# TURKISH TECHNIC INC.

# ACTIVITIY REPORT

# '11

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TURKISH TECHNIC INC.
2011 ACTIVITY REPORT



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# VISION

To be a developing, reliable and global company in the field of aviation technical services,of which the shareholders feels proud.

# MISSION

To lead the aviation industry in all kinds of maintenance, repair, modification and design services of aircraft and components; in accordance and standarts, by ideally fulfilling the expectations of shareholders, by continually improving its competences (capabilities) with and understanding of optimum quality-price balancing and with awareness of environmental and social responsibility.

# Safety and Quality Policy

### 1 MAINTENANCE/ FLIGHT SAFETY

To offer reliable service and product as taking the maintenance and flight safety as a prime concern.

### 2 CUSTOMER FOCUS

To ensure customer satisfaction with offering product and service in accordance with customer expectations; to obey customer trust, equality, objectiveness and secrecy principles with senior management and all employees.

### 3 QUALITY MANAGEMENT SYSTEM

To ensure adoption and increase the effectiveness of Quality Management System by giving priority to quality of service.

### 4 EFFECTIVE MANAGEMENT

To achieve the missions of the company within the defined strategies by improving the communication, harmony and co-operation between the employees and with the awareness of responsibilities.

### 5 CONTINUOUS DEVELOPMENT AND PRODUCTIVITY

To be a continuously improving company by keeping corporate loyalty and team spirit at the highest level with planning, information and technology based approaches.

### 6 OCCUPATIONAL HEALTH AND SAFETY

To ensure absloute compliance of human and environmental factors in all activities of the company, based on the principles of occupational health and safety.

## 7 ENVIRONMENTAL AWARENESS

To ensure adoption of environmental protection and development consciousness by all employees.

## 8 COMPLIANCE TO STANDARDS AND REGULATIONS

To ensure absolute compliance and support of all personnel to national and international rules and regulations and company procedures with a good professional and technical application.

## 9 HUMAN FACTOR

To work in accordance with the principles of human factor.

## 10 COOPERATION WITH THE QUALITY AUDITORS

To provide the cooperation of all personnel with the quality auditors of Turkish DGCA, Turkish Technic, other authorities and operators/customers.

## 11 REPORTING

To encourage personnel to report maintenance related errors/incidents.

## 12 CALIBRATION SERVICES

To offer calibration services in a quality, correct and reliable level in proper to conditions agreed with the customer and ISO 17025 standards, by applying internationally accepted methods.

# Message from Chairman

As the global financial crisis started to loose effect, 2010 became a productive year for the aviation sector re-accelerating the business and for Turkish Technic that provides services to domestic and foreign airlines to continue its investments. The know-how that will be obtained through carefully made investments in the direction of the expectations of existing and potential customers, suppliers, employees, shareholders and the public, we are becoming a center providing global scale services, and Turkish Technic is becoming a candidate to be an important player in the global MRO (Maintenance, Repair and Operations) market.

Leaving a successful financial year behind in 2010 and according to financial statements of Capital Markets Board of Turkey (CMBT) our company had a profit of 36, 25 million TL, and 21, 68 million TL net profits according to Tax Procedure Law (TPL) statements by the end of the fiscal year. As a result of successful sales-marketing activities carried out in 2010, the income provided from Third-Party Customers other than the Turkish Airlines, our customer potential has increased by 4, 57% compared to 2009 and have made up the 27, 73% of our net total sales.

To encourage domestic investments into the aviation industry, in 9-11 March 2010 the first Parts Manufacturing Exhibition was organized in our country at the Turkish Technic Inc., and the positive processes continued with the signing of the joint venture agreement with Zorlu Group which is one of the important groups of our country that makes investments in technological areas and thus we obtained the first concrete output. The agreement made with Zorlu O&M Power Plant Operation and Maintenance Services Inc., we have aimed to achieve a wide range of activities with the CF-6 engines that exist within the capacity of our company, establishing a company where the maintenance and repairs of turbine engines found within Zorlu Energy and the surrounding countries will be made, and a company where eventually spare parts will also be manufactured.

In December 2010 a joint venture agreement was signed between our company and TAI (Turkish Aerospace Industries Inc.) in order to establish a company that will design and manufacture the interior of aircraft cabins and the components, provide support for logistics, modifications and marketing. The Joint Venture Company will manufacture interior materials used for Crew Rest, Magazine Racks, Literature Pocket, Divider & Wind Screen, Doghouse & Bustle), Stowage, Coatroom, Video Control Compartment, and Stairhouse. The Joint Venture Company is projected to be established and start its business operations within 2011.

The HABOM facilities that will make our country one of the major MRO centers in the region is rising rapidly at Istanbul Sabiha Gökçen Airport and Turkish Engine Center (TEC) which is a joint venture established with Pratt & Whitney an affiliate of United Technologies company of American origin has started their production services following the 2010 grand opening ceremonies attended by the Prime Minister Mr. Recep Tayyip Erdoğan.

One of the investments made in 2010 by our company was the joint venture agreement signed with Goodrich which is one for the world's major aircraft component manufacturers. The joint venture agreement made with Goodrich on July 15, 2010 will provide services such as; "nacelle, thrust reverser and fitting and will also include bearing parts." The service center will provide services for Airbus and Boeing fleets of airline companies in Turkey as well as for aircraft fleets located in neighboring countries.

As Turkish Technic Inc., we have made it our most important principle investing into our employees whether employed or a candidate and take high-level measures to ensure their physical and emotional health. To this end, the mutual studies conducted with the partnership of Turkey Business Council and our company there is a large number of special application technician candidates trained at Turkish Airlines Training Department. With the beginning of HABOM facilities operations and within the framework of "more services to more clients" principle we have yet again experienced the pleasure of delivering quality workforce needed in our sector and the thrill of maintaining our "pioneer" role in this business area.

This year, by examining the custom-made Organizational Efficiency Analysis studies prepared for our company by experts and EFQM Excellence Model evaluations generated according to domestic and foreign criteria, we have concentrated in areas where we need to make improvements and continued our works towards further improving our strengths.

One of the important investments that we have made in 2010 has been MRO ERP (Enterprise Resource Planning) project launched in order to use the additional capacity gained from our ongoing investments more effectively and for providing "customer satisfaction oriented" services to the ever increasing number of clients. Thus ensuring taking faster actions against variable production requirements, obtain stronger control over costs and achieve sustainability in quality.

As Turkish Airlines family we have prioritized our social responsibilities for the environment and increased our efforts in the subject. We have certified our practices for the Environment, Occupational Health and Safety in 2006 with obtaining ISO 14001 and OHSAS 18001 Quality Management Systems certificate, and by fully completing the requirements of the system we have succeeded passing the document extension audits. Not fully satisfied with these successful practices alone, by supporting the new "Green Airport" project of the Directorate General of Civil Aviation and by practicing the requirements of the project we have been one of the first companies that has been granted a certificate.

With the three basic strategies that Turkish Tecnic Inc. has adopted (to further specialize on the main business, produce components and provide maintenance with OEMs, and develop know-how with component and service design), we are targeting going beyond the regional MRO market and by taking a share in the global MRO market convert our country into an important aviation base. 2010 has been maturity period for the strategies designed for achieving these objectives and an important year that most of these goals have been implemented.

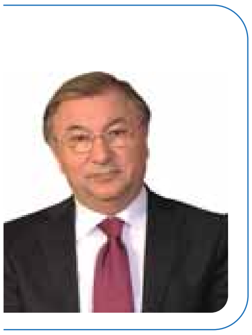
Hamdi TOPÇU
THY Teknik A.Ş.
Yönetim Kurulu Başkanı

# Board of Directors and Members of Audit Board

**Hamdi TOPÇU**
*Chairman of the Board*

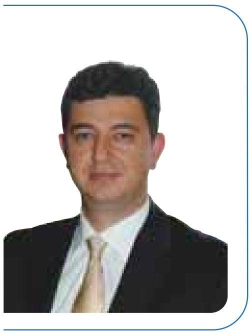
**Doç. Dr. İsmail DEMİR**
*Board Member / General Manager*

**Metin KİLCİ**
*Board Member*



**Prof. Dr. Cemal ŞANLI**
*Board Member*

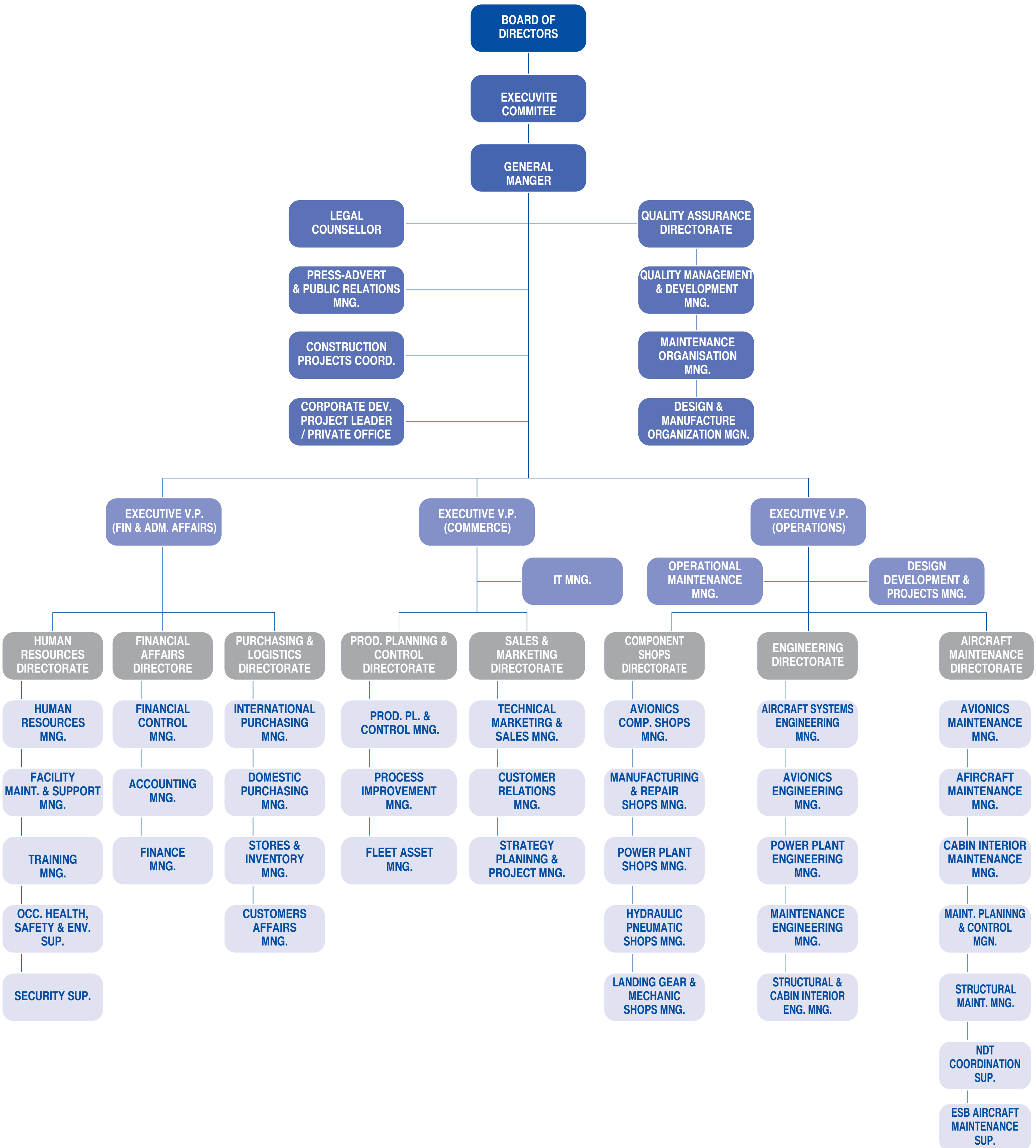
**Doç. Dr. Turan EROL**
*Board Member*



**Coşkun KILIÇ**
*Insp. Board Member*

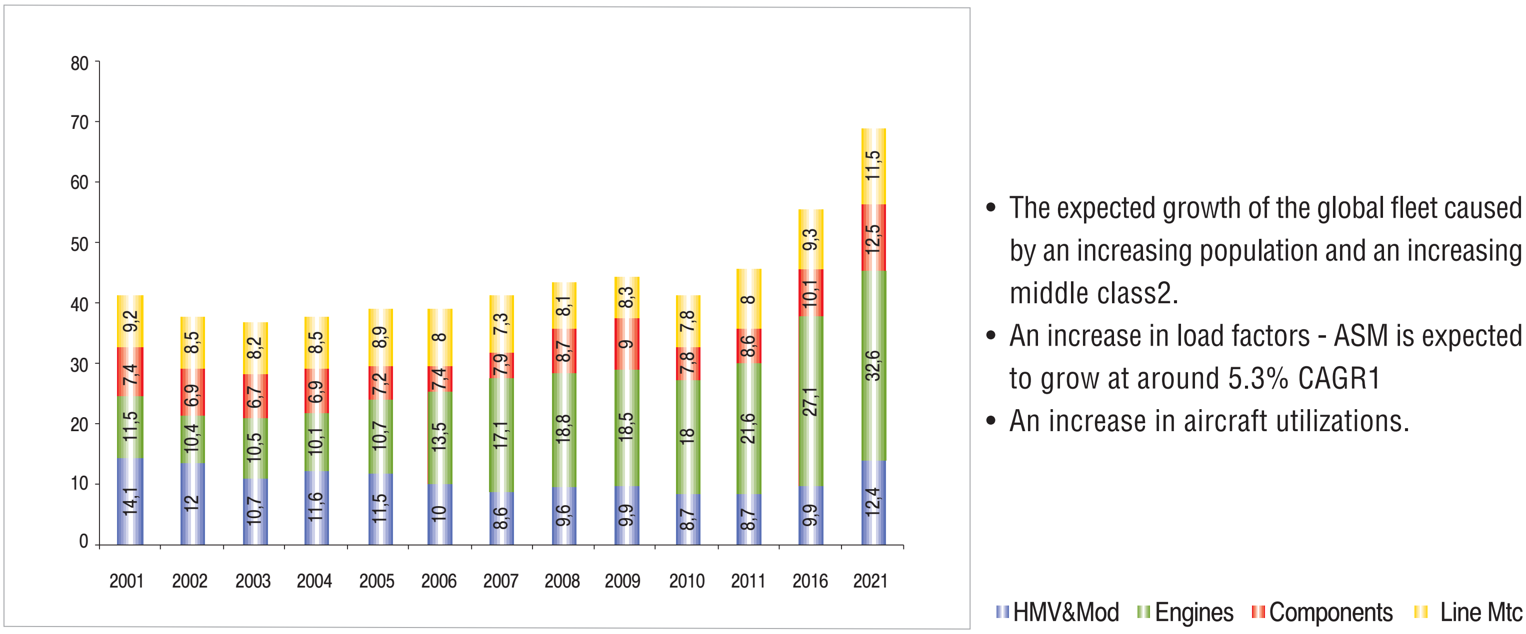
**Orhan SİVRİKAYA**
*Insp. Board Member*

# Organization Chart



# Global Maintenance, Repair & Overhaul (MRO) Market

Recent research and studies conducted internationally show that the MRO market is expected to have grown by 10.8% by the end of 2011, reaching a revenue of 47 Billion US Dollars (USD) compared to a revenue of around USD 42 Billion at the end of 2010. Global Cumulative Annual Growth Rate (CAGR) for the next 10 years is expected to be around 4% and this means that the current USD 47 Billion market will grow to USD 69 Billion by the end of 20211 . The underlying reasons for this change in growth compared to last year can be summarized as follows:

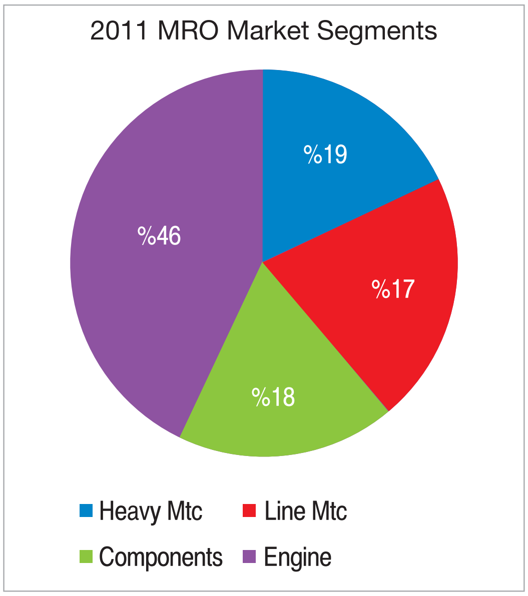


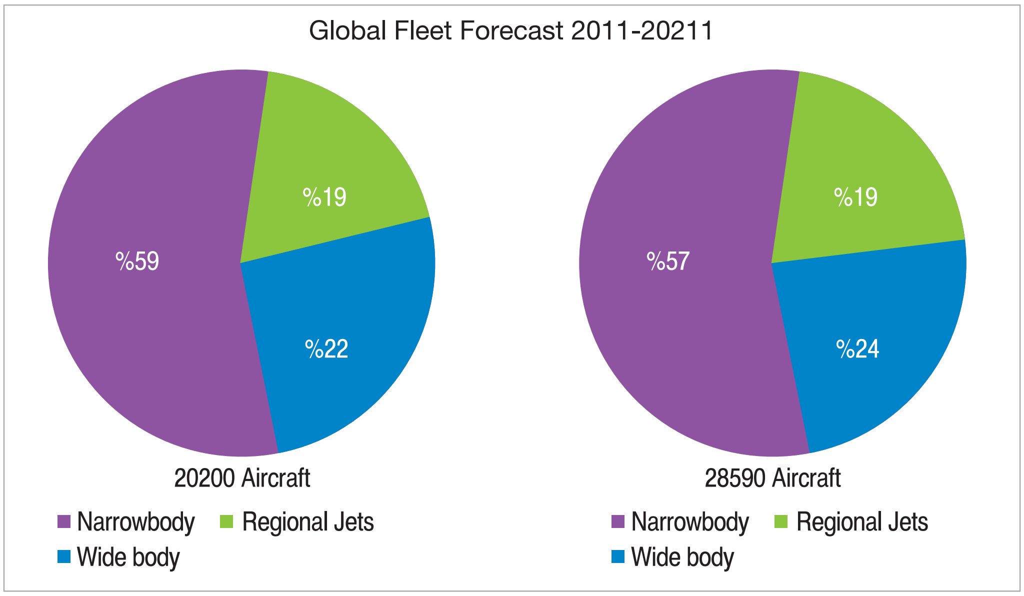

- The expected growth of the global fleet caused by an increasing population and an increasing middle class2.
- An increase in load factors - ASM is expected to grow at around 5.3% CAGR1
- An increase in aircraft utilizations.

MRO Market Forecast

# Global Maintenance, Repair & Overhaul (MRO) Market

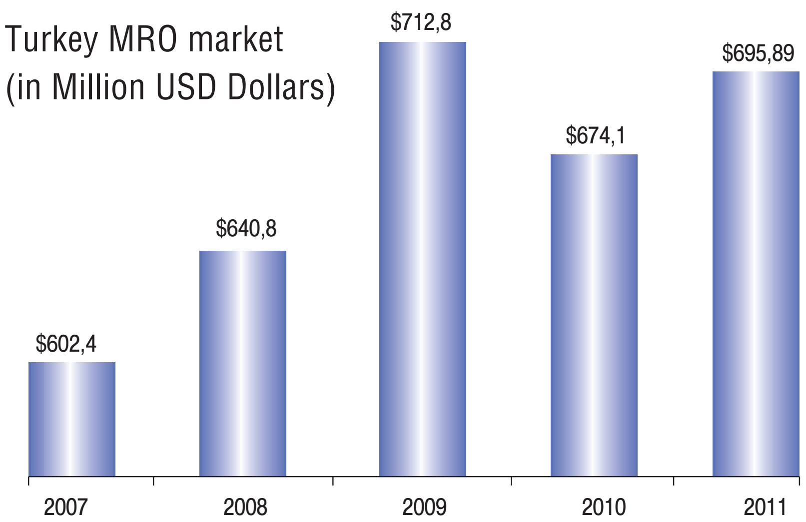

There were 19,675 commercial aircraft in 2010, whereas this number increased to 20,200 in 2011 1,3. Long term fleet forecasts conducted by aircraft manufacturers report expected fleet sizes to be between 31,420 and 39,530 aircraft in 2030 3,4. Medium term forecasts report 28,590 aircraft by 2021, with a major proportion of these being narrow-body aircraft. However, different sources report different forecasts on the number of narrow bodies and the percentage of the global fleet that they will make up in the long-term forecast. While Boeing predicts that the narrow bodies will make up 70% of the global fleet making 27,671 narrow body aircraft, Airbus predicts this number to be only around 22,937 aircraft making 73% of the global fleet.




