448)	197.154.448

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.3) Market risk management (Cont'd)

b.3.1) Foreign currency risk management (Cont'd)

Foreign currency sensitivity (Cont'd)

	31 December 2009	
	Profit / (Loss) Before Tax	
	If foreign currency appreciated against TL by 10%	If foreign currency deppreciated against TL by 10%
1 - US Dollar net asset / liability	43.861.485	(43.861.485)
2- Part of hedged from US Dollar risk (-)	-	-
3- US Dollar net effect (1 +2)	43.861.485	(43.861.485)
4 - Euro net asset / liability	(130.080.744)	130.080.744
5 - Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(130.080.744)	130.080.744
7 - GBP net asset / liability	1.682.730	(1.682.730)
8- Part of hedged from GBP risk (-)	-	-
9- GBP net effect (7 +8)	1.682.730	(1.682.730)
10 - Other foreign currency net asset / liability	13.848.698	(13.848.698)
11- Part of hedged other foreign currency risk (-)	-	-
12- Other foreign currency net effect (10+11)	13.848.698	(13.848.698)
TOTAL (3 + 6 + 9 + 12)	(70.687.831)	70.687.831

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.3) Market risk management (Cont'd)

b.3.2) Interest rate risk management

Group has been borrowing over fixed and variable interest rates. Considering the interest types of the current borrowings, borrowings with variable interest rates have the majority but in financing of aircrafts performed in the last years, Group tries to create a partial balance between borrowings with fixed and variable interest rates by increasing the weight of the borrowings with fixed interest rate in condition of the suitability of the cost. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, dependency to local risks is low.

Interest Rate Position Table

	<u>31 December 2010</u>	<u>31 December 2009</u>
<u>Instruments with fixed interest rate</u>		
Financial Liabilities	2.206.737.240	1.825.552.349
<u>Financial Instruments with Variable Interest Rate</u>		
Financial Liabilities	1.971.342.139	1.162.613.775
Interest Swap Agreements Not Subject to Hedge Accounting (net)	7.569.719	(829.874)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(27.153.795)	(7.130.730)

As indicated in Note 39, the Group as of 31 December 2010 fixed the interest rate for TL 741.452.020 of floating-interest-rated financial liabilities via an interest rate swap contract.

Interest rate sensitivity

The following sensitivity analysis is determined according to the interest rate exposure in the reporting date and possible changes on this rate and it is fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the interest rates of the borrowings with variable interest rates, fluctuate 0,5% and reports these to the top management.

In condition that 0,5% increase in Libor and Euribor interest rate and all other variables being constant: Profit before taxes of the Group, for the year 2010, will decrease by TL 9.856.711 (as of 31 December 2009 it will decrease by TL 5.813.069). In contrast, if Libor and Euribor interest rate decreases 0,5%, profit before taxes for the year 2010 will increase by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in case of a 0,5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by TL 14.732.662 without the deferred tax effect. In case of a 0,5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amount without the deferred tax effect.

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38. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial Risk Factors (Cont'd)

b.3) Market risk management (Cont'd)

b.3.3) Fuel prices sensitivity

As explained in Note 39, Group made forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases beginning from 2009. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by TL 33.403.995 excluding the deferred tax effect. In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by the same amount excluding the deferred tax effect.

39. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- In standard maturities and conditions, fair values of financial assets and liabilities which are traded in an active market are determined as quoted market prices.
- Fair values of derivative instruments are calculated by using quoted prices. In absence of prices, discounted cash flows analysis is used through applicable yield curve for maturities of derivative instruments (forward and swaps).

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39. FINANCIAL INSTRUMENTS (Cont'd)

Fair Values of Financial Instruments (Cont'd)

31 December 2010 Balance Sheet	Loans and Receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	813.936.552	-	-	-	-	813.936.552	6
Financial investments	-	44.396.158	39.674.214	1.750.943	-	85.821.315	7
Trade receivables	577.622.814	-	-	-	-	577.622.814	10
Other receivables	1.864.162.765	-	-	-	-	1.864.162.765	11
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	14.696.729	14.696.729	8
Finance lease obligations	-	-	-	-	4.163.382.650	4.163.382.650	8
Other financial liabilities	-	22.537.592	40.095.044	-	1.117.687	63.750.323	9
Trade payables	-	-	-	-	735.874.026	735.874.026	10