There have been changes in the main players of the MRO market in 2011. In terms of both man-hours as well as revenue generated, MROs such as Lufthansa Technik, ST Aerospace, Air France Industries-KLM Engineering& Maintenance, SR Technics and TIMCO, while dominating the market in the past, have seen new competition from firms in countries where serious investments and support were provided. The increasing influence of OEM firms in the MRO market has caused several maintenance firms to increase their relations with OEMS and brought about partnerships.

# Turkish Maintenance, Repair & Overhaul (MRO) Industry

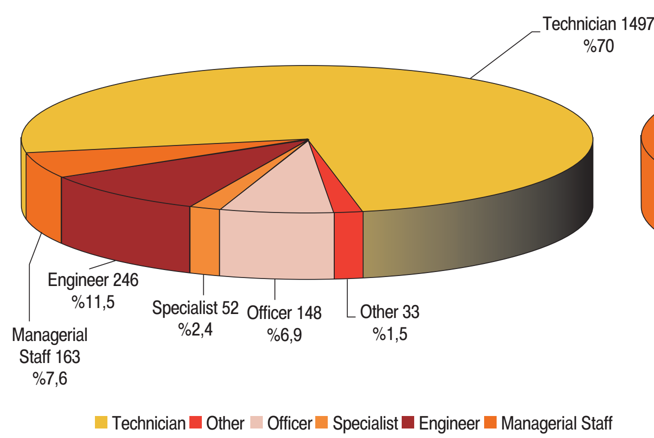

- Nearly 85% of the Turkish MRO market is being serviced by maintenance firms within our country.
- The remaining 15% of the market is serviced by overseas maintenance firms.
- The general decline in the global MRO market in 2010 has also been reflected in the Turkish MRO market.
- 85% of all maintenance and repair activities performed in Turkey are being supplied by Turkish Technic and its affiliates.

# Staff Profile

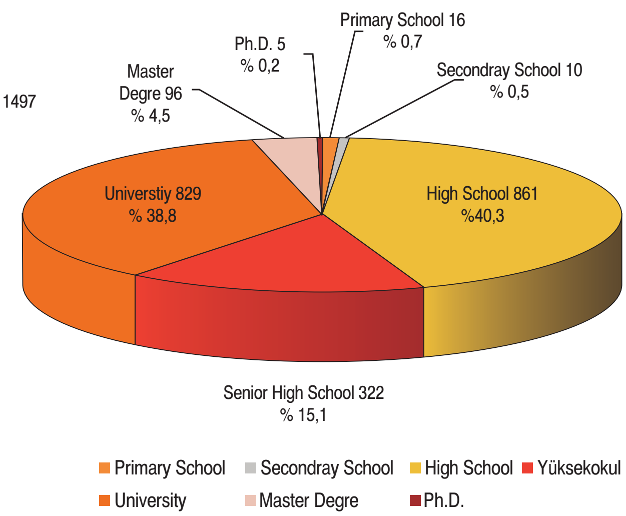
- As of December 31st, 2011 total number of employees is 2.139.
  Average employee age is 35,1 and the average work experience is 9,8 years.

- In the year 2011 the average number of employees is 2.332 where the turnover rate is 35,11% (including transfers to Turkish Airlines).

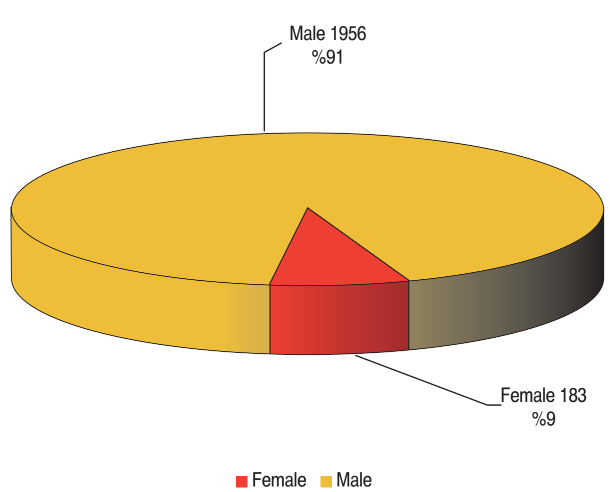
## EMPLOYEE DISTRIBUTION WITH REGARD TO TITLE GROUPS



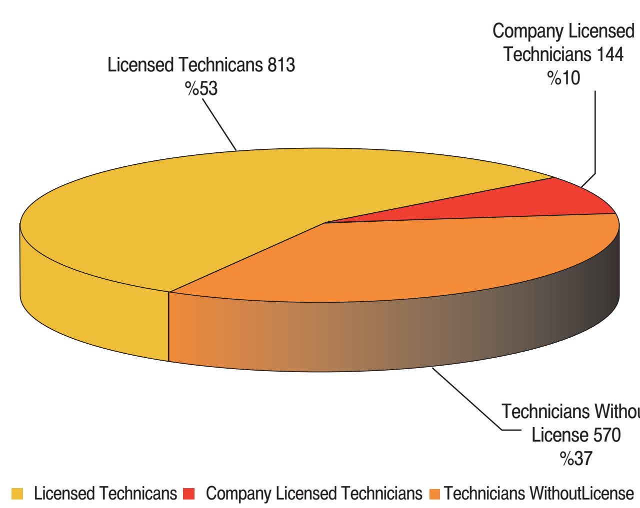

## EMPLOYEE DISTRIBUTION ACCORDING TO EDUCATION LEVEL




## FEMALE / MALE RATIO




## TECHNICAL STAFF DISTRIBUTION ACCORDING TO LICENCE



# Quality Certificates

| Quality Certificates | SHGM - EASA - FAA Certificates |
|---|---|
| ISO9001:2008 Quality System Management Certificate | SHY-145/JAR-145 Turkish DGCA Approval Certificate |
| AS9100 Quality System Management Certificate | EASA Part-145 Approval Certificate |
| ISO14001 Environment Management Certificate | FAA Air Agency Certificate (TQKY 144F) |
| OHSAS 18001 Occupational Health and Safety Management Certificate | DOT Certificate |
| Green Company Certificate | |
| ISO17025 Accreditation Certificate | |

# Other Countries Authority Certificates

**Other Countries Authority Certificates**

| | | |
|---|---|---|
| Air France Certificate | Korean CAA Certificate | UAE GCAA Certificate |
| Aruba DCA Certificate | Libya CAA Certificate | Ukraine CAA Certificate |
| Bermuda Certificate | Malev Certificate | Yemen Certificate of Approval |
| Bosnia & Herzegovina BHDCA Certificate | Oakenhurst Certificate | |
| Egyptian Certificate of Approval | Pakistan Provisional Approval | |
| Jordan CAA Certificate | Qatar CAA Certificate | |
| Kingdom of Bahrain BCAA Certificate | Russian Certificate of Authorization | |
| Korean Air Certificate of Line Station Approval | State of Kuwait DGCA Certificate | |

# Training at Turkish Technic Inc.

- In 2010, 1.459 trainings were performed and 15.026 people were trained for various technical subjects by training department.
- In addition to 9.643 participants from Turkish Technic Inc. Totally, 5.328 people both turkish and foreign 3rd part company attendants were trained.
- In 2010 every affair concerning AME licenses were tracked, activities such as limitations ending, category changes, adding type ratings, new license issueing, were monitored by training department.
- The Internship availability was existed in our firm, therefore in 2010 Summer 653 people and 2010/2011 winter 197 student accomplished their internship in Turkish Technic Inc.
- The scholarship project was done in coordination with some aviation colleges and high schools. 40 students deserved to gain the scholarship in 2010-2011 term.
- An important further step for collaboration with aerospace colleges in Turkey was completed. A bilateral protocol was signed with Civil Aviation Occupational College of Anadolu University and Civil Aviation Occupational College of Erciyes University, per that protocol the possibility to make a half-term-long practical training for senior students of those schools was provided. The succesful students of those protocols could mostly be employed by Turkish Technic Inc.
- In order to supply quality workforce and meet the need of our company's qualified staff some projects in collaboration with ISKUR (Turkey Employment Agency) are still going on. The project will reduce the adaptation time of every AME into their work environment. Those coaching programmes will be continued in 2010 and 2011.

| MONTHS | Number of Trainings | Participants from Turkish Technic Inc. | Participants from 3rd Party Companies | Total Participants |
|---|---|---|---|---|
| JANUARY | 124 | 945 | 190 | 1.135 |
| FEBRUARY | 142 | 1.029 | 344 | 1.373 |
| MARCH | 178 | 1.430 | 245 | 1.675 |
| APRIL | 163 | 1.505 | 325 | 1.830 |
| MAY | 139 | 1.773 | 230 | 2.003 |
| JUNE | 155 | 1.175 | 277 | 1.452 |
| JULY | 79 | 670 | 223 | 893 |
| AUGUST | 131 | 1.033 | 453 | 1.486 |
| SEPTEMBER | 179 | 2.197 | 490 | 2.687 |
| OCTOBER | 170 | 1.737 | 426 | 2.163 |
| NOVEMBER | 193 | 2.250 | 153 | 2.403 |
| DECEMBER | 198 | 2.122 | 230 | 2.352 |
| TOTAL | 1.851 | 17.866 | 3.586 | 21.452 |

# Hangar - I

56m x 178m x 18m (length x width x height)

35.000 sqm. enclosed area

- Landing Gear
- Brake
- Paint
- NDT
- Engine, APU and Fuel Systems
- Structural Repair, Cabin Interior
- Machine, Coating and Welding
- Hydraulics, Mechanic and Pneumatic
- Oxygen & Filling
- Avionics

Big enough for serving 2 wide body, 3 narrow body aircraft simultaneously.

# Hangar - II and Esenboğa Hangar


85m x 160m x 26m (length x width x height)

75.000 sqm. enclosed area

- Aircraft Overhaul Electric and Electronic
- Aircraft Painting
- Structural Repair, Composite
- Cabin Interior
- Seat
- Dry Cleaning
- Storage

Big enough for serving 4 wide body, 3 narrow body aircraft simultaneously.

## Esenboğa Hangar

106m x 54m x 17m
(length x width x height)

7.750 sqm enclosed area

# VIP Aircraft Hangar and Other Facilities


## 1.500 sqm. enclosed area

Big enough for serving 2 Business Jets and 5 aircraft below 5.700 kg. simultaneously.

## Other Facilities 14.000 sqm enclosed area


- Engine Test Cell
- Hangar Equipment
- Temporary Shops Facility (Battery, Cargo Equipment, Galley, Emergency Equipment, Nitrogen Shop)
- Pneumatics
- Treatment Facility
- Explosive Materials Storage
- Powerplant
- Wheels & Tire Shop

# Base Maintenance and Line Maintenance Capabilities

## Maintenance Capabilities - AIRBUS

| | Line | Base |
|---|---|---|
| A300B2/B4/C4/F4 | √ | √ |
| A300-600 | √ | √ |
| A310-200/300 | √ | √ |
| A318 Series | √ | |
| A319/A320/A321 | √ | √ |
| A330 Series | √ | √ |
| A340 Series | √ | √ |

## Maintenance Capabilities - BOEING

| | Line | Base |
|---|---|---|
| B707-120/-320 | √ | |
| B727-200 | √ | |
| B737-200 | √ | |
| B737-300/400/500 | √ | √ |
| B737-600/700/800/900 | √ | √ |
| B747-400 | √ | |
| B757-200 | √ | |
| B767-200/-300 | √ | |
| B777-200/-300 | √ | |

## Maintenance Capabilities - Other

| | Line | Base |
|---|---|---|
| MD 80 Series | √ | |
| Bae RJ-70/-85-100 | √ | √ |
| BAe146QT | √ | |
| Gulfstream G-IV | √ | √ |
| Gulfstream G500/550 | √ | √ |
| CESSNA 172 | √ | √ |
| Diamond DA 42 | √ | √ |

# APU Maintenance Capabilities

## APU Maintenance Capabilities

- Sundstrand APS 2000 series (HS Authorized Service Center)
- Sundstrand APS 3200 series (HS Authorized Service Center)
- Honeywell GTCP131-9B
- Honeywell GTCP85-129H
- Honeywell GTCP331-250F / H

## APU Shop and Test Center

Yearly 70 APU Maintenance on Average

# Landing Gear Capabilities

## Landing Gear Capabilites

| Landing Gears Capabilites | Spare L/G |
|---|---|
| • Airbus A300-B4 A/C Landing Gears | Not available |
| • Airbus A310 A/C Landing Gears | 1 Shipset |
| • Airbus A320 Series A/C Landing Gears | 2 A319/A320 Shipset<br>1 A321 Shipset |
| • Airbus A330-A340 Nose Landing Gears | 1 NLG |
| • A340 Center Landing Gear | 1 CLG |
| • A340 MLG Basic / Growth / Enhanced | 1+1 MLG Basic (LH+RH)<br>1+1 MLG Enhan. (LH+RH) |
| • Boeing 737 CL | 1 (B737-400) Shipset<br>1 (B737-500) Shipset |
| • Boeing 737 NG | 2 (B737-800) Shipset |

*Total number of legs overhauled in 2011 is 72

# Component Maintenance Capabilities

## Wheel & Brake Shop Capabilities

Wheel and Brake shop has  inspection, test, mo dification and overhaul capabilities of  A310, A300, B757, A320, A330/340, B777 ve B737-400/500/800/900 aircrafts   that belong to THY A.O and other customers fleet .

## Pneumatic Shop Capabilities

- Pressurization and Air Conditioning System Components
- Hot Air Components that requires hot air test which are belongs to the Engine Bleed System.
- Pressure Regulation Valve, Shutoff Valve,
- Safety Valve,
- Pneumatic Engine Starter,
- Air Chiller,
- Pneumatic Thrust Reverser Actuator (CDU),
- Air Cycle Machine,
- Flow control valve,
- Anti ice valve,
- Thermostats and sensors,
- Toilet System Components,
- Vacuum Toilet assy.

# Component Maintenance Capabilities

## Hydraulic Shop Capabilities

- "Engine Driven" and "Electric Driven" Hydraulic Pump, PTU
- "Hydraulic Actuator" and "Servo-Controlled Hydraulic Actuator",
- "Hydraulic Valve" used for flow, pressure or directional control in various capacities,
- Hydraulic Pressure Switch and Transducer,
- Servo Valve,
- The hydraulic components, such as Telescopic Strut, Retraction/Extention Actuator, Swivel, Lock Actuator, Shimmy Damper, Steering Unit , control and provide operation of the landing gear.
- Faucet Assy,
- APU and Engine Lube Pump,
- CSD and IDG.

## Mechanic Shop Capabilities

- Heat Exchangers,
- Fuel/Oil coolers,
- Air/Oil Coolers,
- Pilot & Co-pilot seats,
- Slat/Flap screwjack and transmission,
- Slat/Flap mechanism,
- B737-400/-500/-800 Stabilizer Trim Actuator,
- Sliding & Fixed cocpit windows, Variable Bleed Valves,
- Cargo Door/Cargo Compartment Latch Assy,
- B737-400 air stair,
- Flap/Slat Position pick off unit (PPU),
- Cabin pressure safety valve,
- Cabin Pressure Outflow valve,
- Ram Air Actuators,
- Wiper Motors,
- Fill Drain Valves,
- Skin Air Valves.

## Compressed Gas Cylinder Overhaul Shop Capabilities

The shop capabilities ;

- Engine , cabin and cargo fire extinguishers,
- Crew and passenger oxygen regulators and cylinders
- Emergency slide regulator and cylinders
- Pilot oxygen masks

Compressed gas cylinder overhaul shop provides test, repair and overhaul for aircraft fire extinguishers and oxygen equipment. The components are tested ,repaired and overhauled according to DOT regulations and Component Maintenance Manuals. Compressed gas cylinder overhaul shop is approved as a DOT station (D030). We are equipped with water jacket for undertaking hydrostatic proofs to cylinders according to US DOT 49 CFR regulations.

## Emergency Equipment Shop Capabilities

Aircraft slides and life vests are tested, repaired and overhauled according to the approved manufacturer documents at emergency workshop. Emergency equipment shop provides test, repair and overhaul A310, A319 A320, A321, A330, A340, B737-400/500/800 A/Cs slides.

# Other Maintenance Capabilities

## CFMI CFM56-7B HMU Licensed Maintenance Station

Licensed Maintenance Station for CFM56-7B Honeywell HMU
(Hydro Mechanical Unit)

## V2500 FMU Licensed Maintenance Station

Licensed Maintenance Station for V2500 Engine FMU's
(Fuel Metering Unit)

## Licensed Wing Tip Assembly Center

BOEING 737 (NG) Wing Tip Licensed Assembly Center.

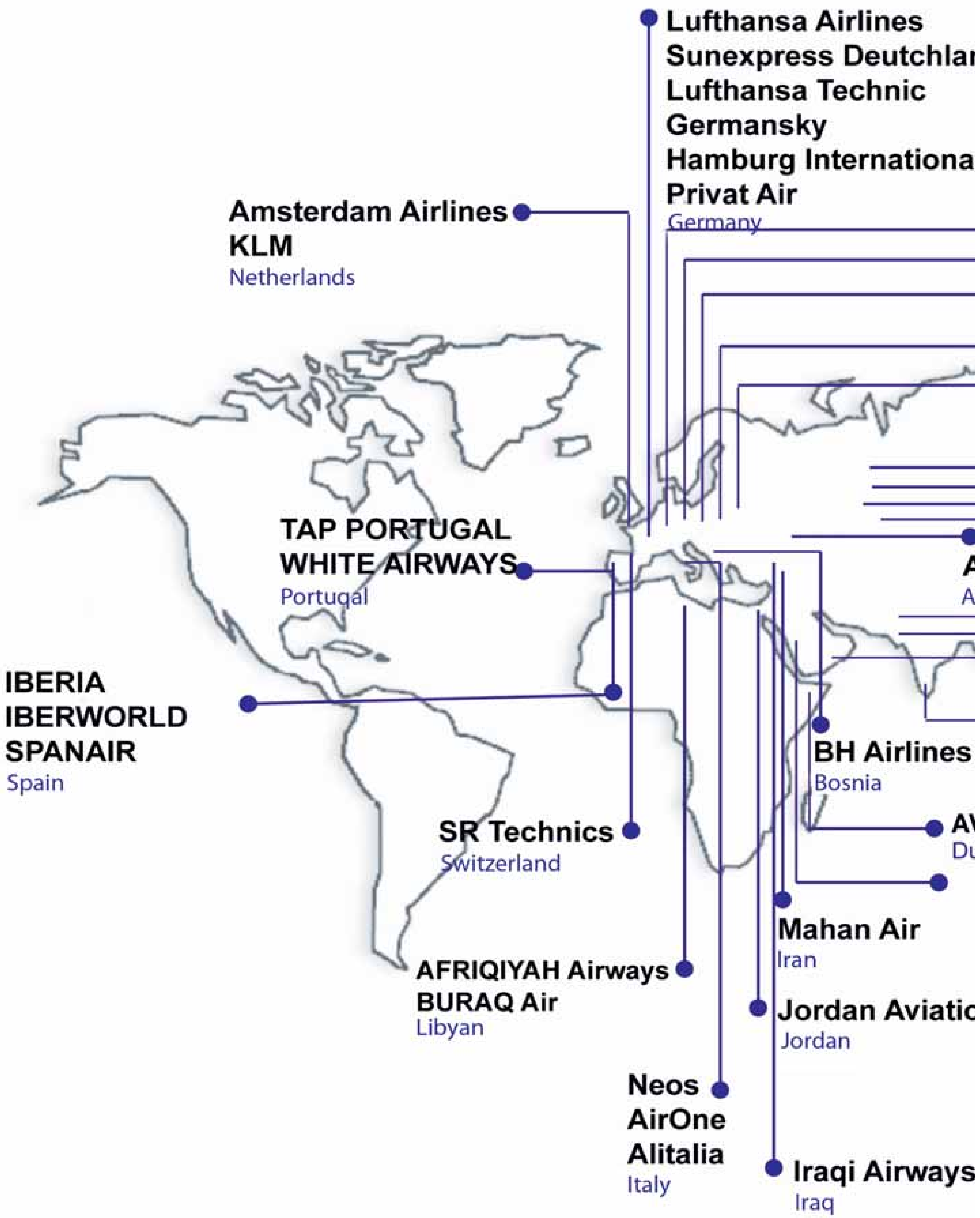
## Painting Activities

Complete painting capabilities for all aircraft models with Telescopic and Mobile Platforms.

## Specialized Services

D1 Non-Destructive Test (Liquid leakage test, ultrasonic test, vortex currents test, magnetic particle test, radiographic roentgen test).

# International Customers



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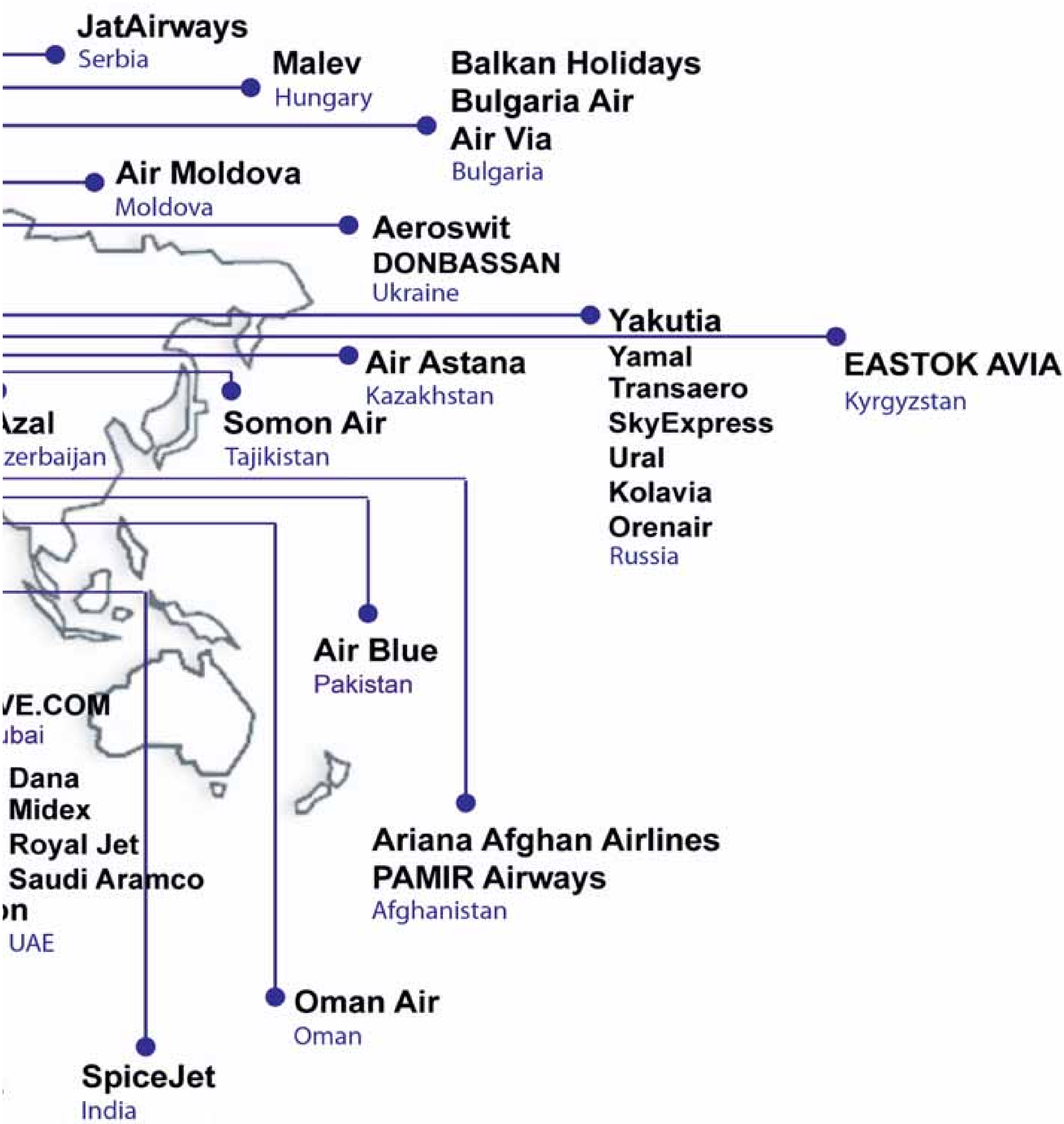
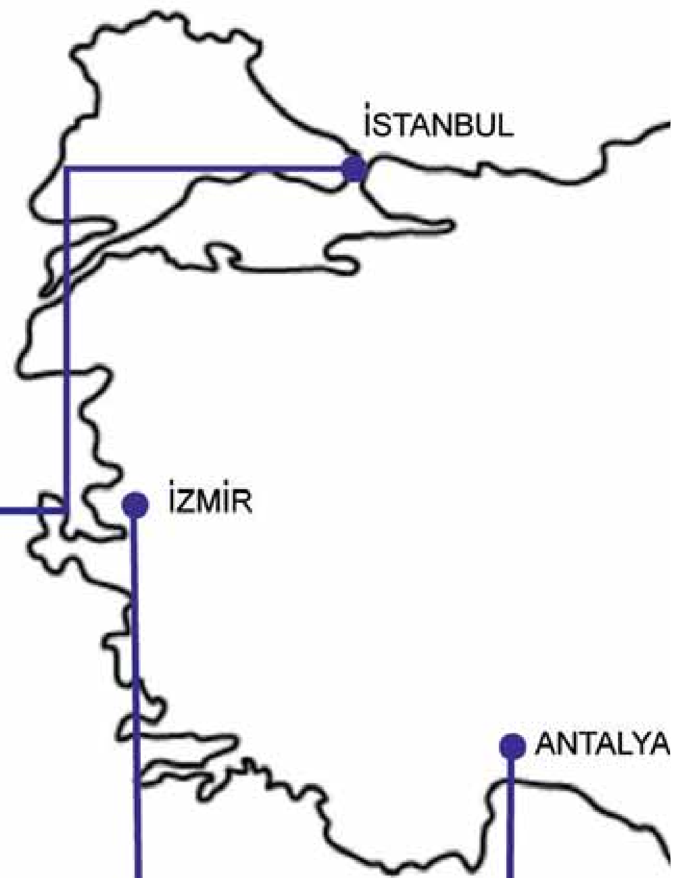

JatAirways
Serbia
Malev
Hungary
Balkan Holidays
Bulgaria Air
Air Via
Bulgaria
Air Moldova
Moldova
Aeroswit
DONBASSAN
Ukraine
Yakutia
Yamal
Transaero
SkyExpress
Ural
Kolavia
Orenair
Russia
EASTOK AVIA
Kyrgyzstan
Air Astana
Kazakhstan
zal
zerbaijan
Somon Air
Tajikistan
Air Blue
Pakistan
E.COM
bai
Dana
Midex
Royal Jet
Saudi Aramco
n
UAE
Ariana Afghan Airlines
PAMIR Airways
Afghanistan
Oman Air
Oman
SpiceJet
India

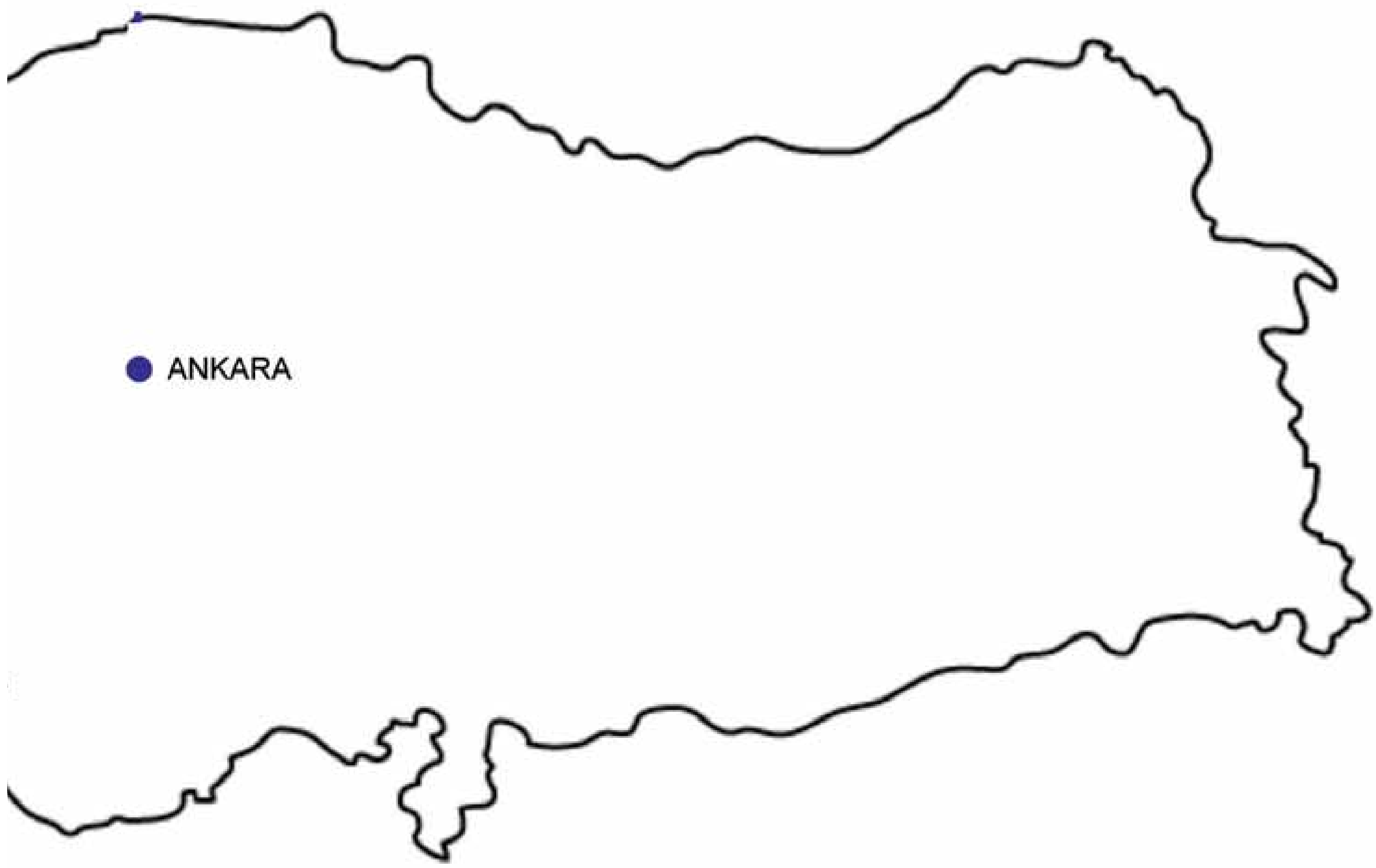
# Domestic Customers

TURKISH AIRLINES
TEC
ACT AIR CARGO
ATLAS JET
FREEBIRD
ULS AIR CARGO
MNG AIRLINES
ONUR AIR
PEGASUS AIRLINES
MyTECHNIC
MNG TECHNIC
PRIMA AVIATION
TAILWIND AIRLINES
ZORLU ENERGY




IZ AIR

SUN EXPRESS
CORENDON
SKY AIRLINES


ANKARA

# Contracts Signed in 2011

| BASE CHECK | LDG | APU | POOL | PAINT | ENGINE | WHEEL & BREAK |
|---|---|---|---|---|---|---|
| AIR BLUE | AEROSVIT | AEROTRON | AJ WALTER | DONBASSAERO | ARIANA AFGHAN | AIR BISHKEK |
| AIR MOLDOVA | AIR BISHKEK | AERSALE | ARIANA AFGHAN | FLY NIKI | MNG Airlines | IZAIR |
| ALITALIA | ATLASJET | ARIANA AFGHAN | ONUR AIR | GUGGENHEIM | | OREN AIR |
| AMSTERDAM AIRLINES | BALKAN HOLIDAYS | BLUE PANAROMA | PEGASUS | JET AIRWAYS | | PEGASUS |
| ARIANA AFGHAN | HIFLY | BRUSSELS AIRLINES | SKY AIRLINES | NEOS | | SOMON AIR |
| ATLASJET | IZAIR | GECAS | SSSI | ONUR AIR | | |
| BALKAN HOLIDAYS | MAHAN AIR | IRAQI AIRWAYS | SUNEXPRESS | PEGASUS | | |
| BOSNIA & HERZEGOVINA AIRLINES | MNG AIRLINES | MNG AIRLINES | | RAFAN HOLDING | | |
| CORENDON | NEOS AIRLINES | MNG TEKNIK | | SMARTLYNX AIRLINES | | |
| DONBASSAERO | OREN AIR | OREN AIR | | SUNEXPRESS | | |
| EASTOK AVIA | ROYAL JET | SKY AIRLINES | | ATLASJET | | |
| FLY NIKI | SKY AIRLINES | SOMON AIR | | | | |
| FREEBIRD | SMARTLYNX AIRLINES | SPANAIR | | | | |
| AIR FORCE COMMAND | SUNEXPRESS | SUNEXPRESS | | | | |
| IBERIA | SUNEXPRESS DEUTCHLAND | SUNEXPRESS DEUTCHLAND | | | | |
| IBERWORLD | TURK HAVA KURUMU | | | | | |
| IZAIR | ULS AIRLINES | | | | | |
| JCS AIR COMPANY YAKUTIA | | | | | | |
| KOLAVIA | | | | | | |
| MIDEX | | | | | | |
| NEOS AIRLINES | | | | | | |
| ONURAIR | | | | | | |
| OREN AIR | | | | | | |
| PEGASUS | | | | | | |
| ROYAL JET | | | | | | |
| SAUDIARAMCO | | | | | | |
| SKY AIRLINES | | | | | | |
| SMARTLYNX AIRLINES | | | | | | |
| SOJITZ AIRCRAFT | | | | | | |
| SOMON AIR | | | | | | |
| SPANAIR | | | | | | |
| SUNEXPRESS | | | | | | |
| SUNEXPRESS DEUTCHLAND | | | | | | |
| WHITE AIR | | | | | | |

* In year 2011 Turkish Technic Inc. Provided services for White Air, Smartlynx (Base Maintenance and Landing Gears), Atlasjet (LDg OH-Lease), Somon Air (APU Repair Lease), Royal Jet (5 Sets of L/G) for the first time.

# Customer Visits and Meetings

| | Date | Customer | Location |
|---|---|---|---|
| 1 | 2011 01 15 | Deccan360_Amman | Jordan |
| 2 | 2011 01 20-22 | Air Arabia - Sharjah | UAE |
| 3 | 2011 01 26-27 | SunExpress | Antalya |
| 4 | 2011 02 03-05 | Orenburg | Russia |
| 5 | 2011 02 15-16 | Mahan Air-Iran Air | Iran |
| 6 | 2011 02 15-18 | JATE Air | Jordan |
| 7 | 2011 02 17 | MIT Müsteşarlığı | Ankara |
| 8 | 2011 03 24 | Syrian Airlines & Cham Wings | Syria |
| 9 | 2011 03 17-22 | Windrose - Aerosvit - Donbassaero | Ukraine |
| 10 | 2011 03 30-31 | Spanair | Spain |
| 11 | 2011 04 11 | Air Logistics Command Tender | Ankara |
| 12 | 2011 04 27-28 | DanaJet | UAE |
| 13 | 2011 04 28 | Atlasjet - İstanbul | Istanbul |
| 14 | 2011 05 17-18 | Azerbaijan Airlines | Azerbaijan |
| 15 | 2011 06 03 | Swiss Air | Switzerland |
| 16 | 2011 06 09 | Indonesia D-8 | Indonesia |
| 17 | 2011 06 23-25 | LOT - YESair - Enterair | Poland |
| 18 | 2011 07 05-06 | Smartlynx - Air Baltic _ Letonya | Latvia |
| 19 | 2011 07 05 | Midwest Airlines | USA |
| 20 | 2011 07 07 | SunExpress Deutschland | Germany |
| 21 | 2011 07 25 | IzAir | Izmir |
| 22 | 2011 07 28-29 | Niki | Germany |
| 23 | 2011 08 17-18 | AIR ALGERIE | Algeria |
| 24 | 2011 08 19 | Corendon_Mavi Gök Aviation | Antalya |
| 25 | 2011 09 08 | Orenair | Russia |
| 26 | 2011 09 26 | Air Arabia-Rak Airways | UAE |
| 27 | 2011 09 30 | Antalya_SKY Airlines | Antalya |
| 28 | 2011 10 25-27 | AIRPOST | France |
| 29 | 2011 11 2-3 | EgyptAir Maintenance & Engineering Co | Egypt |
| 30 | 2011 11 23-25 | Gulf Air - BahrainAir Bahreyn | Bahrain |
| 31 | 2011 11 29-30 | Croatia Airlines | Croatia |
| 32 | 2011 11 01 | Finnair, Bluebird Cargo, Air Atlanta | Finland, Iceland |
| 33 | 2011 12 15 | Air Berlin | Germany |
| 34 | 2011 19 12 | Germania Flug | Germany |
| 35 | 2011 12 07-08 | Kingfisher, Jetairways, Go Air, IndiGo, Spice Jet, Air India | India |

# Exhibitions / Conferences participated by Turkish Technic Inc.

MRO MIDDLE EAST / DUBAI 01-20 FEBRUARY 2011
*UAE*

AIRCRAFT MAINT. / RUSSIA & CIS 23-26 MARCH 2011
*Russia*

AIRCRAFT MAINT. & EN INDIA 2011 / INDIBA - MUMBAI 02-05 MARCH 2011
*India*

MRO INDIA 2011 / 13-19 MARCH 2011
*India*

MRO AFRICA SOUT AFRICA / 04-06 APRIL 2011
*South Africa*

MRO AMERICAS MIAMI / 12-15 APRIL 2011
*USA*

PURCHASING EXPO LONDON / 04-05 MAY 2011
*UK*

MRO EUROPE / 27-29 SEPTEMBER 2011
*Spain*

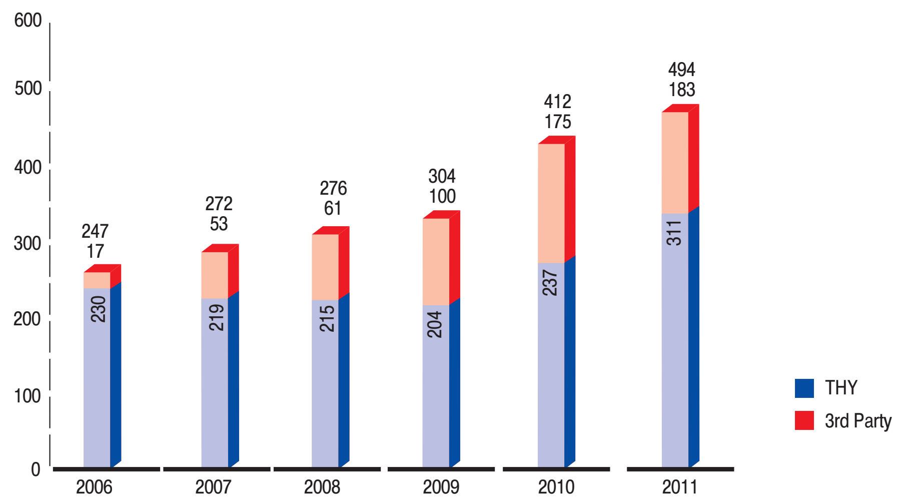
A300-310 FAMILY SYMPOSIUM ISTANBUL / 18-20 OCTOBER 2011
*Turkey*