31 December 2009 Balance Sheet	Loans and Receivables	Derivative instruments which are reflected at fair value in shareholders' equity	Derivative instruments which are reflected fair value profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
<u>Financial Assets</u>							
Cash and cash equivalents	1.090.463.875	-	-	-	-	1.090.463.875	6
Financial investments	175.000.000	4.102.120	43.196.250	1.750.943	-	224.049.313	7
Trade receivables	443.690.225	-	-	-	-	443.690.225	10
Other receivables	1.413.401.497	-	-	-	-	1.413.401.497	11
<u>Financial liabilities</u>							
Bank borrowings	-	-	-	-	28.627.057	28.627.057	8
Finance lease obligations	-	-	-	-	2.959.539.067	2.959.539.067	8
Other financial liabilities	-	7.866.905	37.365.267	-	846.771	46.078.943	9
Trade payables	-	-	-	-	559.109.822	559.109.822	10

The Group considers the book values for financial assets are of fair value

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39. FINANCIAL INSTRUMENTS (Cont'd)

Fair Values of Financial Instruments (Cont'd)

Fair values of financial assets and liabilities are determined as follows:

- First level: Financial assets and liabilities, are valued with the stock exchange prices in the active market for the assets and liabilities same with each other.
- Second level: Financial assets and liabilities are valued with input obtained while finding the stock exchange price of the relevant asset or liability mentioned in the first level and the direct or indirect observation of price in the market.
- Third level: Financial assets and liabilities are valued by the input that does not reflect an actual data observed in the market while finding the fair value of an asset or liability.

Financial assets and liabilities, which are presented at their fair values, level reclassifications are as follows:

	31 December 2010	Fair value level as of the reporting date		
		Level 1 TL	Level 2 TL	Level 3 TL
Financial assets				
Financial liabilities at fair value through profit or loss				
Derivative instruments	39.674.214	-	39.674.214	-
Financial assets subject to hedge accounting				
Derivative instruments	44.396.158	-	44.396.158	-
Total	84.070.372	-	84.070.372	-
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative instruments	40.095.044	-	40.095.044	-
Financial liabilities subject to hedge accounting				
Derivative instruments	22.537.592	-	22.537.592	-
Total	62.632.636	-	62.632.636	-

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39. FINANCIAL INSTRUMENTS (Cont'd)

Derivative Instruments and Hedging Transactions

In order to hedge important operations and cash flows in the future against financial risks, Group made interest rate swap contracts to convert some of the fixed-rate finance lease liabilities into floating rate and cross-currency swap contracts to convert Euro-denominated finance lease liabilities into US Dollars. The changes in the fair values of those derivative instruments are directly accounted in the income statement for the period.

The floating-rate financial liabilities of the Group are explained in Note 38 (b.3.2). As of June 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group made fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities whose maturities are after the second half of 2010 and account for approximately 38% of floating rate US Dollar and Euro denominated liabilities. Effective part of the change in the fair values of those derivative instruments which are subject to hedge accounting for cash flows risks of floating-rate finance lease liabilities are accounted in cash flow hedge fund under the shareholders' equity.

At January 2010, in order to control risk arising from fluctuations in price of fuel which is approximately 33% of cost of sales as of 31 December 2010 and to lessen the effects of fluctuations in oil prices on fuel expenses, the Group began hedging transactions for approximately 20% of annual jet fuel consumption in 2010. For this purpose, the Group made forward fuel purchase contracts settled on cash basis. In accordance with the Company's BOD resolution issued on 21 January 2011, hedging rate which corresponds to 20% of the currently applied monthly consumption rate will be applied as 50% after 12 months following the transition of new strategy and this rate will be gradually increased by 2,5% in each month. The effective portion of fair value hedge of derivative instruments that are subject to cash flow hedge accounting due to future fuel purchases is recognized under hedge accounting fund in equity.