AP&M EXPO by UBM AVIATION MIAMI / 23-28 OCTOBER 2011
*USA*

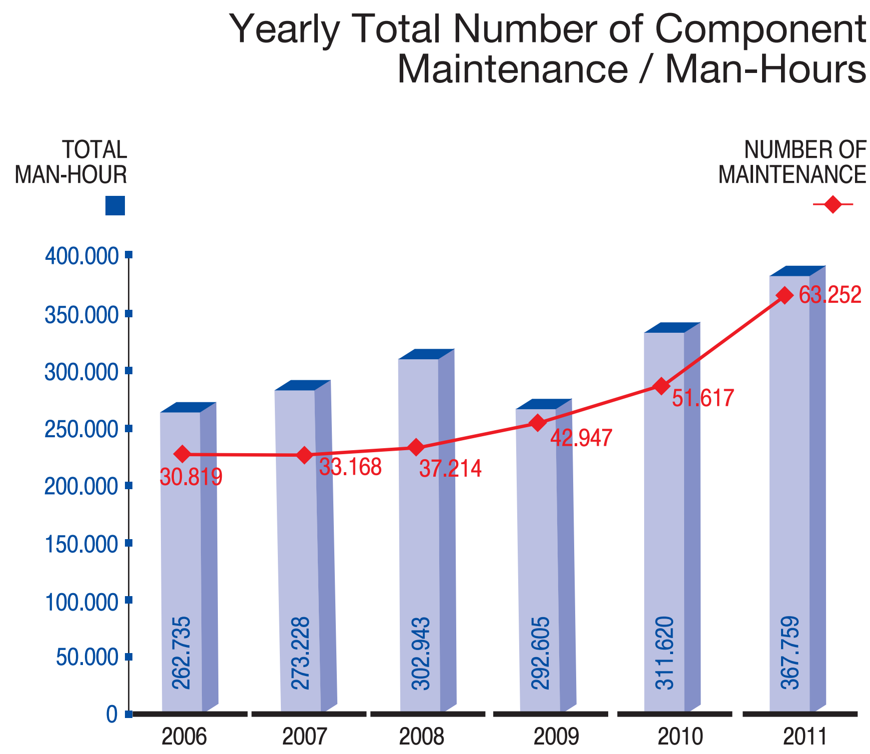
MRO ASIA / 08-10 NOVEMBER 2011
*China*

DUBAI AIRSHOW / 13-17 NOVEMBER 2011
*UAE*

# Yearly Total Number of Aircraft Maintenance

# Yearly Total Number of Component Maintenance




# Production Planning and Control in Numbers

- **LETTER CHECKS PLANNED AND MAINTENANCE PACKAGES CREATED;**
  - Approx. 4.500 number of Checks

- **ENGINEERING TIME COMPONENTS PLANNED;**
  - Approx. 9.000 number of EO's (AD, Aircraft and Component)

- **LLP and HARD TIME COMPONENTS PLANNED;**
  - Approx. 35.000 number of LLPs (Life Limited Part)
  - Approx. 26.000 number of Hard Time

- **3RD PARTY work;**
  - Approx. 204 Customers;
  - Approx. 3.000 Proposals,
  - Yaklaşık 600 Packages

- **CONSUMABLES AND COMPONENTS PLANNED / MANGED;**
  Approx. 6.850.000 parts
  - Approx. 6.835.000 Consumables + Approx. 15.000 Components
  - Approx. 280 Million USD Approx. 170M USD Consumables + Approx. 110M USD Components

- **ENGINE, APU LANDING GEARS PLANNING**
  - Approx. 400 Engines - (Approx. 3.5 Million USD)
  - Approx. 190 APUs - (Approx. 55 Million USD)
  - Approx. 550 Landing Gears - (Approx. 950 Million USD)

# Investments and Projects

The year 2011 was a period of initiating investments and partnerships for Turkish Technic. The HABOM project, which has been worked upon with meticulousness for years, has had its first foundation laid in March 2010 and construction activities are continuing at full speed. The facilities, which are worth around 450 Million USD, have been designed taking into account the latest technologies and provision of social facilities in a modern maintenance complex in the form of a campus. A building, containing a component maintenance and repair shop, is planned to be built in the facilities that will contain 2 separate hangars for narrow and wide body aircraft. 12 narrow body aircraft and 3 wide body aircraft can undergo maintenance at the same time in their respective hangars. The facilities being built in Sabiha Gökçen International Airport are expected to enter service with the completion of construction and beginning of operations of the narrow body hangar by the first quarter of 2012. HABOM, with its completion expected to be by the last quarter of 2013, will become the largest aircraft MRO facility in the region.

Turkish Engine Center, formed as a joint-venture between the global aircraft engine manufacturer Pratt& Whitney and Turkish Technic, is Turkish Technic's first affiliate and began operations in 2010. CFM56 and V2500 engine maintenance has been performed in the facilities in 2010. Work is ongoing in 2011, to reach the 250 engine capacity of the facilities. For this purpose, it has concentrated on to develop repairs on V2500 engine by building a repair shop within the facilities. The TEC facilities received the LEED®Gold Standards certificate in 2010.

GTTSC, the second JV affiliated to Turkish Technic, began operations in June, 2011. GTTSC operates in a new 4,000sq meter closed facility located within Gebze Industrial Zone. Within its region GTTSC will be the first company that overhauls nacelle and thrust reverser system components for aircraft engines such as CFM56, V2500, CF6-80, 700/800, GE90 and PW4000.

TURKBINE Technic Gas Turbines, the JV formed with Zorlu O&M, is going to expand the capabilities, technology, and expertise at Turkish Technic in the overhaul and maintenance of LM series industrial gas turbines used in power plants. The JV will also perform CF6-80 overhaul and maintenance after the EASA part 145 approval is received. Turkbine is currently operating at the hangar at Turkish Technic with plans for a more larger and permanent location for the facility.

Turkish Cabin Interiors was formed as a JV in the December of 2010 between Turkish Technic and TUSAŞ (Turkish Aerospace Inc.) to design, manufacture, and modify cabin interior parts and components including logistics support and

# Investments and Projects




marketing activities. The JV Company is to design and manufacture cabin interior parts such as crew rest area, galley, literature pocket, divider & wind screen, doghouse & bustle, stowage, stair house, coatroom, video control compartment and magazine racks. For this purpose, TCI has worked throughout 2011 on the first project which is the design and product development of Galleys and currently has produced prototypes and is currently in the testing stage for Boeing 737-800 G1 and G4 galleys. Prototype development activities for other galley types for this aircraft type are ongoing. The complete shipset is expected to be complete and is aimed to be ready for the Boeing vendor selection by March 2012.


Continuing its investment activities in 2011, Turkish Technic took the first steps in becoming an OEM with the JV it formed with Assan Hanil. The JV, formed as Aircraft Seats Manufacturing Company began its design activities in 2011 and aims to produces prototypes within the first quarter of 2012. Currently, industrial designs have been made and improvements are being developed for Economy Class seats.

Turkish Technic's affiliate, TEC, is providing maintenance for CFM56 series and V2500 engine types. Turkish Technic has also expanded its maintenance activities of landing gears by increasing its shop capacity from 300 square meters to 1,000 square meters and enlarging spare component parts. Turkish Technic will enter into three new business areas with its new affiliates including Industrial Gas Turbines, Engine Thrust Reversers and Nacelles and Cabin Interior parts.

Turkish Technic is closely reviewing and following all of the developments within the industry with is experienced engineer workforce in order to respond increasing demands. Turkish Technic is targeting to be a Design, Manufacture and R&D company beyond to be just an MRO by its projects within Strategic Plan 2010-2015. With this goal in mind, Turkish Tehcnic plans to show its success in bringing its projects one by one in 2012 as well.

# Engineering Activities

A qualified Turkish Technic engineer was assigned to provide engineering support to BH Airlines in Sarajevo/Bosnia and Herzegovina in accordance with "Long Term Engineer Assignment Agreement For A319 Aircraft in Sarajevo Station" between Turkish Technic and BH Airlines.

In year 2011, 3 EASA Approved CV has been gained within the scope of Part 21.

STC project has been started for G4 government aircraft and several minor changes have been applied to Turkish Airlines fleet.

We have been recognized by EASA as a Design Organization EASA 21J.418. The certificate allows us to make minor design changes on cabin interior, structural and avionics.

## Fuel Components Shop

1- Overhaul training for FMU (Fuel Metering Unit), which is main fuel control unit of V2500 engines, has been received in Woodward Governer Facility. Fuel Components Shop has become capable of this FMU's maintenance as an Authorized Service Center by finishing correlation process of Test stand.

2- Additional Test Cart to Main Fuel Pump Test Stand has been ordered within the scope of CFM56 Engines VBV Gear Motor capability project. Fuel Components Shop is planning to become capable of this VBV Gear Motor's maintenance in the first quarter of 2012 by receiving required trainings.

3- Modification works on Booster Pump Test Stand have been started within the scope of capability project for booster pumps belonging to Fuel Tanks of A330 aircrafts. Fuel Components Shop is planning to become capable of this Booster Pump's maintenance in the first quarter of 2012.

## APU Shop

It has been worked for performing test and repair of Cooling Fan component belonging to APS 3200 type APU. Test Bench of this component has been designed by Design & Production Organization Management and contracted out in order to manufacture it. Following receiving of the test bench, repair and test processes of APS 3200 Cooling Fan is going to be initiated.

## Pneumatic Shop

During 2011,
- 49 new part number capabilities were added to the pneumatic capability list.
- Including 882 third party work orders, total 3920 work orders were closed.
- Air Cycle Machine test bench that was designed and built by Test Fuch firm was accepted and testing capabilities of Air Cycle Machines that are used in A330, A340, B737-800, A139,320,321 and A310 aircrafts were gained.
- Repair capability of an Air Cycle Machine that is used in A310 aircraft was gained, repair and overhaul capabilities of all the other Air Cycle Machines are planned to gain in 2012.
- A330 Starter test capability was gained.
- Test capability of trim air valves with step motor was gained with the acceptance of Step Motor Driver Tester which was built by Gate Electronic.
- Rise Rate Monitoring System that shows the pressure versus time graphic is designed and still being developed by Hunt Aviation for the Pneumatic Valves tests.

## Sanitary Shop

During 2011, the Sanitary Shop that belongs to the Pneumatic Shop,
- 18 new part numbers capability have been gained.
- 1171 work order (348 work order belongs to third party customer) have been closed.
- A communication system which was made by Hunt Aviation was accepted for the testing of A330 Toilet Flush Control Module.

## Hydraulic Shop

Newly purchased Servo Valve Test Stand installation has been accomplished. The test stand is capable of doing semi-automatic servo valve tests according to applicable CMM's. Necessary software and hardware trainings completed. Thus, test and repair capability works has been started.

New purchased Hydraullic Test Stand, which is able to supply high flow (50 gpm) and high pressure (5000 psi), has been installed properly and began working. With this test stand, shop capability has been increased including A380 and B787 aircraft hydraulic components which are working at high pressures (5000 psi).

Particle analysing of oil is a requirement of component manufacturers. Because of this requirement, particle anaylsers has been searched through the market, quotations has been reviewed and manufacturer's references has been considered. MP Filtri Lase Particle Analyser has been selected and purchased. BMS3-11 Skydrol, MIL-L-23699 Jet Oil and MIL-H-5606 Red Oil type oils can be analysed with this unit.

Avtron IDG Test stand upgraded for B777 and A320 Enhanced type IDG's and all hardware requirements provided. Sample tests has been performed.

All the test fixtures and repair tools of B737-800 STEERING VALVE ASSEMBLY (MPN: 383900-1005, 383900-1007, 383900-1011)) was manufactured and so the component has been included into capability list. 18000 cycles hard time has been  assigned to this component. Also customer may request test for their steering units while their nose landing gear is overhauled.

Specifications and requirements for a Lube Oil Test Stand was determined and bidding was opened. Manufacturer's proposals are being evaluated and it will be provided manufacturing the test stand in 2012.

**New activities:**

In addition to current Test stand, two Test stand designed for both horizantal and vertical positions has been manufactured to perform under load test of Hydraulic Actuator and Dampers.

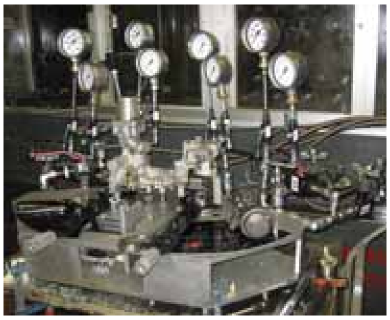
Proposals for modernization and capacity increase of the  former CSD/IDG test  stand have been evaluated, but they were determined to be inadequate. As a result, more comprehensive and extended proposals will be requested.

The former CSD/IDG test stand have been evaluated for the problems encountered by the inadequate capacity of the software. As a result of the correspondence with the manufacturer, it has been agreed that the problems will be solved by upgrating and updating the software in 2012.

Requsition specification for Universal Test Device, aiming to display various test values (voltage, pressure, flow) graphically, has been prepared and will be sent to tenders for qoutation.

During 2011,66 new Components capability have been gained.

3558 work order (1394  work order belongs to third party customer, 2164 work order belongs to THY and Pool)  have been closed.



# Calibration Laboratory


Turkish Technic Inc. Calibration Laboratory, carries out Turkish Technic Inc. and its customers' test and calibration equipment's calibrations to meet the requirements of ISO 17025 standard.

Turkish Technic Inc. Calibration Laboratory has completed its application to Turkish Accredition Agency (TÜRKAK). Calibration Laboratory, has test and calibraition capabilities at the scopes given below.

**Elektrical Scope**
- DC/AC Voltage
- DC/AC Current
- DC & AC AF Power
- Resistance, Capacitance, Inductance Frequency, Phase
- Temperature & Relative Humidity

**Mechanic Scope**
- Pressure
- Force/ Toque
- Mass / Balance
- Dimensional

# Avionics Component Maintenance


## ATE (Automatic Test Equipment) SHOP

ATE Shop serves with two each ATEC Series 6 and one each ATEC 5000 which are the most preferred automatic general test systems all around the world. In a very near future, one more ATEC Series 6 automatic general test system and one Testek TS1650 automatic general test system are going to be added to the shop, thus increasing the current shop capability.

Some of the aircraft systems and components which can be tested in the ATE Shop are as follows:

**Chapter 21: Air Conditioning**
- AEVC, CPC, ACSC , ZC, PC

**Chapter 22: Navigation**
- FMGC, FMGEC, ATH , FCC ,TCC , FAC, MCP, FCU , MTP, MCDU

**Chapter 23: Communications**
- RMP

**Chapter 24: Electrical Power**
- GCU, GPCU, CBMU, BCL,Balast

**Chapter 27: Flight Controls**
- FCPS, FCSC, SEC ,EFCU ,ELAC, SFCC

**Chapter 28: Fuel**
- FCMC ,FQIC ,FQIC.P , FQIC.S

**Chapter 30: Ice and Rain Protection**
- WHC, PHC

**Chapter 31: Indicating / Recording / System**
- FWC , SDAC , CMC , DU , LCDU

**Chapter 32: Landing Gear**
- LGCIU

**Chapter 34: Navigation**
- AFMC , FMC, FMS CDU, ADIRU, ADM

**Chapter 36 : Pneumatic**
- BMC

**Chapter 49 : Airborne Auxilary Power**
- APU ECB, ECB

**Chapter 73 : Engine Fuel and Control**
- ECU, FADEC ECU, EEC

# Instruments Shop

Instruments Shop consist of 3 groups which are ELMH ,AIRD , and GYRO.

The fields of activity for ELMH (Electromechanic), AIRD (Airdata) ve GYRO (Gyroscope) are expressed at below.

**ELMH**

In ELMH Group; FQCs( Fuel Quantity Computer), Fuel probes, Fuel Quantity Ind., N1 & N2 Ind., Summetion Units, Fire and Overheat Detectors, Vibration Computers and Sensors, AOA (Angle of Attack) Sensors, Oil and Hydrolic Transmitters and Transducers, Flap Position Transmitters and Ind., Break Pressure Indicators etc. are tested, repaired and overhauled . Beside that Tachometers and Wheel Speed Transducers are tested in this group.

**AIRD**

In AIRD group; Standby Altimeter ind., Standby Air speed ind., DDRMIs, Cabin Rate ind., Mach Air Speed ind., Clocks, Smoke Detectors and CRT Display Units are tested, repaired, and overhauled.

**GYRO**

In GYRO Group; Standby Gyroscopes, Eng&Apu FCMs, Window & Pitot heat Modules, Chime module Assy., Joysticks, Generator Drive&Standby Power Modu Assy., AC System GEN/APU Control Modules are tested, repaired, and overhauled.

# Electrical and Battery Shops

## ELECTRICAL SHOP

Electrical Shop has the capability of lots of components used on several aircraft sections.

Some capabilities according to ATA Chapter standards as follows:

- **AIR CONDITIONING (CHAPTER 21)**
  Temperature Selector, Recirculation Fan, Extraction Fan, Avionic Fan, Air Conditioning Accessory Unit.

- **AUTO FLIGHT (CHAPTER 22)**
  A/T Switchpack Assy.

- **ELECTICAL POWER & LIGHTS (CHAPTER 24 & 33)**
  AC Generator, APU Generator, Transformer Rectifier, Current Transformer, Contactor, Relay, RCCB, Anticollision Light, Navigational Light, Retractable Landing Light, Logo Light, Strobe Light, Map Light, Take Off Light, Taxi Light.

- **EQUIPMENT & FURNISHING (CHAPTER 25 & 38)**
  Steam Oven, Dry Oven, Coffee Maker, Espresso Maker, Water Boiler, Bun Warmer, Drain Mast.

- **ENGINE & APU (CHAPTER 49 & 74 & 75)**
  APU Starter/Generator, APU Starter, APU/Engine Ignition Lead, APU/Engine Exciter.

- **FLIGHT CONTROL (CHAPTER 27)**
  Shaker, Trim Module.

- **LANDING GEAR (CHAPTER 32)**
  Electrical Box, Brake Cooling Fan.


## BATTERY SHOP

Main Batteries and Battery Packs are maintained at battery shop. Our shop is capable to charge, capacity test, overhaul of all Saft NI-CD batteries on Airbus and Boeing fleet.

# Radio & IFE Shop

Radio & IFE Shop contains 2 shops which are Radio and IFE shops. Radio gives communication and navigation components maintenance service and IFE gives in flight entertainment components maintenance service.

## RADIO

Radio components are generally communication and navigation systems units.

• **COMMUNICATION SYSTEM MAINTENANCE SERVICES**
HF Transceiver, HF Contol Panel, HF Antenna Coupler, VHF Transciever, VHF Contol Panel, Radio Tuning Panel, Audio Control Panel, Radio Management Panel, etc...

• **NAVIGATION SYSTEM MAINTENANCE SERVICES**
VOR Receiver, ILS Receiver, Marker Receiver, ADF Receiver, ADF Control Panel, Weather Radar Transceiver, Weather Radar Antenna Drive Unit, Weather Radar Control Panel, Radio Altimeter Transceiver, DME Interrogator, ATC/TCAS Control Panel, EGPWC (Enhanced Ground Proximity Warning Computer), etc...

• **BLACK-BOX ( RECORDERs ) SERVICES**
For the CVRs (Cockpit Voice Recorder) and FDRs (Flight Data Recorder), besides test and repair capabilities we have also download and ULB replacement capabilities.

• **ELT ( Emergency Locator Transmitter ) SERVICES**
For the ELTs, besides test and battery replacement we have also Reprogramming (Recoding) capability.

***** Radio & IFE Shop is LEVEL-1 service center of KANNAD, ARTEX, ELTA type ELTs.**
• Various handsets, hand microphones and Megaphones...

## IFE ( In-Flight Entertainment )

IFE Shop has test, repair and overhaul (if applicable) capabilities of Panasonic MPES and System 3000i IFE components.

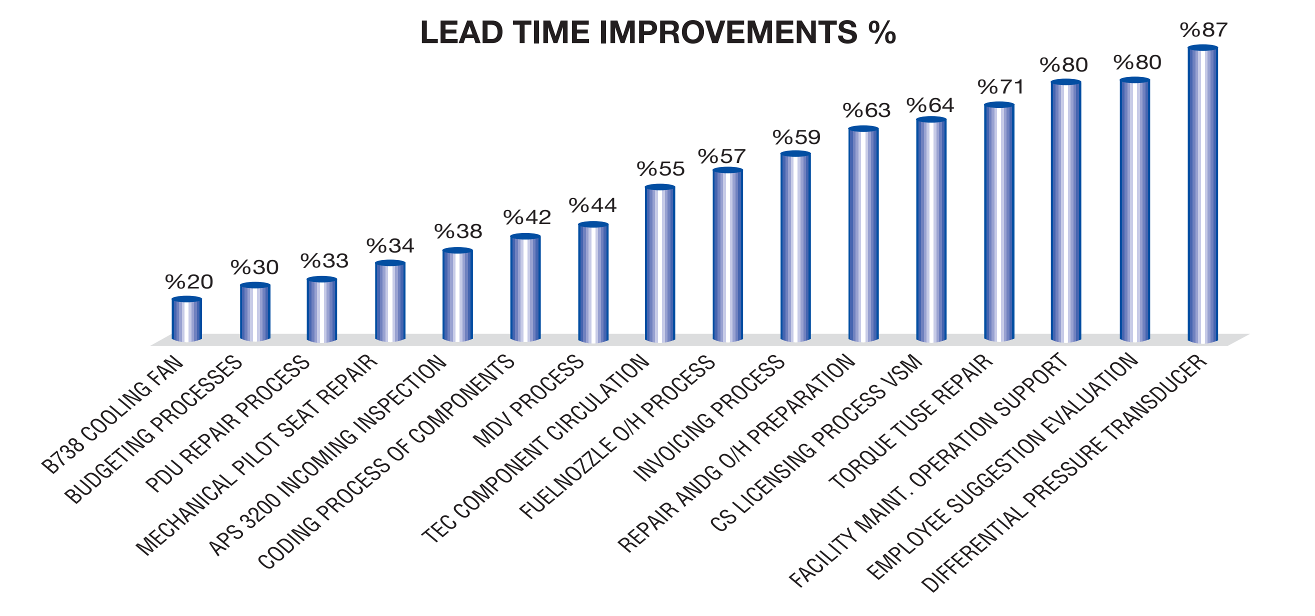
Some of the examples of these units:
PRAMs (Announcement and music units), Seatback LCD Monitors, Retractable LCD Monitors, Wall Mount LCD Monitors, VHS Video Casette Players, Hi-8 Video Casette Players, dSEBi (Digital Seat Electronic Box), VDU (Video Distribution Unit), VMU (Video Modulator Unit), HDDA, CMEU, QMU, FCH, EADB, EPESC, VSCU ( Video System Control Unit), PCU (Passenger Control Unit), CD Players, etc...

# Process Improvement Management

**Activities performed;**

- 17 VSM – Value Stream Mapping
- 20 AIW – Accelerated Improvement Workshop
- 1 3P - Production/ Preparation/ Process
- 1 Innovation Workshop

Below is the graphic of L/T improvements for processes evaluated in 2011.




## Sample AIW, PDU Repair and Test Process

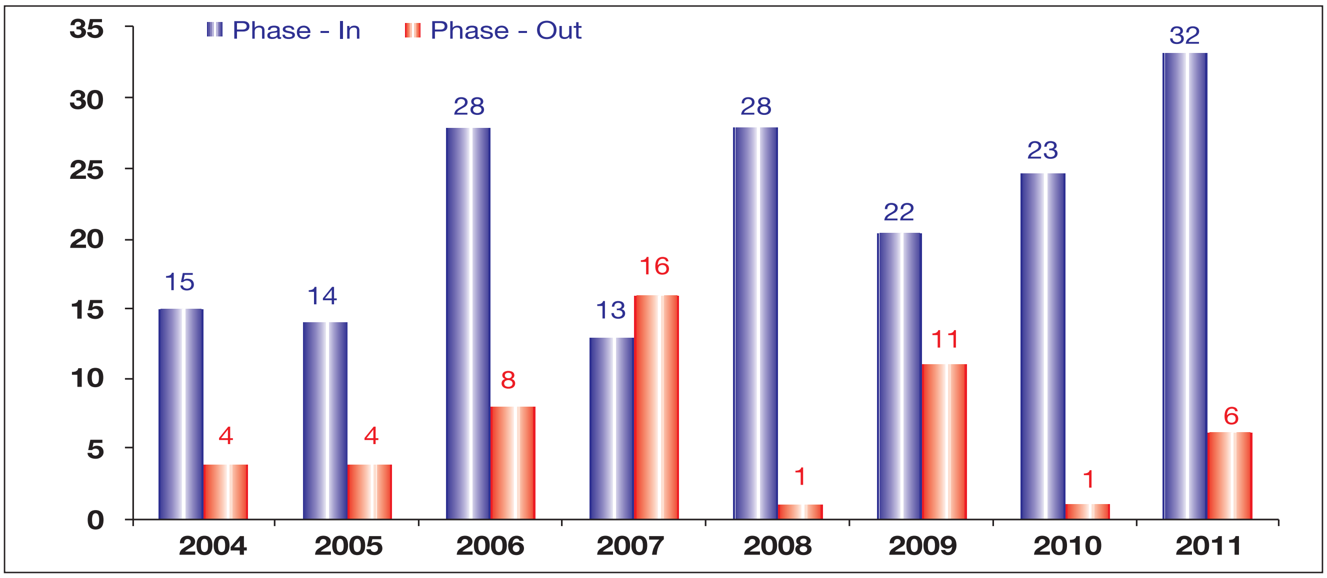
| | Current Status | Future Status | Improvement % |
|---|---|---|---|
| Cycle Time (Cleaning) | 80 DK 10 SN | 46 DK 50 SN | 42 |
| Cycle Time (Installation) | 53 DK 52 SN | 37 DK 17 SN | 31 |

Current Status

Future Status

The number of phase in and phase out Turkish Airlines aircraft as per years under the coordination of Fleet Management Directorate are provided in the below chart;

**FLEET MANAGEMENT**




**TOTAL SUPPORT SERVICES PROVIDED TO THE OTHER OPERATORS WITH THE TOTAL CARE COORDATION IN 2011 BY TURKISH TECHNIC INC.**

| AIRLINE | A/C TYPE | Number of A/C | SERVICE | RAMP | A CHECK | B CHECK | C CHECK | LINE CHECK |
|---|---|---|---|---|---|---|---|---|
| ARIANA AFGAN AIRLINES | A310 | 2 | MS& ENGINEERING | | 10 | 9 | 1 | |
| | | | ADDITIONAL SUPPORT | | | | | |
| | | | BRAKE SERVICES | | | | | |
| | | | LINE MAINTENANCE | | | | | |
| | | | COMPONENT POOL SERVICES | | | | | |
| IRAQI AIRWAYS | B737-700 | 2 | MS& ENGINEERING | 146 | 8 | | 2 | 14 |
| | | | LINE MAINTENANCE | | | | | |
| | | | BRAKE SERVICES | | | | | |
| | | | GTA | | | | | |
| | | | COMPONENT POOL SERVICES | | | | | |
| | | | TIRE & WHEEL | | | | | |
| SOMON AIRLINES | B737-800 | 5 | ADDITIONAL SUPPORT | 161 | 12 | | 1 | 26 |
| | | | LINE MAINTENANCE | | | | | |
| | | | BRAKE SERVICES | | | | | |
| | | | MS& ENGINEERING | | | | | |
| | | | TIRE & WHEEL | | | | | |
| BH AIRLINES | 319-133 | 1 | BRAKE SERVICES | 5 | 3 | | 1 | |
| | | | ENGINEERING | | | | | |
| | | | LINE MAINTENANCE | | | | | |
| | | | POOL | | | | | |
| | | | TIRE & WHEEL | | | | | |
| | | | ADDITIONAL SUPPORT | | | | | |

# FINANCIAL INFORMATION & AUDIT REPORTS

# Financial Outlook

Due to ever-increasing fleet of Turkish Airlines and ever-growing demands of other customers' overhaul needs with increasing productivity and process improvement of Turkish Technic led to the realization of financial data quite good in 2011.

Leaving behind a successful period at the end of the financial year 2011, in accordance with the CMB based financial statements, Turkish Technic has achieved net profit of 51,8 million Turkish Lira. Compared to 2010, assets increased by 27,6% in total including 26,3% capital increase while net sales increased by 13,6%. Net profit margin increased by 6,3% meantime operating profit margin increased by 8,7%. In 2011, the company's strong balance sheet structure is preserved, compared to 2010 total assets has grown by 27,6%.

As a result of well-conducted sales and marketing strategies in 2011, revenue from the other customers increased by 11,95% and reached 26,91% of total net sales.

Starting activity in 2009 at Ankara Esenboğa Airport, our first MRO Plant outside of Istanbul was built by owners' equity and it can serve three narrow-bodied aircrafts at the same time with 7.000 square meter indoor space. It started overhaul operations in 2011.

HABOM (Aviation Maintenance, Repair and Overhaul Center) construction, total 362.404 square meter premises, are underway at Sabiha Gökçen International Airport and the center is planned to start operation in 2012, in part.

Budget for the year 2012 has been prepared taking into consideration the growth and productivity strategies with the decision of the Board of Directors has entered into force.

Deloitte.

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**Convenience Translation of Review Report and Financial Statements Originally Issued in Turkish**

**AUDITOR'S REPORT**

To The Board of Directors of
Türk Hava Yolları Teknik A.Ş.

We have audited the accompanying financial statements of Türk Hava Yolları Teknik A.Ş. ("the Company") which comprise the balance sheet as at 31 December 2011 and the statements of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and summary of significant accounting policies and other explanatory notes.

**Management Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting standards issued 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 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 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 entity'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 entity's internal control.An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

Deloitte.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Türk Hava Yolları Teknik A.Ş. as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards issued by the Capital Markets Board.

Istanbul, 16 March 2012

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

Berkman Özata
Partner

# Turkish Technic Inc. Balance Sheet as of 31 December 2011

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)*

| ASSETS | Notes | Current period<br>Audited<br>31 December 2011 | Prior period<br>Audited<br>31 December 2010 |
|---|---|---|---|
| **Current Assets** | | **642.757.749** | **570.043.107** |
| Cash and Cash Equivalents | 6 | 30.380.515 | 30.405.267 |
| Trade Receivables | 10, 37 | 184.113.551 | 185.970.991 |
| *Related Party Trade Receivables* | | *100.324.159* | *101.868.812* |
| *Other Trade Receivables* | | *83.789.392* | *84.102.179* |
| Other Receivables | 11, 37 | 1.328.153 | 1.703.837 |
| Inventories | 13 | 379.238.605 | 330.342.340 |
| Other Current Assets | 26 | 47.696.925 | 21.620.672 |
| | | | |
| **Non-current Assets** | | **347.489.302** | **205.747.347** |
| Financial investments | 7 | 5.025 | 14 |
| Investmensts Accounted Under Equity Method | 16 | 85.012.266 | 53.692.268 |
| Tangible Assets | 18 | 234.243.281 | 105.709.608 |
| Intangible Assets | 19 | 2.084.480 | 594.177 |
| Other Non-current Asstes | 26 | 26.144.250 | 45.751.280 |
| **TOTAL ASSETS** | | **990.247.051** | **775.790.454** |

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

# Turkish Technic Inc. Balance Sheet as of 31 December 2011

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)*

| | Notes | Current period Audited 31 December 2011 | Prior period Audited 31 December 2010 |
|---|---|---|---|
| **Current Liabilities** | | **182.180.404** | **157.157.679** |
| Finacial Debt | **8** | 3.439.030 | 13.304 |
| Trade payables | **10, 37** | 111.180.997 | 79.842.069 |
| *Related Party Trade Payables* | | *29.980.486* | *31.859.813* |
| *Other Trade Payables* | | *81.200.511* | *47.982.256* |
| Other payables | **11, 37** | 30.929.535 | 25.754.928 |
| Current tax liabilities | **35** | 5.367.118 | - |
| Provisions | **22** | 3.418.323 | 898.751 |
| Employee benefit obligations | **24** | 18.831.857 | 46.414.025 |
| Other current liabilities | **26** | 9.013.544 | 4.234.602 |
| **Non-Current Liabilities** | | **43.773.737** | **35.378.724** |
| Provision for retirement pay liability | **24** | 32.928.181 | 27.229.192 |
| Deferred tax liability | **35** | 10.845.556 | 7.952.960 |
| Other non current liabilities | **26** | - | 196.572 |
| **EQUITY** | | | |
| **Equity Attributable to Equity Holders of the Parent** | **27** | **764.292.910** | **583.254.051** |
| Share capital | | 543.006.000 | 430.026.000 |
| Restricted reserves assorted from profit | | 5.126.685 | 4.042.587 |
| Foreign currency translation reserves | | 16.637.838 | 380.549 |
| Retained earnings | | 147.720.817 | 112.553.008 |
| Net Profit/(Loss) for the Period | | 51.801.570 | 36.251.907 |
| **TOTAL LIABILITIES AND EQUITY** | | **990.247.051** | **775.790.454** |

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

# Turkish Technic Inc. Statement of Comprehensive Income for the Year Ended 31 December 2011

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)*

(Tutarlar, aksi belirtilmedikçe, Türk Lirası olarak gösterilmiştir.)

| | Notes | Current period<br>Audited<br>31 December 2011 | Prior period<br>Audited<br>31 December 2010 |
|---|---|---|---|
| Sales revenue | 28 | 818.968.812 | 720.705.944 |
| Cost of sales (-) | 28 | ( 671.588.224) | ( 584.975.934) |
| **Gross Profit/ (Loss) from finance sector operations** | | - | - |
| **GROSS PROFIT** | | **147.380.588** | **135.730.010** |
| Marketing, sales and distribution expenses (-) | 29 | ( 8.691.209) | ( 8.372.961) |
| Administrative expenses (-) | 29 | ( 81.113.586) | ( 72.555.352) |
| Other operating income | 31 | 17.698.882 | 25.608.193 |
| Other operating expenses (-) | 31 | ( 3.880.757) | ( 9.245.679) |
| **OPERATING PROFIT** | | **71.393.918** | **71.164.211** |
| Share of investments' profit/ (loss) accounted under the equity method | 16 | ( 27.729.523) | ( 24.766.724) |
| Financial income | 32 | 31.135.746 | 7.049.634 |
| Financial expenses (-) | 33 | ( 1.239.037) | ( 1.265.592) |
| **PROFIT BEFORE TAX** | | **73.561.104** | **52.181.529** |
| **Tax (expense) / income** | | **( 21.759.534)** | **( 15.929.622)** |
| -Current tax expense | | ( 18.866.938) | ( 8.213.633) |
| -Deferred tax expense | 35 | ( 2.892.596) | ( 7.715.989) |
| **PROFIT FOR THE PERIOD** | | **51.801.570** | **36.251.907** |
| **Other Comprehensive Income** | | 16.257.289 | 380.549 |
| **TOTAL COMPREHENSIVE INCOME** | | **68.058.859** | **36.632.456** |
| | | **68.058.859** | **36.632.456** |
| **Earnings Per Share (Kr)** | 36 | **7,47** | **5,60** |

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

# Turkish Technic Inc. Statement of Chages In Equity for the Year Ended 31 December 2011

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)*

| | Issued capital | Restricted Profit Reserves | Foreign currency translation reserves | Retained earnings | Net profit / loss for the period | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2009** | **318.000.000** | **2.099.288** | **-** | **54.737.495** | **59.758.812** | **434.595.595** |
| Transfer | - | - | - | 59.758.812 | (59.758.812) | - |
| Transfer to Reserves | - | 1.943.299 | - | (1.943.299) | - | - |
| Capital Payment | 112.026.000 | - | - | - | - | 112.026.000 |
| Net Comprehensive Income for the Year | - | - | 380.549 | - | 36.251.907 | 36.632.456 |
| **Balance at 31 December 2010** | **430.026.000** | **4.042.587** | **380.549** | **112.553.008** | **36.251.907** | **583.254.051** |
| | | | | | | |
| **Balance at 31 December 2010** | **430.026.000** | **4.042.587** | **380.549** | **112.553.008** | **36.251.907** | **583.254.051** |
| Transfer | - | - | - | 36.251.907 | (36.251.907) | |
| Transfer to Reserves | - | 1.084.098 | - | (1.084.098) | - | - |
| Capital Payment | 112.980.000 | - | - | - | - | 112.980.000 |
| Net Comprehensive Income for the Year | - | - | 16.257.289 | - | 51.801.570 | 68.058.859 |
| **Balance at 31 December 2011** | **543.006.000** | **5.126.685** | **16.637.838** | **147.720.817** | **51.801.570** | **764.292.910** |

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

# Turkish Technic Inc. Statement of Cash Flows for the Year Ended 31 December 2010

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)*

| | Notes | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net Income Before Tax | | 73.561.104 | 52.181.529 |
| **Adjustments to obtain net cash flow** | | | |
| Depreciation and amortization | 13-18-19 | 56.362.960 | 53.255.280 |
| Provision for retirement pay liability | 24 | 7.617.943 | 10.226.970 |
| Provision for retirement pay liability | 16 | 27.729.523 | 24.766.724 |
| Change in provision for impairment | 33 | 57.979 | 97.110 |
| Discount expenses | | ( 9.034.762) | ( 19.808.977) |
| Fixed Asset Sales Revenue | 10 | 12.917.835 | 18.021.327 |
| Change in provision for doubtful receivables | 32 | ( 994.761) | ( 665.169) |
| Interest Income | | 168.217.821 | 138.074.794 |
| **Operating profit before working capital changes** | | ( 12.663.027) | (65.924.420) |
| Change in Other Short and Long Term Receivables | | 1.544.653 | ( 17.156.702) |
| Change in Other Short and Long Term Receivables | | ( 2.495.695) | 698.351 |
| Change in Inventories | | ( 93.473.365) | ( 65.610.571) |
| Change in Other Current Assets | | ( 26.076.253) | ( 12.184.737) |
| Change in Other Non-Current Assets | | ( 1.338.904) | ( 42.560.446) |
| Change in Trade Payables | | 33.218.255 | 17.839.119 |
| Change in Payables to Related Parties | | ( 1.879.327) | 12.197.385 |
| Change in Short Term Provisions | | 2.519.572 | 800.206 |
| Change in Other Short and Long Term Liabilities | | ( 17.825.190) | 47.235.877 |
| **Cash Provided by Operating Activities** | | 49.748.540 | 13.408.856 |
| Retirement Benefits Paid | 24 | ( 1.918.954) | ( 1.361.710) |
| Prepaid Taxes | 35 | ( 10.625.519) | ( 13.507.478) |
| Interest Received | | 991.838 | 644.303 |
| **Net Cash Used in Operating Activities** | | 38.195.905 | ( 816.029) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Cash Inflow From Sale of Intangible and Tangible Fixed Assets | 18 | 11.360.912 | 24.939.757 |
| Acquisitions of Tangible and Intangible Assets | 18-19 | ( 144.135.986) | ( 72.635.023) |
| Capital Increase in Investments Accounted Under Equity Method | | ( 59.049.521) | ( 56.037.198) |
| Foreign Currency Translation Gains from Investments Accounted Under Equity Method | | 16.257.289 | 380.549 |
| Change in Financial Investments | | ( 5.011) | ( 14) |
| Change in Advances Given | | 20.945.934 | - |
| **Net Cash Used in Investing Activities** | | ( 154.626.383) | ( 103.351.929) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Capital Increase | | 112.980.000 | 112.026.000 |
| Change in Financial Liabilities | | 3.425.726 | ( 27.147) |
| **Net Cash Provided by Financing Activities** | | 116.405.726 | 111.998.853 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | ( 24.752) | 7.830.895 |
| **CASH AND CASH EQUIVALENTS** | | 30.405.267 | 22.574.372 |
| **AT THE END OF THE YEAR** | | 30.380.515 | 30.405.267 |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 1. ORGANIZATION AND OPERATIONS OF THE COMPANY

Türk Hava Yolları Teknik A.Ş ("the Company") was incorporated on 23 May 2006 with the purpose to bring the Company to an important technical maintenance base in the area in air transport sector and provide maintenance and repair services to civil aviation sector and every kind of technical and infrastructural assistance related with the airlines sector.

| | 31 December 2011 | 31 December 2011 |
|---|---|---|
| Administrative Staff | 642 | 736 |
| Production Staff | 1.497 | 2.177 |
| **Total** | **2.139** | **2.913** |

The total number of employees working for the Company as of 31 December 2011 is 2.139 (31 December 2010: 2.913).

(*)As of 16 February 2011, Company decided that transit/accomodation and controls, troubleshooting procedures, all kinds of maintenance, repair, renovation at the level of track maintenance in domestic and foreign line stations presented to THY A.O. by the Company will be done within THY A.O. and providing that the required number of personnel will be transferred.

The Company is registered in Turkey and its head office address is as follows:
İstanbul Bakırköy-Yeşilköy Atatürk Airport Gate B

**Approval of Financial Statements**

Board of Directors will approve the financial statements as of 31 December 2011. General shareholders' meeting has the authority to modify the financial statements.

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Basis of Presentation

The Company keeps its books of account and prepares its statutory financial statements in accordance with the principles and obligations Turkish Commercial Code (the "TCC"), tax legislation.

Capital Markets Board ("CMB"), by Communiqué Serial XI No: 29 "Communiqué About The Principles of Financial Reporting in Capital Markets", determined the principles and procedures relating to preparation of financial reports and presentation of these reports to interested parties. This Communiqué is in effect to be applicable for the first interim financial statements of the reporting periods starting after 1 January 2008 and Communiqué Serial XI No: 25 "The Accounting Standards in the Capital Markets" was abolished. Depending on this communiqué, companies are required to prepare financial statements compliant with International Financial Reporting Standards ("IAS/IFRS") adopted by European Union. However, IAS/IFRS will be applied until the differences between the standards adopted by European Union and those promulgated by IASC are declared by Turkish Accounting Standards Board ("TASB"). In this context, Turkish Accounting / Financial Reporting Standards ("TAS/TFRS") which are not contrary to standards adopted and promulgated by TASB and will be applied.