Group's derivative instruments arisen from transactions stated above and their balances as of 31 December 2010 and 31 December 2009 are as follows:

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39. FINANCIAL INSTRUMENTS (Cont'd)

Derivative Instruments and Hedging Transactions (Cont'd)

	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Total</u>
31 December 2010			
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(22.537.592)	(22.537.592)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	44.396.158	-	44.396.158
Fair values of derivative instruments for hedging purposes	<u>44.396.158</u>	<u>(22.537.592)</u>	<u>21.858.566</u>
Cross-currency swap contracts not subject to hedge accounting	7.675.593	(11.049.940)	(3.374.347)
Interest rate swap contracts not subject to hedge accounting	31.998.621	(29.045.104)	2.953.517
Fair values of derivative instruments not for hedging purposes	<u>39.674.214</u>	<u>(40.095.044)</u>	<u>(420.830)</u>
Total	<u>84.070.372</u>	<u>(62.632.636)</u>	<u>21.437.736</u>
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Total</u>
31 December 2009			
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(7.130.730)	(7.130.730)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	4.102.120	(736.175)	3.365.945
Fair values of derivative instruments for hedging purposes	<u>4.102.120</u>	<u>(7.866.905)</u>	<u>(3.764.785)</u>
Cross-currency swap contracts not subject to hedge accounting	15.596.383	(8.935.528)	6.660.855
Interest rate swap contracts not subject to hedge accounting	27.599.867	(28.429.739)	(829.872)
Fair values of derivative instruments not for hedging purposes	<u>43.196.250</u>	<u>(37.365.267)</u>	<u>5.830.983</u>
Total	<u>47.298.370</u>	<u>(45.232.172)</u>	<u>2.066.198</u>

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39. FINANCIAL INSTRUMENTS (Cont'd)

	Hedging against fuel risk	Hedging against interest risk	Total
Increase/(decrease) in fair values of derivative instruments for hedging purposes	44.396.158	(22.537.592)	21.858.566
The amount of financial expenses inside hedge funds	-	1.700.882	1.700.882
Reclassified amount for inactive part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(4.329.733)	-	(4.329.733)
Total	40.066.425	(20.836.710)	19.229.715
Deferred tax effect	(8.013.285)	4.167.342	(3.845.943)
Hedge fund as of 31 December 2010	32.053.140	(16.669.368)	15.383.772

40. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The Group has entered into a joint venture agreement with “Tusaş Türk Havacılık ve Uzay Sanayi A.Ş.” for the establishment of a corporation under the name of “TCI Kabin içi Sistemleri Sanayi ve Ticaret A.Ş.”

Based on the BOD decision, the Company has decided to purchase 3 A330-200F type cargo aircrafts from Airbus in 2012,2013 and 2014.

In accordance with the leasing agreement signed with Crescent Leasing 2 Limited, the Company has leased 2 A320-200 type aircrafts for 72 months. Aircrafts are expected to be delivered in February and March 2011.

The Board of Directors of the Joint Venture has completed its procedures and process on the participation of 10% of the paid in capital of the newly established company. This new company will be established in Northern Cyprus to operate in domestic and international scheduled and nonscheduled flights and cargo flights. Accordingly, the Company and “KKTC Bayındırlık ve Ulaştırma Bakanlığı” have signed a joint venture agreement for the establishment of “Kuzey Kıbrıs Hava Yolları” corporation and in accordance with the agreement, the Company will own 10% of the newly established corporation.

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41. OTHER ISSUES AFFECTING FINANCIAL STATEMENTS MATERIALLY OR NECESSARY TO MAKE FINANCIAL STATEMENTS SOUND, INTERPRETABLE AND UNDERSTANDABLE

As there is a change in the presentation and classification of the Group's financial statement items, prior financial statements are reclassified accordingly to maintain comparability. These reclassification has no effect over the prior period's equity and net profit/(loss) accounts. Significant reclassifications in the financial statements include:

Items amounting to TL 5.647.994 presented under "Cash and Cash Equivalents" in the 31 December 2009 balance sheet are recognized under "Other Receivables" in the 31 December 2010 balance sheet.

Gross due to/from related parties amount presented under "Trade Receivables" and "Trade Payables" in the 31 December 2009 balance sheet is offset within the Company. Total offset amounts to TL 1.691.656.

TL 4.637.259 of fuel expenses recognized under cost of sales for the 1 January – 31 December 2009 period is reclassified in administrative expenses.

Depreciation charge and maintenance costs recognized in costs of sales and impairment loss of property, plant and equipment recognized in other operating expenses for the 1 January – 31 December 2009 period are reclassified in accordance with Note 2.2. Accounting Policies, Changes In Accounting Estimates and Errors.