Until the differences between the standards accepted by the European Union and the standards issued by International Accounting Standards Board ("IASB") are announced by the TASB, financial statements shall be prepared in accordance with IASs/IFRSs under the CMB's Decree Volume: XI, No: 29. The accompanying financial statements and notes are presented in accordance with the standard format required by the announcement of the CMB on 17 April 2008 and 9 January 2009.

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

### 2.1 Basis of Presentation (cont'd)

Statutory Decree No: 660, which has been become effective and published in the Official Gazette on 2 November 2011, and the Additional Clause 1 of the Law No: 2499 were nullified and accordingly, Public Oversight, Accounting and Audit Standards Institution (the "Institution") was established. As per Additional Article 1 of the Statutory Decree, applicable laws and standards will apply until new standards and regulations be issued by the Institution and will become effective. In this respect, the respective matter has no effect over the 'Basis of The Preparation of Financial Statements" Note disclosed in the accompanying financial statements as of the reporting date.

**Presentation in Turkish Lira**

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Company's financial position and operating results are presented in Turkish Lira (TL) which is Company's functional and reporting currency for financial statements.

### 2.2 Preparation of Financial Statements in Hyperinflationary Periods

CMB, with its resolution dated 17 March 2005 declared that companies operating in Turkey which prepare their financial statements in accordance with CMB Accounting Standards, effective 1 January 2005, will not be subject to the application of inflation accounting. Consequently, in the accompanying financial statements IAS 29 "Financial Reporting in Hyperinflationary Economies" was not applied.

### 2.3 Fundamentals of the Consolidation

The table below sets out affiliate and indicates the proportion of ownership interest of the Company in the joint venture at 31 December 2011:

| | | Participation Rate | | |
|---|---|---|---|---|
| Name of the Company | Principal Activity | 31 December 2011 | 31 December 2010 | Country of Registration |
| P & W T.T. Uçak Bakım Merkezi Ltd. Şti. | Technical Maintenance | 49% | 49% | Turkey |
| Goodrich THY Teknik Servis Merkezi Ltd.Şti. | Technical Maintenance | 40% | 40% | Turkey |
| Turkbine Teknik Gaz Turb. Bakım Onarım A.Ş | Technical Maintenance | 50% | 50% | Turkey |
| TCI Kabiniçi Sistemleri San. Ve Tic.A.Ş. | Technical Maintenance | 21% | 21% | Turkey |

In the accompanying financial statements, joint venture's operations' results, assets and liabilities are journalized by using equity method except for the subsidiaries that are journalized as assets available-for-sale based on IFRS 5 standard. 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 Company's share in the balance sheet. Subsidiary's losses that exceed the Company's share are not considered (substantially, that contains any long-termed investment which composes the net investment in the subsidiary).

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

### 2.4 Offsetting

Financial assets and liabilities are offset and the net amount is 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 liabilities simultaneously.

### 2.5 New and Revised International Financial Reporting Standards

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported and disclosures in these financial statements. Details of other standards and interpretations adopted in these financial statements but that have had no material impact on the financial statements are set out in the related paragraphs.

**(a) New and Revised IFRSs applied with no material effect on the consolidated financial statements**

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported and disclosures in these financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material impact on the financial statements are set out in further sections.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change (see the consolidated statement of changes in equity

IAS 24 Related Party Disclosures (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities.

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

### 2.5 New and Revised International Financial Reporting Standards (cont'd)

**(a) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)**

Amendments to IFRS 3 Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

Amendments to IAS 32

Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Company has not issued instruments of this nature.

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

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

**2.5 New and Revised International Financial Reporting Standards (cont'd)**

**(b) New and Revised IFRSs applied with no material effect on the consolidated financial statements**

The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

| | |
|---|---|
| Amendments to IFRS 7 | *Disclosures – Transfers of Financial Assets* |
| IFRS 9 | *Financial Instruments* |
| IFRS 10 | *Consolidated Financial Statements* |
| IFRS 11 | *Joint Arrangements* |
| IFRS 12 | *Disclosure of Interests in Other Entities* |
| IFRS 13 | *Fair Value Measurement* |
| Amendments to IAS 1 | *Presentation of Items of Other Comprehensive Income* |
| Amendments to IAS 12 | *Deferred Taxes – Recovery of Underlying Assets* |
| IAS 19 (as revised in 2011) | *Employee Benefits* |
| IAS 27 (as revised in 2011) | *Separate Financial Statement* |
| IAS 28 (as revised in 2011) | *Investments in Associates and Joint Ventures* |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine* |

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The group management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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

### 2.5 New and Revised International Financial Reporting Standards (cont'd)

### (b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

The group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

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

**2.5 New and Revised International Financial Reporting Standards (cont'd)**

**(b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)**

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Company management anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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

### 2.5 New and Revised International Financial Reporting Standards (cont'd)

### (b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to IAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognized in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

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

**2.5 New and Revised International Financial Reporting Standards (cont'd)**

**(b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)**

On 19 October 2011 the IASB issued an Interpretation, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

**2.6 Summary of Significant Accounting Policies**

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

*2.6.1 Revenue*

Revenue is recognized on accrual basis at the fair value of the amount received or to be received based on the assumptions that revenue is measured reliably and it is probable that economic benefits associated with the sale will flow to the Company. Net sales are calculated after the sales returns and sales discounts.

Revenue from sale of goods and services rendered is recognised when all the following conditions are satisfied:

- The Company has transferred to the buyer all the significant risks and rewards of ownership
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income 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.

When there is significant amount of cost of financing included in the sales, the fair value is determined by discounting all probable future cash flows with the yield rate, which is embedded in the cost of financing. The difference between the fair value and the nominal value is recorded as interest income according to the accrual basis.

The Company provides maintenance and repair services to civil aviation sector, and technical and infrastructural assistance related with the airlines sector. Income is recorded based on accrual basis.

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

### 2.6 Summary of Significant Accounting Policies (cont'd)

*2.6.2 Inventories*

Inventories are stated at the lower of cost or 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 estimated selling price at regular business operation less all estimated costs of completion and estimated costs which is necessary to make sales.

Components and repairable spare parts depreciated over their useful lives are as follows:

| | Useful Life (years) |
|---|---|
| - Components | 7 |
| - Repairable spare parts (R Equipment) | 7 |
| - Repairable spare parts (X Equipment) | 3 |

*2.6.3 Tangible assets*

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

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. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

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.

The useful lives of tangible assets are as follows:

| | Useful Life (years) |
|---|---|
| - Machinery and equipment | 3-15 |
| - Furniture and fixtures | 4-15 |
| - Vehicles | 4-7 |
| - Other tangible assets | 4-15 |
| -Leasehold Improvements | 5 |

*2.6.4 Intangible Assets*

Intangible assets include information systems and other intangible assets. These intangible assets are recorded in the purchased cost accounted on 31 December 2010. Other intangible assets are depreciated over their useful life, on a straight-line basis.

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

### 2.6 Summary of Significant Accounting Policies (cont'd)

*2.6.5 Impairment on Assets*

Assets with indefinite useful lives such as goodwill are not subject to amortization. Such assets are subject to impairment test each year. Assets that are subject to amortisation are reviewed for impairment when the carrying amount of an asset is irrecoverable. An impairment loss is recognised when the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For assessing impairment, assets are grouped at the lowest level to which there are separate identifiable cash flows (cash-generating units). At each reporting date, non-financial assets other than goodwill that suffered impairment are reviewed for any possibility on the reversal of impairment.

*2.6.6 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All of the other borrowing costs are recognized in the statement of income in the period in which they occur. As of 31 December 2011 and 2010, the Company does not have any capitalized borrowing costs.

*2.6.7 Financial Instruments*

*Financial assets*

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

Other 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". C lassification is made according to the financial asset's purpose of obtaining and features at the first recording.

*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 recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

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

### 2.7 Summary of Significant Accounting Policies (cont'd)

*2.6.7 Financial Instruments (cont'd)*

*Financial assets at FVTPL*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*Held-to-maturity investments*

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

*Available for sale financial assets*

Investments other than (a) held-to-maturity debt securities and (b) held for trading securities are classified as available-for-sale, (c) loans and receivables and are measured at subsequent reporting dates at fair value except available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

*Sale and repurchase agreements*

Securities purchased under agreements to resell ("reverse repos") are recorded as reverse repo receivables on the cash and due from banks account, together with the difference between sale and repurchase price, which is accrued evenly over the life of the agreement using the effective yield method.

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

### 2.7 Summary of Significant Accounting Policies (cont'd)

*2.6.7 Financial Instruments (cont'd)*

*Loans and receivables*

Trade and other loans and receivables, which does not traded in the market, with fixed and determinable payments are classified in this category. 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 loans and receivables 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.

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.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

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

### 2.7 Summary of Significant Accounting Policies (cont'd)

*2.6.7 Financial Instruments (cont'd)*

*Financial liabilities*

The Company'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.

*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.

*2.6.8 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. Monetary gains / losses arising on settlement / translation of foreign currency items are included in the statements of income.

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

| | Closing Rate | Average Rate |
|---|---|---|
| 31 December 2011 | 1,8889 | 1,6707 |
| 31 December 2010 | 1,5460 | 1,4910 |

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

| | Closing Rate | Average Rate |
|---|---|---|
| 31 December 2011 | 2,4438 | 2,3244 |
| 31 December 2010 | 2,0491 | 1,9886 |

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

### 2.7 Summary of Significant Accounting Policies (cont'd)

*2.6.9 Earnings per Share*

"Earnings per share" is calculated by dividing net profit/ (loss) 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.

*2.6.10 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 Company (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 Company restates its financial statements accordingly.

*2.6.11 Provisions, Contingent Liabilities ve Contingent Assets*

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company 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 the related cash flows.

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

*2.6.12 Related Parties*

Related parties in the financial statements refer to partners, top level management, members of the Board of Directors, and close family members in charge of the Company, as well as the companies, affiliates and partnerships controlled by these individuals or associated with them. Transactions with related parties are performed based on prices at arm's length.

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

### 2.7 Summary of Significant Accounting Policies (cont'd)

*2.6.13 Taxation and Deferred Tax*

Income tax expense represents the sum of the tax currently payable and deferred tax liability (or asset).

*Current tax*

Current tax 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 Company'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 Company 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 utilise 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 Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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 Company intends to settle its current tax assets and liabilities on a net basis.

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

**2.7 Summary of Significant Accounting Policies (cont'd)**

*2.6.13 Taxation and Deferred Tax (cont'd)*

*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 acquired subsidiary's identifiable assets, liabilities and contingent liabilities over cost. Taxes on financial statements contain changes in current period taxes and deferred tax. The Company calculates current period tax and deferred tax based on period results.

*2.6.14 Employee benefit /retirement pay provision*

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. 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 have been measured as the net current value of the liabilities that are expected to emerge from the retirements of all employees and disclosed as such on the financial statements. Any actuarial gains and losses calculated are carried on the income statement.

*2.6.15 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 Company.

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 Company.

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

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.

2.6.16 *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.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

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

### 2.8 Critical Accounting Estimates and Assumptions

*Useful Lives of Inventories*

Component and repairable equipments are subject to depreciation and their useful lives are explained in Note 2.6.2.

## 3. BUSINESS COMBINATIONS

None (31 December 2010: None).

## 4. ASSOCIATES

None (31 December 2010: None).

## 5. SEGMENTAL REPORTING

None (31 December 2010: None).

## 6. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Banks (Demand Deposits) | 871.892 | 3.066.897 |
| Banks (Time Deposits) | 29.508.623 | 27.338.370 |
| | **30.380.515** | **30.405.267** |

The details of time deposits as of 31 December 2011 and 2010 are as follows:

| Capital | Currency | Opening Date | Interest Rate | Maturity | 31 December 2011 |
|---|---|---|---|---|---|
| 13.636.838 | USD | December 2011 | 6,00% -6,25% | January 2012 | 25.758.623 |
| 3.750.000 | TL | December 2011 | 8,00% -12,25% | January 2012 | 3.750.000 |
| | | | | | **29.508.623** |

| Capital | Currency | Opening Date | Interest Rate | Maturity | 31 December 2010 |
|---|---|---|---|---|---|
| 16.195.582 | ABD Doları | December 2010 | 3,75% -3,90% | January 2011 | 25.038.370 |
| 2.300.000 | TL | December 2010 | 8,00% | January 2011 | 2.300.000 |
| | | | | | **27.338.370** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 7. FINANCIAL ASSETS

| | 31 December 2011 | Share % | 31 December 2010 | Share % |
|---|---|---|---|---|
| Thy-Opet Havacılık Yakıtları A.Ş | 20 | 0,0% | 14 | 0,0% |
| Uçak Koltuk Üretimi San.ve Tic.A.Ş (*) | 5.005 | 10% | - | - |
| | 5.025 | | 14 | |

(*)Uçak Koltuk Üretimi San.ve Tic.A.Ş has been established 27 May 2011 and has not started it's operations yet.

## 8. FINANCIAL BORROWINGS

The details of financial borrowings as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Short term | 3.439.030 | 13.304 |
| | 3.439.030 | 13.304 |

The details of short term financial liabilities as of 31 December 2011 and 2010 are as follows:

**31 December 2011**

| Name of Bank | Maturity | Original Amount | Currency | Balance |
|---|---|---|---|---|
| Halkbank | 1 January 2012 | 3.373.295 | TL | 3.373.295 |
| Garanti Credit Card | - | 64.321 | TL | 64.321 |
| Garanti Credit Card | - | 749 | US Dollar | 1.414 |
| | | | | 3.349.030 |

**31 December 2010**

| Name of Bank | Maturity | Original Amount | Currency | Balance |
|---|---|---|---|---|
| Garanti Credit Card | - | 10.439 | TL | 10.439 |
| Garanti Credit Card | - | 1.853 | US Dollar | 2.865 |
| | | | | 13.304 |

Short term borrowings are day term financing source for social security institution payments and no interest is applied.

## 9. OTHER FINANCIAL LIABILITIES

None (31 December 2010: None).

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 10. TRADE RECEIVABLES AND PAYABLES

Short term trade receivables as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade Receivables | 121.770.340 | 113.854.908 |
| Trade Receivables from Related Parties (Note 37) | 100.324.159 | 101.868.812 |
| Credit Note Receivables | 693.945 | 145.071 |
| Discount on Receivables (-) | (5.548) | (4.851) |
| Allowance for Doubtful Receivables (-) | (38.669.345) | (29.892.949) |
| | **184.113.551** | **185.970.991** |

Movement of the doubtful receivables for the period ended 31 December 2011 and 2010 are as follows:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Provision at the beginning of the year | 29.892.949 | 13.127.922 |
| Current year charge | 12.917.835 | 18.021.327 |
| Collections | (4.141.439) | (1.256.300) |
| | **38.669.345** | **29.892.949** |

The Company does not have long term trade receivables as of 31 December 2011 and 2010.

**Guarantees Received for Receivables**

Total amounts of the Company's guarantees received for trade receivables are as follows:

| | *31 December 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| | Nominal Value | Fair Value | Nominal Value | Fair Value |
| Letters of Guarantees | 2.077.755 | 2.077.755 | 1.952.654 | 1.952.654 |
| | **2.077.755** | **2.077.755** | **1.952.654** | **1.952.654** |

Short term trade payables are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade Payables | 76.995.546 | 46.040.265 |
| Trade Payables from Related Parties (Note 37) | 29.980.486 | 31.859.813 |
| Discount on Notes Payables (-) | (100.998) | (52.430) |
| Other Trade Payables | 4.305.963 | 1.994.421 |
| | **111.180.997** | **79.842.069** |

The Company does not have long term trade payables as of 31 December 2011 and 2010.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 11. OTHER RECEIVABLES AND PAYABLES

Details of other short term receivables as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Receivables from Tax Office | 5.674 | 5.463 |
| Receivables from Foreign Technical Suppliers | 1.049.534 | 1.656.654 |
| THY A.O. Non-Trade Receivables (Note 37) | 92.480 | 21.407 |
| Due from Personnel | 3.237 | 4.681 |
| Doubtful Receivables | 15.437 | 14.937 |
| Allowance of Doubtful Receivables (-) | (15.437) | (14.937) |
| Deposits and Guarantees Given | 10.312 | 14.920 |
| Other Receivables | 166.916 | 712 |
| | **1.328.153** | **1.703.837** |

Movement of provision for doubtful receivables for the years ended 31 December 2011 and 2010are as follows:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Provision at the beginning of the year | 14.937 | 18.846 |
| Current year charge | 500 | 1.000 |
| Collected amount | - | (4.909) |
| Provision at the end of the year | **15.437** | **14.937** |

The details of other short term payables as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| THY A.O. Non-Trade Payables (Note 37) | 2.119.884 | 8.295.797 |
| Taxes, Charges and Other Payables | 9.941.468 | 8.179.564 |
| Social Security Premiums Payables | 3.697.467 | 4.986.042 |
| Order Advances Received | 5.165.376 | 943.522 |
| Deposits and Guarantees Received | 9.611.603 | 3.212.980 |
| Payables to Personnel | 393.737 | 137.023 |
| | **30.929.535** | **25.754.928** |

## 12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS

None (31 December 2010: None).

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 13. INVENTORIES

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Technical Equipment Inventories | 196.013.689 | 150.010.071 |
| BFE Equipment Inventories | - | 17.287 |
| Components and Spare Parts Receivable | 322.995.356 | 327.545.637 |
| Accumulated Depreciation (-) | (151.759.283) | (152.551.379) |
| Technical Equipment Inventories in Transit | 11.988.843 | 5.320.724 |
| Obselete Equipment Inventories | 14.368.647 | 14.368.647 |
| Provision for Impairment(-) | (14.368.647) | (14.368.647) |
| | **379.238.605** | **330.342.340** |

Movement of allowance for impairment on inventory is as follows:

| | 1 Ocak - 31 December 2011 | 1 Ocak - 31 December 2010 |
|---|---|---|
| Provision at the beginning of the year | 14.368.647 | 14.368.647 |
| Current year charge | - | - |
| Cancellation of provision recognized | - | - |
| Provision at the end of the year | **14.368.647** | **14.368.647** |

Movement of components and spare parts are as follows:

| | Components and Spare Parts Repairable |
|---|---|
| **Cost** | |
| Opening balance, 1 January 2011 | 327.545.637 |
| Additions | 77.911.351 |
| Disposals | (82.461.632) |
| Closing balance, 31 December 2011 | 322.995.356 |
| **Accumulated Depreciation** | |
| Opening balance, 1 January 2011 | 152.551.379 |
| Current charge for the year | 44.577.100 |
| Disposals | (45.369.196) |
| Closing balance, 31 December 2011 | 151.759.283 |
| **Net book value at 31 December 2011** | **171.236.073** |
| **Net book value at 31 December 2010** | **174.994.258** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 13. INVENTORIES (cont'd)

| | Components and Spare Parts Repairable |
|---|---|
| **Cost** | |
| Opening balance, 1 January 2010 | 319.829.495 |
| Additions | 76.359.882 |
| Disposals | (68.643.740) |
| Closing balance, 31 December 2010 | 327.545.637 |
| **Accumulated Depreciation** | |
| Opening balance, 1 January 2010 | 147.045.446 |
| Current charge for the year | 42.340.502 |
| Disposals | (36.834.569) |
| Closing balance, 31 December 2010 | 152.551.379 |
| **Net book value at 31 December 2010** | **174.994.258** |
| **Net book value at 31 December 2009** | **172.784.049** |

## 14. BIOLOGICAL ASSETS

None (31 December 2010: None).

## 15. ASSETS FROM CONSTRUCTION CONTRACTS IN PROGRESS

None (31 December 2010: None).

## 16. INVESTMENTS ACCOUNTED FOR EQUITY METHOD

Investments accounted for equity method are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| P&W T.T. Uçak Bakım Merkezi Ltd. Şti. | 74.626.727 | 53.692.268 |
| Goodrich THY Teknik Servis Merkezi Ltd. Şti. | 1.703.672 | - |
| Turkbine Teknik Gaz Turbinleri Bakım Onarım A.Ş. | 7.980.428 | - |
| TCI Kabiniçi Sistemleri Sanayi ve Ticaret A.Ş. | 701.439 | - |
| | **85.012.266** | **53.692.268** |

Financial information for P&W T.T.Uçak Bakım Merkezi Ltd. Şti as of 31 December 2011 and 31 December 2010 is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Assets | 225.887.983 | 221.389.592 |
| Liabilities | 73.588.541 | 111.813.535 |
| Shareholders' Equity | 152.299.442 | 109.576.057 |
| The Company's share in shareholders' equity | 74.626.727 | 53.692.268 |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

**16. INVESTMENTS ACCOUNTED FOR EQUITY METHOD (cont'd)**

Portions of P&W T.T Uçak Bakım Merkezi Ltd. Şti valued by equity method in profit / (loss) are as follows:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Revenue | 170.451.280 | 115.968.274 |
| Profit / (loss) | (53.228.205) | (50.544.335) |
| The Company's share on Profit / (Loss) | (26.081.819) | (24.766.724) |

Financial information for Goodrich THY Teknik Servis Merkezi Ltd. Şti. as of 31 December 2011 is as follows:

| | 31 December 2011 |
|---|---|
| Assets | 5.386.726 |
| Liabilities | 1.127.545 |
| Shareholders' Equity | 4.259.181 |
| The Company's share in shareholders' equity | 1.703.672 |

Portions of Goodrich THY Teknik Servis Merkezi Ltd. Şti. valued by equity method in profit / (loss) are as follows:

| | 1 January - 31 December 2011 |
|---|---|
| Revenue | 195.432 |
| Profit / (loss) | (3.140.819) |
| The Company's share on Profit / (Loss) | (1.256.328) |

Financial information for Turkbine Teknik Gaz Turbinleri Bakım Onarım A.Ş. as of 31 December 2011 is as follows:

| | 31 December 2011 |
|---|---|
| Assets | 16.309.186 |
| Liabilities | 348.330 |
| Shareholders' Equity | 15.960.856 |
| The Company's share in shareholders' equity | 7.980.428 |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 16. INVESTMENTS ACCOUNTED FOR EQUITY METHOD (cont'd)

Portions of Turkbine Teknik Gaz Turbinleri Bakım Onarım A.Ş. valued by equity method in profit / (loss) are as follows:

| | 1 January - 31 December 2011 |
|---|---|
| Revenue | 304.185 |
| Profit / (loss) | (610.631) |
| The Company's share on Profit / (Loss) | (305.316) |

Financial information for TCI Kabiniçi Sistemleri Sanayi ve Ticaret A.Ş. as of 31 December 2011 is as follows:

| | 31 December 2011 |
|---|---|
| Assets | 5.693.147 |
| Liabilities | 2.352.958 |
| Shareholders' Equity | 3.340.189 |
| The Company's share in shareholders' equity | 701.439 |

Portions of TCI Kabiniçi Sistemleri Sanayi ve Ticaret A.Ş. valued by equity method in profit / (loss) are as follows:

| | 1 January - 31 December 2011 |
|---|---|
| Revenue | - |
| Profit / (loss) | (409.813) |
| The Company's share on Profit / (Loss) | (86.060) |

Financial assets accounted for equity method in profit/loss as of 31 December 2011 and 2010 are as follows:

| Name of the company | Place of Incorporation | Ownership Rate | Voting Power Rate | Principal Activity |
|---|---|---|---|---|
| P&W T.T. Uçak Bakım Merkezi Ltd. Şti | Turkey | 49% | 49% | Maintenance Services |
| Goodrich THY Teknik Servis Merkezi Ltd. Şti. | Turkey | 40% | 40% | Maintenance Services |
| Turkbine Teknik Gaz Turb. Bakım Onarım A.Ş. | Turkey | 50% | 50% | Maintenance Services |
| TCI Kabiniçi Sistemleri San. Ve Tic.A.Ş | Turkey | 21% | 21% | Interior Maintenance Services |

## 17. INVESTMENT PROPERTY

None (31 December 2010: None).

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 18. TANGIBLE ASSETS

| | Plant, Machinery and | Vehicles | Furniture and Fixtures | Other Tangible Assets | Construction in Progress | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Opening balance 1 January 2011 | 75.187.081 | 7.960.285 | 7.729.734 | 1.350.308 | 63.992.344 | 19.867.947 | 176.087.699 |
| Additions | 9.133.174 | 432.683 | 1.470.612 | 345.599 | 130.572.583 | 420.165 | 142.374.816 |
| Disposals | (3.815.495) | (4.106.492) | (667.313) | (254.112) | - | (314.472) | (9.157.883) |
| Transfer | - | - | - | - | (1.340.083) | 1.340.083 | - |
| Closing balance 31 December 2011 | 88.135.750 | 12.499.460 | 9.867.659 | 1.950.019 | 193.224.844 | 21.942.666 | 327.620.398 |
| **Accumulated Depreciation** | | | | | | | |
| Opening balance 1 January 2011 | 51.699.211 | 6.824.526 | 4.346.036 | 697.725 | - | 6.810.593 | 70.378.091 |
| Charge for the year | 5.217.349 | 137.361 | 1.240.709 | 146.581 | - | 4.772.993 | 11.514.993 |
| Disposals | 3.085.445 | 3.204.114 | 381.322 | 80.818 | - | 80.034 | 6.831.733 |
| Closing balance 31 December 2011 | 53.831.115 | 3.757.773 | 5.205.423 | 763.488 | - | 11.503.552 | 75.061.351 |
| **Net book value 31 Decebember 2011** | **34.304.635** | **8.741.688** | **4.662.236** | **1.186.531** | **193.224.844** | **10.439.114** | **252.559.047** |
| **Net book value 31 December 2010** | **23.487.870** | **1.135.759** | **3.383.698** | **652.583** | **63.992.344** | **13.057.354** | **105.709.608** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 18. TANGIBLE ASSET (cont'd)

| | Plant, Machinery and Equipment | Vehicles | Furniture and Fixtures | Other Tangible Assets | Construction in Progress | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Opening balance 1 January 2010 | 79.267.300 | 7.305.096 | 6.259.569 | 1.078.621 | 4.100.123 | 18.994.899 | 117.005.608 |
| Additions | 8.896.900 | 941.430 | 1.483.726 | 282.058 | 60.783.928 | 4.000 | 72.392.042 |
| Disposals | (12.977.119) | (286.241) | (13.561) | (10.371) | - | (22.659) | (13.309.951) |
| Transfer | - | - | - | - | (891.707) | 891.707 | - |
| Closing balance 31 December 2010 | 75.187.081 | 7.960.285 | 7.729.734 | 1.350.308 | 63.992.344 | 19.867.947 | 176.087.699 |
| **Accumulated Depreciation** | | | | | | | |
| Opening balance 1 January 2010 | 55.169.141 | 6.751.742 | 3.178.275 | 576.228 | - | 2.204.659 | 67.880.045 |
| Charge for the year | 4.404.281 | 359.026 | 1.179.773 | 128.203 | - | 4.605.934 | 10.677.217 |
| Disposals | (7.874.211) | (286.242) | (12.012) | (6.706) | - | - | (8.179.171) |
| Closing balance 31 December 2010 | 51.699.211 | 6.824.526 | 4.346.036 | 697.725 | - | 6.810.593 | 70.378.091 |
| **Net book value 31 December 2010** | **23.487.870** | **1.135.759** | **3.383.698** | **652.583** | **63.992.344** | **13.057.354** | **105.709.608** |
| **Net book value 31 December 2009** | **24.098.159** | **553.354** | **3.081.294** | **502.393** | **4.100.123** | **16.790.240** | **49.125.563** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 19. INTANGIBLE ASSETS

| | Rights |
|---|---|
| **Cost** | |
| Opening balance, 1 January 2011 | 1.185.503 |
| Additions | 1.761.170 |
| Disposals | 991 |
| Closing balance, 31 December 2011 | 2.945.682 |
| **Accumulated Depreciation** | |
| Opening balance, 1 January 2011 | 591.326 |
| Charge for the period | 270.867 |
| Disposals | 991 |
| Closing balance, 31 December 2011 | 861.202 |
| **Net book value 31 December 2011** | **2.084.480** |
| **Net book value 31 December 2010** | **594.177** |

| | Rights |
|---|---|
| **Cost** | |
| Opening balance, 1 January 2010 | 942.522 |
| Additions | 242.981 |
| Closing balance, 31 December 2010 | 1.185.503 |
| **Accumulated Depreciation** | |
| Opening balance, 1 January 2010 | 353.765 |
| Charge for the period | 237.561 |
| Closing balance, 31 December 2010 | 591.326 |
| **Net book value 31 December 2010** | **594.177** |
| **Net book value 31 December 2009** | **588.757** |

## 20. GOODWILL

None (31 December 2010: None).

## 21. GOVERNMENT GRANTS

None (31 December 2010: None).

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

*i)Provisions*

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Provisions for Legal Claims | 3.418.323 | 898.751 |

Movements in the allowance for legal claims at 31 December 2010 and 2009 years set out below:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Provision at the begining of the period | 898.751 | 98.545 |
| Charge for the year | 2.519.572 | 800.206 |
| Provision at the end of the year(*) | **3.418.323** | **898.751** |

(*) 3.066.843 TL of legal claims are reinstatement cases.

*ii) Contingent Assets and Liabilities;*

**31 December 2011**

As of 31 December 2011, 63 demanding compensation lawsuit is opened against THY Teknik A.Ş. and for this legal case provision of TL 2.519.572 is provided in the financial statements.

**31 December 2010**

As of 31 December 2010, 15 demanding compensation lawsuit is opened against THY Teknik A.Ş. and for this legal case provision of TL 898.751 is provided in the financial statements.

*iii) Contingent Liabilities;*

**31 December 2011**

| DESCRIPTION | TL AMOUNT |
|---|---|
| Letters of Guarantee Given | 3.350.864 |
| **TOTAL** | **3.350.864** |

**31 December 2010**

| DESCRIPTION | TL AMOUNT |
|---|---|
| Letters of Guarantee Given | 2.599.853 |
| **TOTAL** | **2.599.853** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

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

*iv) Mortgages and guarantees on assets;*

None (31 December 2010: None).

*v) Insurance on asset;*

**31 December 2011**

| Type of Assets Insured | Amount | Currency |
|---|---|---|
| Buildings and Machinery Plant Equipment | 189.504.204 | TL |
| Vehicles | 469.760 | TL |
| Insurance of Spare Parts | 250.000.000 | US Dollar |
| Other | 280.000 | TL |
| **Total TL** | **190.253.964** | |
| **Total USD** | **250.000.000** | |

**31 December 2010**

| Type of Assets Insured | Amount | Currency |
|---|---|---|
| Buildings and Machinery Plant Equipment | 183.213.441 | TL |
| Vehicles | 354.761 | TL |
| Insurance of Spare Parts | 250.000.000 | US Dollar |
| Other | 280.000 | TL |
| **Total TL** | **183.848.202** | |
| **Total USD** | **250.000.000** | |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 23. COMMITMENTS

Group as lessee:

*Leasing agreements:*

Leasing period is 20 years and related to the construction in progress of aircraft hangar land. The Company does not have a right to buy the asset at the end of the leasing period.

As of 31 December 2011, leasing payment amounting to 3.700.644 TL ( 31 December 2010: 3.086.825 TL) is accounted as rent expense in income statement.

Leasing period of leasing agreements is 23 years and related to the construction in progress of aircraft hangar land. Company does not have a right to buy the asset at the end of the leasing period.

| Committments related to operating lease land can not be canceled | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Within 1 year | 1.934.234 | 1.187.021 |
| 1-5 years | 12.572.518 | 8.704.819 |
| After 5 years | 58.055.544 | 50.669.488 |
| | 72.562.296 | 60.561.328 |

## 24. EMPLOYEE BENEFITS

Short term employee benefits are as follows:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Salary Accruals | 14.347.043 | 7.649.626 |
| Union Agreement Salary Expenses | 3.149.942 | 37.574.079 |
| Provision for unused vacation | 1.334.872 | 1.190.320 |
| | **18.831.857** | **46.414.025** |

Provision for long term retirement pay liability comprised the following:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Provision for Retirement Pay Liability | 32.928.181 | 27.229.192 |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 24. EMPLOYEE BENEFITS (cont'd)

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are entitled to retirement pay provisions subsequent to the completion of their retirement period by gaining a right to receive retirement payments in accordance with the amended Article of 60 the applicable Social Insurance Law No: 506 and the related Decrees No: 2422 and 4447 issued on 6 March 1981 and 25 August 1999, respectively. Some transition provisions related to the pre-retirement service term was excluded from law since the related law was changed as of 23 May 2002.

The amount retirement pay liability consists of one month's salary limited to a maximum of TL 2.731,85 as of 31 December 2011. (2010: TL 2.427,04)

The liability is not funded, as there is no funding requirement in Turkey. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2011, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5,00% (2010: 5,10%) and a discount rate of 9,50% (2009: 10%) resulting in a real discount rate of approximately 4,29% (2010: 4,66%). The anticipated rate of forfeitures is considered. The maximum liability is revised semi annually, in Company's Severance Pay Provision calculation, TL 2.805,04 ceiling amount as of 1 January 2011 has been taken into account.

Movement of provision for retirement pay liability is as follows:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Provision at the begining of the period | 27.229.192 | 18.363.932 |
| Current service costs | 6.450.978 | 9.140.554 |
| Interest costs | 1.166.965 | 1.086.416 |
| Payments | (1.918.954) | (1.361.710) |
| Provision at the end of the period | **32.928.181** | **27.229.192** |

## 25. RETIREMENT PLANS

None (31 December 2010: None).

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 26. OTHER ASSETS AND LIABILITIES

Other short term assets are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Advances Given for Orders | 12.040.032 | 1.680.460 |
| Income Accruals | 11.573.103 | 12.764.818 |
| Prepaid Expenses | 174.898 | 162.197 |
| Advances Given to Personnel | 31.987 | 94.983 |
| Business Advances Given | 12.352 | - |
| Prepaid Taxes | - | 2.874.301 |
| Deferred VAT | 23.864.553 | 4.043.913 |
| | **47.696.925** | **21.620.672** |

Other short term liabilities are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Expense Accruals | 8.200.903 | 2.713.145 |
| Deferred Revenue | 243.270 | 1.479.997 |
| Other Liabilities | 569.372 | 41.460 |
| | **9.013.545** | **4.234.602** |

**Other non-current assets are as follows:**

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Prepayments for Tangible Assets | 23.998.473 | 44.944.407 |
| Prepaid Expenses | 2.145.777 | 806.873 |
| | **26.144.250** | **45.751.280** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 26. OTHER ASSETS AND LIABILITIES (cont'd)

**Other non-current liabilities are as follows:**

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Income Relating to Future Years | - | 196.572 |
| | **-** | **196.572** |

## 27. SHAREHOLDERS' EQUITY

*a) Share Capital / Elimination Adjustments*

As of 31 December 2011, the Company's share capital is comprised of 693.000.000 shares issued with par value of 1 TL each. These shares are written to the name. The Company is not included in the registered capital system.

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

| | % | 31 December 2011 | % | 31 December 2010 |
|---|---|---|---|---|
| THY A.O. | 100 | 693.000.000 | 100 | 693.000.000 |
| Unpaid Capital | | (149.994.000) | | (262.974.000 |
| | | **543.006.000** | | **430.026.000** |

*b) Reserves*

None (31 December 2010: None).

*c) Restricted Reserves Assorted from Profit*

Restricted reserves assorted from profit consists of legal reserves.

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.

*d) Retained Earnings*

Retained earnings consist of extraordinary reserves and other retained earnings.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 27. SHAREHOLDERS' EQUITY (cont'd)

*d) Retained Earnings (cont'd)*

The Company's shareholders' equity items as per year ends are explained below:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Paid Capital | 543.006.000 | 430.026.000 |
| Legal Reserves | 5.126.685 | 4.042.587 |
| Extraordinary Reserves | 97.407.010 | 76.809.151 |
| Retained Earnings | 50.313.807 | 35.743.857 |
| Foreign currency translation reserves | 16.637.838 | 380.549 |
| Net Profit for the Year | 51.801.570 | 36.251.907 |
| | **764.292.910** | **583.254.051** |

## 28. SALES AND COST OF SALES

Sales are as follows:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Line Maintenance Income | 71.444.254 | 144.843.892 |
| Aircraft Maintenance Income | 250.650.444 | 190.111.134 |
| Engine Maintenance Income | 35.156.735 | 42.419.527 |
| Component Maintenance Income | 140.392.852 | 86.759.518 |
| Pool Income | 135.048.809 | 92.348.935 |
| Equipment Sales Income | 93.473.839 | 83.001.271 |
| Bfe&Retrofit Income | 279.766 | 195.611 |
| Other | 92.522.113 | 81.026.056 |
| **Sales Revenues (Net)** | **818.968.812** | **720.705.944** |
| Cost of Sales (-) | (671.588.224) | (584.975.934) |
| **Gross Operating Profit/(Loss)** | **147.380.588** | **135.730.010** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 28. SALES AND COST OF SALES (cont'd)

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Equipment Expenses | 203.027.090 | 160.615.718 |
| Personnel Expenses | 218.345.051 | 206.097.439 |
| Maintenance Expenses | 84.007.600 | 55.840.830 |
| Depreciation Expenses | 50.637.423 | 51.835.098 |
| Retirement Pay Provision Expense | 3.734.166 | 6.537.708 |
| Collective Agreement Salary Expense | 2.598.573 | 25.509.087 |
| Transportation Expense | 16.185.484 | 11.307.379 |
| Other | 93.052.837 | 67.232.675 |
| | **671.588.224** | **584.975.934** |

## 29. RESEARCH AND DEVELOPMENT EXPENSES, MARKETING SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Marketing, Selling and Distribution Expenses (-) | 8.691.209 | 8.372.961 |
| General Administrative Expenses (-) | 81.113.586 | 72.555.352 |
| **Total Operating Expenses** | **89.804.795** | **80.928.313** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 30. EXPENSES BY NATURE

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| **Sales and Marketing** | | |
| Personnel Expenses | 5.799.210 | 3.789.028 |
| Depreciation Expenses | 28.757 | 19.887 |
| Retirement Pay Provision | 56.990 | 88.653 |
| Collective Agreement Salary Expense | 73.717 | 400.060 |
| Penalty Expense | 42.740 | 1.695.845 |
| Other | 2.689.795 | 2.379.488 |
| | **8.691.209** | **8.372.961** |

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| **General Administrative** | | |
| Equipment Expenses | 3.953.769 | 1.739.130 |
| Personnel Expenses | 39.620.863 | 29.985.165 |
| Service Expenses | 5.893.489 | 5.987.668 |
| Rent Expenses | 5.715.969 | 5.608.092 |
| Lighting, Heating and | 1.355.667 | 1.274.875 |
| Receivable Expenses | 12.920.595 | 18.022.327 |
| Depreciation Expenses | 5.696.780 | 1.400.295 |
| Collective Agreement | 740.869 | 3.240.356 |
| Penalty Expense | 477.652 | 1.152.483 |
| Other | 4.737.933 | 4.144.961 |
| | **81.113.586** | **72.555.352** |
| **Total Operating Expenses** | **89.804.795** | **80.928.313** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 31. OTHER OPERATING INCOME/ EXPENSES

Other operating income consists of the following:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Plant Maintenance Income | 1.728.174 | 1.391.988 |
| Provisions Released | 4.143.700 | 1.261.209 |
| Gain on sale of fixed assets | 9.034.762 | 19.808.977 |
| Other Income | 2.792.246 | 3.146.019 |
| **Total other operating income** | **17.698.882** | **25.608.193** |

## 31. OTHER OPERATING INCOME/ EXPENSES (cont'd)

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Commission Expenses | (10.095) | (9.560) |
| Retired personnel compensation and bonus expenses | (2.519.573) | (800.206) |
| Union agreement salary expenses | - | (8.424.576) |
| Other | (1.351.089) | (11.337) |
| **Total other operating expenses** | **(3.880.757)** | **(9.245.679)** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 32. FINANCIAL INCOME

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Interest Income | 994.761 | 665.169 |
| Foreign Exchange Gain | 28.424.321 | 4.879.242 |
| Maturity Difference Income | 1.610.816 | 1.450.258 |
| Cancellation of Discount of the prior period | 105.848 | 54.965 |
| **Total Financial Income** | **31.135.746** | **7.049.634** |

## 33. FINANCE EXPENSES

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Bank Expenses | (8.515) | (82.066) |
| Retirement Pay Interest Cost | (1.166.965) | (1.086.416) |
| Discount Expenses | (57.979) | (97.110) |
| Late Interest Expense | (5.578) | - |
| **Total Financial Expenses** | **(1.239.037)** | **(1.265.592)** |

## 34. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None (31 December 2010: None).

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 35. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Provision for Corporate Tax Liability | 18.866.938 | 8.213.633 |
| Prepaid Taxes | (13.499.820) | (11.087.934) |
| Corporate Tax Liability | **5.367.118** | **(2.874.301)** |

The Company's tax expense consists of current corporate tax and deferred tax expenses.

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Tax Provision for the Period | (18.866.938) | (8.213.633) |
| Deferred Tax Expense | (2.892.596) | (7.715.989) |
| | **(21.759.534)** | **(15.929.622)** |

## 35. TAX ASSETS AND LIABILITIES (cont'd)

*Corporate Tax*

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods.

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 rate of tax in 2011 is 20% (2010: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2011 is 20% (2010: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, 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, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the Company. The investments without investment incentive certificates do not qualify for tax allowance.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 35. TAX ASSETS AND LIABILITIES (cont'd)

*Investment Incentives*

The application of investment incentives is revoked commencing from 1 January 2006. However, companies are allowed to offset their carried forward outstanding allowances as of 31 December 2005 against the 2006, 2007 and 2008's taxable income in cases where they have insufficient taxable profits. Non-deductible investment incentives from the 2008's taxable income cannot be carried forward to following years.

Upon the resolution made by the Constitutional Court on 15 October 2009, the legal arrangement, which proposes to eliminate the vested rights was revoked on the basis of being contradictory to the constitution. Deadline of the investment incentive period is, thereby, ceased as of the reporting date. The related resolution was published in the Official Gazette on 8 January 2010.

| Confirmation of Tax Provision | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Profit from operations before tax | 73.561.104 | 52.181.529 |
| Tax rate of 20% | 14.712.221 | 10.436.306 |
| Effects of Tax | | |
| - non-deductible expenses | 3.278.668 | 2.325.296 |
| -equity pick-up accounting | 5.545.905 | 4.877.234 |
| - other | (1.777.260) | (1.709.214) |
| Provisions for tax expense in income statement | 21.759.534 | 15.929.622 |

*Deferred tax*

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements prepared in accordance with IFRS and its statutory financial statements. Deferred tax assets and liabilities calculated for temporary differences expected to be realized in future are calculated under the liability method.

The deferred tax assets and liabilities as of 31 December 2011 and 2010 are as follows:

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Inventories | (24.022.326) | (18.310.559) |
| Tangible / Intangible Assets | (1.091.261) | (1.138.143) |
| Retirement Pay Provision | 6.585.636 | 5.445.838 |
| Inventory Impairment Provision | 2.873.729 | 2.873.729 |
| Provision for Doubtful Receivables | 3.465.751 | 2.150.510 |
| Other | 1.342.915 | 1.025.665 |
| | (10.845.556) | (7.952.960) |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 35. TAX ASSETS AND LIABILITIES (cont'd)

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Deferred tax liability as of 1 January | 7.952.960 | 236.971 |
| Deferred Tax Expense | 2.892.596 | 7.715.989 |
| Deferred Tax Liability Charge for the Period | 10.845.556 | 7.952.960 |

## 36. EARNINGS PER SHARE

There are not any equity (dilutive equity instruments) that have reducing effects on the earnings per share.

The calculation of weighted average of total shares and earnings per share is as follows:

| | 1 January – 31 December 2010 | 1 January – 31 December 2009 |
|---|---|---|
| Numbers of total outstanding shares (in full) | 693.000.000 | 693.000.000 |
| Weighted average number of shares outstanding during the period (in full) | 693.000.000 | 647.794.521 |
| Net profit for the year | 51.801.750 | 36.251.907 |
| Earnings per share (Ykr) | 7,47 | 5,60 |

## 37. RELATED PARTY TRANSACTIONS

a) Due to/from Related Parties:

Short-term trade receivables from related parties as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Türk Hava Yolları A.O. | 82.353.578 | 59.484.691 |
| Türk Hava Yolları Habom A.Ş | 6.688 | - |
| Sun Ekspress | 3.785.290 | 1.568.172 |
| Pratt & Whitney THY Teknik Uçak Motoru Bakım Merkezi Ltd. ("PW & TT") | 12.632.282 | 40.657.708 |
| Turkish Do & Co İkram Hizmetleri ("Do & Co") | 25.280 | 12.329 |
| TGS Yer Hizmetleri A.Ş | 204.702 | 145.912 |
| TCI Kabiniçi Sistemleri A.Ş. | 58.387 | - |
| Bosna &Herzegovına Airlines | 945.602 | - |
| Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş | 312.350 | - |
| | 100.324.159 | 101.868.812 |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

**37. RELATED PARTY TRANSACTIONS (cont'd)**

Short-term non-trade receivables from related parties as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Türk Hava Yolları A.O. | 34.398 | 21.407 |
| Goodrich Thy Teknik Servis | 38.638 | - |
| TCI Kabiniçi Sistemleri A.Ş. | 7.959 | - |
| Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş | 9.671 | - |
| Uçak Koltuk Üretimi San.ve Tic.A.Ş | 1.814 | - |
| | **92.480** | **21.407** |

Short-term trade payables to related parties as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Türk Hava Yolları A.O. | 27.606.631 | 30.789.009 |
| Sun Express | 48.240 | - |
| Türk Hava Yolları Habom A.Ş | 1.472.844 | - |
| Pratt & Whitney THY Teknik Uçak Motoru Bakım Merkezi Ltd. ("PW & TT") | 608.231 | 684.673 |
| TGS Yer Hizmetleri A.Ş | 244.540 | 386.131 |
| | **29.980.486** | **31.859.813** |

Short-term non trade payables to related parties as of 31 December 2011 and 2010 are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Türk Hava Yolları A.O. | 2.119.884 | 8.295.797 |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 37. RELATED PARTY TRANSACTIONS (cont'd)

b) Purchases and Sales from/to Related Parties

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Goods and services rendered to THY A.O. | 619.591.864 | 524.479.322 |
| Goods and services rendered to THY Habom A.Ş. | 11.893 | - |
| Goods and services rendered to Sun Express | 27.917.390 | 15.979.403 |
| Goods and services rendered to P&W T.T. | 25.407.861 | 7.863.429 |
| Goods and services rendered to TGS | 861.068 | - |
| Goods and services rendered to DO&CO | 8.865 | - |
| Goods and services rendered to TCI | 218.619 | - |
| Goods and services rendered to Bosna & Herzegovina | 2.111.715 | - |
| Goods and services rendered to Turkbine | 7.408.796 | - |
| | **683.538.070** | **548.322.154** |

| | 1 January - 31 December 2011 | 1 January - 31 December 2010 |
|---|---|---|
| Goods and services received from THY A.O. | 53.349.507 | 55.552.571 |
| Goods and services received from THY Habom A.Ş. | 4.500.694 | - |
| Goods and services received from Sun Express | 191.141 | 239.181 |
| Goods and services received from P&W T.T. | 321.606 | 434 |
| Goods and services received from TGS | 1.907.638 | 1.445.575 |
| Goods and services received from DO &CO | - | 126 |
| | **60.270.585** | **57.237.887** |

c) The total amount of salaries and other benefits provided to key management personnel is TL 1.135.475 (31 December 2011: TL 973.203).

## 38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing its profit and market value through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 8, and equity comprising issued capital, reserves and retained earnings, accumulated losses.

The Board of Directors of the Company periodically reviews the capital structure. During these analyses, 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 Company aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Company remains the same since the year 2008.

(b) Financial Risk Factors

The Company is exposed to the market risk (foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Risk management program of the Company generally focuses on the minimization of potential negative effects of uncertainty on the Company's performance.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

CREDIT RISK OF FINANCIAL INSTRUMENTS

| | Receivables | | | | |
|---|---|---|---|---|---|
| | Trade receivables | | Other receivables | | |
| 31 December 2011 | Related Party | Third Party | Related Party | Third Party | Deposits at Banks |
| Maximum credit risk as of balance sheet date (*) | 100.324.159 | 83.789.392 | 92.480 | 1.235.673 | 30.380.515 |
| The part of maximum risk under guarantee with collateral etc. | - | *(2.077.755)* | - | - | - |
| A. Net book value of financial assets that are neither past due nor impaired | 100.324.159 | 22.755.754 | 92.480 | 1.235.673 | 30.380.515 |
| 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 | - | 61.033.638 | - | - | - |
| -The part under guarantee with collateral etc. | - | *(2.077.755)* | - | - | - |
| D. Net book value of impaired assets | | | | | |
| -Past due (gross carrying amount) | - | # 38.669.345 | - | 15.437 | - |
| -Impairment(-) | - | *(38.669.345)* | - | *(15.437)* | - |
| -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.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

**38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**

(b) Financial Risk Factors (cont'd)

**CREDIT RISK OF FINANCIAL INSTRUMENTS**

| | Receivables | | | | |
|---|---|---|---|---|---|
| | Trade receivables | | Other receivables | | |
| **31 December 2010** | **Related Party** | **Third Party** | **Related Party** | **Third Party** | **Deposits at Banks** |
| Maximum credit risk as of balance sheet date (*) | 101.868.812 | 84.102.179 | 21.407 | 1.682.430 | 30.405.267 |
| The part of maximum risk under guarantee with collateral etc. | - | *(1.952.654)* | - | - | - |
| A. Net book value of financial assets that are neither past due nor impaired | 101.868.812 | 14.090.304 | 21.407 | 1.682.430 | 30.405.267 |
| 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 | - | 70.011.875 | - | - | - |
| -The part under guarantee with collateral etc. | - | *(1.952.654)* | - | - | - |
| D. Net book value of impaired assets | | | | | |
| -Past due (gross carrying amount) | - | 29.892.949 | - | 14.937 | - |
| -Impairment(-) | - | *(29.892.949)* | - | *(14.937)* | - |
| -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.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

**38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**

(b) Financial Risk Factors (cont'd)

*b.1) Credit risk management(cont'd)*

The risk of financial loss of the Company due to one of the financial instrument parties not meeting the requirements of the agreement is defined as credit risk.

The Company'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 Company management's forecasts based on its previous experience and current economical conditions. Because there are so many customers, the Company's credit risk is dispersed and there is not important credit risk concentration.

The Company's aging of past due receivables as of 31 December 2011 and 2010 are as follows:

| **Current period** | **Trade Receivables** | **Other Receivables** | **Deposits in Banks** | **Derivative instruments** | **Other** |
|---|---|---|---|---|---|
| Past due 1-30 days | 15.509.504 | - | - | - | - |
| Past due 1-3 months | 8.317.326 | - | - | - | - |
| Past due 3-12 months | 45.199.627 | - | - | - | - |
| Past due 1-5 years | 7.480.150 | - | - | - | - |
| Past due more than 5 years | - | - | - | - | - |
| The part due under guarantee with collateral | (2.077.755) | - | - | - | - |

| **Prior period** | **Trade Receivables** | **Other Receivables** | **Deposits in Banks** | **Derivative instruments** | **Other** |
|---|---|---|---|---|---|
| Past due 1-30 days | 11.459.033 | - | - | - | - |
| Past due 1-3 months | 19.615.819 | - | - | - | - |
| Past due 3-12 months | 36.847.751 | - | - | - | - |
| Past due 1-5 years | 2.089.272 | - | - | - | - |
| The part due under guarantee with collateral | (1.952.654) | - | - | - | - |

**38. NATURE AND LEVEL OF RISK DERIVED 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 received by the Company for past due not impaired receivable was TL 2.077.755 (31 December 2010: TL 1.952.654).

As of balance sheet date, the Company 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 Company management. The Company 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 non-derivative financial liabilities. The tables below are prepared based on the earliest date on which the Company 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.

The Company 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.

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

*b.2)Liquidity risk management (cont'd)*

**Liquidity Risk Table**

*31.12.2011*

| Due Date on Agreement | Book Value | Total Cash Outflow According to Contract | Less than 3 months | 3-12 months | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Non Derivative Financial Liabilities** | **145.549.562** | **145.549.562** | **142.110.532** | **3.465.638** | - | - |
| Financial Borrowings | 3.439.030 | 3.439.030 | - | 3.439.030 | - | - |
| Trade Payables | 111.180.997 | 111.180.997 | 111.180.997 | - | - | - |
| Other Financial Liabilities | 30.929.535 | 30.929.535 | 30.929.535 | - | - | - |

*31.12.2010*

| Due Date on Agreement | Book Value | Total Cash Outflow According to Contract | Less than 3 months | 3-12 months | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Non Derivative Financial Liabilities** | **105.610.301** | **105.610.301** | **105.596.997** | **13.304** | - | - |
| Financial Borrowings | 13.304 | 13.304 | - | 13.304 | - | - |
| Trade Payables | 79.842.069 | 79.842.069 | 79.842.069 | - | - | - |
| Other Financial Liabilities | 25.754.928 | 25.754.928 | 25.754.928 | - | - | - |

*b.3) Market risk management*

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Company are measured using sensitivity analysis. There has been no change to the Company'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 Company to foreign currency risk. The Company's foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 38. NATURE AND LEVEL OF RISK DERIVED 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*

Foreign Currency Position Table

| | Current Period | | | | | Prior Period | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | TL Equivalent | USD | Euro | GBP | Other | TL Equivalent | USD | Euro | GBP | Other |
| 1. Trade Receivables | 183.064.177 | 176.881.102 | 6.128.389 | 54.686 | - | 108.655.067 | 104.869.637 | 3.762.729 | 22.701 | - |
| 2a. Monetary Financial Assets | 25.990.428 | 25.806.876 | 98.606 | 84.946 | - | 21.604.790 | 21.386.958 | 163.263 | 54.569 | - |
| 2b. Non Monetary Financial Assets | - | | | | - | - | - | - | - | - |
| 3. Other | 24.654.902 | 21.400.720 | 2.716.883 | 537.299 | - | 4.660.702 | 4.464.983 | 143.712 | 41.236 | 10.769 |
| **4. Total Current Assets (1+2+3)** | **233.709.507** | **224.088.698** | **8.943.878** | **676.931** | **-** | **134.920.559** | **130.721.580** | **4.069.704** | **118.506** | **10.769** |
| 7. Other | 21.571.434 | 20.756.202 | 660.950 | 154.282 | - | 3.064.099 | 2.188.213 | - | 875.886 | - |
| **8. Total Non Current Assets (5+6+7)** | **21.571.434** | **20.756.202** | **660.950** | **154.282** | **-** | **3.064.099** | **2.188.213** | **-** | **875.886** | **-** |
| **9. Total Assets (4+8)** | **255.280.941** | **244.844.900** | **9.604.828** | **831.213** | **-** | **137.984.658** | **132.909.793** | **4.069.704** | **994.392** | **10.769** |
| 10. Trade Payables | (105.671.023) | (71.936.433) | (32.986.256) | (586.182) | (162.152) | (38.477.970) | (32.490.303) | (5.643.513) | (249.764) | (94.390) |
| 11. Financial Liabilities | (14.401) | (11.900) | (2.501) | - | - | (22.968) | (22.968) | - | - | - |
| 12a. Other Monetary Liabilities | (7.230.641) | (6.830.521) | (332.147) | (67.973) | - | (7.259.568) | (6.976.215) | (99.080) | (61.090) | (123.184) |
| 12b. Other Non Monetary Liabilities | (2.195.911) | (2.186.872) | (9.039) | - | - | - | - | - | - | - |
| **13. Total Current Liabilities (10+11+12)** | **(115.111.977)** | **(80.965.726)** | **(33.329.943)** | **(654.155)** | **(162.152)** | **(45.760.506)** | **(39.489.486)** | **(5.742.593)** | **(310.854)** | **(217.574)** |
| **18. Total Liabilities (13+17)** | **(115.111.977)** | **(80.965.726)** | **(33.329.943)** | **(654.155)** | **(162.152)** | **(45.760.506)** | **(39.489.486)** | **(5.742.593)** | **(310.854)** | **(217.574)** |
| **20. Net Foreign Currency Asset / (Liability) Position (9-18+19)** | **140.168.964** | **163.879.174** | **(23.725.115)** | **177.058** | **(162.152)** | **92.224.152** | **93.420.307** | **(1.672.889)** | **683.538** | **(206.805)** |
| **21. Net Foreign Currency Asset / (Liability) Position of Monetary Items (1+2a+5+6a-10-11-12a-14-15-16a)** | **96.138.539** | **123.909.124** | **(27.093.909)** | **(514.523)** | **(162.152)** | **84.499.351** | **86.767.109** | **(1.816.601)** | **(233.584)** | **(217.574)** |
| **23. Exports** | **79.800.547** | | | | | **65.405.694** | | | | |
| **24. Imports** | **324.893.002** | | | | | **198.898.994** | | | | |

## 38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

*b.3.1) Foreign currency risk management (cont'd)*

Foreign currency sensitivity

The Company is exposed to foreign currency rate risk due to US Dollar and Euro exchange rate fluctuations. The following table details the Company's sensitivity to a 10% increase and decrease in US Dollar and Euro exchange rates. 10% is used in, the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange currency fluctuations. Sensitivity analysis can only made on the year-end outstanding foreign currency denominated monetary items and it shows the year-end effects of the 10% of exchange currency fluctuation on the related items. The analysis includes foreign loans as well as loans that are denominated other than the creditors' functional currency and used for the Company's foreign operations. Positive value represents an increase in profit/loss and other equity items.

**Foreign Currency Sensitivity Analysis Table**

**Current Period**

| | **Profit / (Loss)** | |
|---|---|---|
| | **Foreign Currency Appreciated** | **Foreign Currency Devaluated** |
| In the event of 10% change in US Dollar against TL; | | |
| 1- US Dollar Net Asset / Liability | 12.390.912 | (12.390.912) |
| 2- Part of Hedged from US Dollar Risk (-) | - | - |
| **3- US Dollar Net Effect (1+2)** | **12.390.912** | **(12.390.912)** |
| In the event of 10% change in Euro against TL; | | |
| 4- Euro Net Asset / Liability | (2.709.391) | 2.709.391 |
| 5- Part of Hedged from Euro Risk (-) | - | |
| **6- Euro Net Effect (4+5)** | **(2.709.391)** | **2.709.391** |
| **TOTAL** | **9.681.521** | **(9.681.521)** |

**38. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**

(b) Financial Risk Factors (cont'd)

*b.3.1) Foreign currency risk management (cont'd)*

Foreign currency sensitivity (cont'd)

| Prior Period | | |
|---|---|---|
| | Profit / (Loss) | |
| | Foreign Currency Appreciated | Foreign Currency Appreciated |
| In the event of 10% change in US Dollar against TL | | |
| 1- US Dollar Net Asset / Liability | 10.051.264 | (10.051.264) |
| 2- Part of Hedged from US Dollar Risk (-) | - | - |
| **3- US Dollar Net Effect (1+2)** | **10.051.264** | **(10.051.264)** |
| In the event of 10% change in Euro against TL; | | |
| 4- Euro Net Asset / Liability | (378.011) | 378.011 |
| 5- Part of Hedged from Euro Risk (-) | | |
| **6- Euro Net Effect (4+5)** | **(378.011)** | **378.011** |
| **TOTAL** | **9.673.253** | **(9.673.253)** |

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

## 39. FINANCIAL INSTRUMENTS (cont'd)

Categories and fair value of financial instruments

| 31 December 2011 | Loans and receivables | Financial liblities at amortized cost | Carrying Value | Note |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and Cash Equivalents | 30.380.515 | - | 30.380.515 | 6 |
| Trade Receivables | 184.113.551 | - | 184.113.551 | 10 |
| Other Receivables | 1.328.153 | - | 1.328.153 | 11 |
| Financial liabilities | | | | |
| Financial debt | - | 3.439.030 | 3.439.030 | 8 |
| Trade payables | - | 111.180.997 | 111.180.997 | 10 |
| Other non trade payables due to related parties | - | 2.119.884 | 2.119.884 | 11 |

| 31 December 2010 | Loans and receivables | Financial liblities at amortized cost | Carrying Value | Note |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and Cash Equivalents | 30.405.267 | - | 30.405.267 | 6 |
| Trade Receivables | 185.970.991 | - | 185.970.991 | 10 |
| Other Receivables | 1.703.837 | - | 1.703.837 | 11 |
| Financial liabilities | | | | |
| Financial debt | - | 13.304 | 13.304 | 8 |
| Trade payables | - | 79.842.069 | 79.842.069 | 10 |
| Other non trade payables due to related parties | - | 8.295.797 | 8.295.797 | 11 |

(*) Company assumes that the carrying values of financial assets reflect fair value

## 40. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

None.

# Notes

# Notes