

**TÜRK HAVA YOLLARI TEKNİK  
ANONİM ŞİRKETİ  
Financial Statements And  
Independent Auditor's Report  
As of 30 JUNE 2008**

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BAKER TILLY  
G Ü R E L İ

GÜRELİ YEMİNLİ MALİ MÜŞAVİRLİK  
VE BAĞIMSIZ DENETİM HİZMETLERİ A.Ş.

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**  
**LIMITED REVIEW REPORT OF INDEPENDENT AUDITORS'**  
**FOR THE PERIOD ENDED JUNE 30, 2008**

**TO THE BOARD OF DIRECTORS OF  
TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ;**

**Introduction**

We have reviewed the accompanying balance sheet of **TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ** ("the Company"), as of June 30, 2008 and the related income statement, statement of changes in shareholders' equity and cash flow statement for the six -month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting standards published by Capital Market Board (CMB). Our responsibility is to express a conclusion on this interim financial statements based on our review.

**Scope of Review**

We conducted our review in accordance with the auditing standards published by Capital Market Board (CMB) applicable for limited review engagements . A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the auditing standandards published by Capital Market Board and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


**Conclusion**

Based on our review, nothing has to come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of **TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ** as at June 30, 2008, and of its financial performance and its cash flows for the six -month period ended in accordance with the financial reporting standards published by Capital Market Board.

**Matters Without Qualifying Opinion**

Within the scope of HABOM Project, the Company has decided to sign a "Joint Venture" agreement to build an aircraft engine overhaul center with Pratt&Whitney, which is one of the subsidiary of United Technologies Corporation on January 07, 2008. According to the agreement the Company will transfer its engine overhaul unit in full to the new established company. THY Teknik A.Ş will have 49 percent and Pratt&Whitney will have 51 percent shares in the new established company. For this reason, the financial statements of the new company will be consolidated to THY Teknik A.Ş's financial statements by using equity method. ( **Istanbul, 28.08.2008** )

**GÜRELİ YEMİNLİ MALİ MÜŞAVİRLİK VE BAĞIMSIZ DENETİM HİZMETLERİ A. Ş.**  
**An independent member of BAKER TILLY INTERNATIONAL**

  
YEMİNLİ MALİ MÜŞAVİRLİK VE BAĞIMSIZ  
DENETİM HİZMETLERİ A. Ş.

**Dr. Hakkı DEDE**  
**Certified Public Accountant**

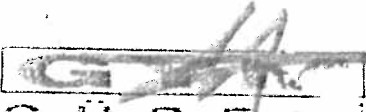


**TÜRK HAVA YOLLARI TEKNİK A.Ş.**  
**BALANCE SHEETS AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**

(Currency- In New Turkish Lira Unless Stated Otherwise.)

ASSETS	Note	Reviewed June 30, 2008	Audited December 31, 2007
<b>Current Assets</b>		<b>369.210.642</b>	<b>377.501.471</b>
Cash and Cash Equivalents	6	14.710.932	38.657.984
Financial Investment	7	-	-
Trade Receivables	10,37	73.823.855	57.956.090
Receivable to Financial Operations	12	-	-
Other Receivables	11,37	3.288.757	2.010.866
Inventories (net)	13	270.080.230	273.381.000
Biological Assets	14	-	-
Other Current Assets	26	7.306.868	5.495.531
<b>Total</b>		<b>369.210.642</b>	<b>377.501.471</b>
<b>Non-Current Assets</b>		<b>26.719.947</b>	<b>22.879.879</b>
Trade Receivables	10	-	-
Receivable to Financial Operations	12	-	-
Other Receivables	11	-	-
Financial Investment	7	-	-
Investments Evaluated by Equity Method	16	-	-
Biological Assets	14	-	-
Real Estates Held for Investment Purposes	17	-	-
Tangible Assets	18	24.356.527	19.942.642
Intangible Assets	19	98.172	67.100
Positive/Negative Goodwill	20	-	-
Deferred Tax Assets	35	1.939.926	2.544.815
Other Non-Current Assets	26	325.322	325.322
<b>Total Assets</b>		<b>395.930.589</b>	<b>400.381.350</b>

The accompanying policies and explanatory notes are an integral part of the financial statements.

  
**GÜRELİ**  
 YEMİNLİ MALİ MÜŞAVİRLİK VE BAĞIMSIZ  
 DENETİM HİZMETLERİ A.Ş.

**TÜRK HAVA YOLLARI TEKNİK A.Ş.**  
**BALANCE SHEETS AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**

(Currency- In New Turkish Lira Unless Stated Otherwise.)

	Note	Reviewed June 30, 2008	Audited December 31, 2007
<b>LIABILITIES</b>			
<b>Short-term Liabilities</b>			
Financial Payables	8	64.115.750	79.528.404
Other Financial Payables	9	1.595.735	-
Trade Payables	10 - 37	-	-
Other Payables	11 - 37	34.186.822	58.032.178
Government Grant And Assistance	21	17.262.543	13.488.972
Current Period Tax Liability	21	-	-
Provision for Expenses and Liabilities	35	1.237.842	2.059.488
Other Short Term Liabilities	22	4.037.304	394.186
<b>Total</b>	26	<b>64.115.750</b>	<b>79.528.404</b>
Fixed Assets Held For Sale Purposes And Discontinued Operations	34	-	-
<b>Long-Term Liabilities</b>			
Financcail Liabilities	8	10.721.520	7.274.178
Other Financial Liabilities	9	37.332	-
Trade Payables	10	-	-
Other Payables	11	-	-
Payables to Financial Operations	12	-	-
Government Grant And Assistance	21	-	-
Provision for Expenses and Liabilities	22	-	-
Provision For Termination Indemnities	24	10.684.188	7.274.178
Deferred Tax Liabilities	35	-	-
Other Long Term Liabilities	26	-	-
<b>SHAREHOLDERS' EQUITY</b>			
<b>Parent Company Shareholders' Equity</b>			
Paid-in Capital	27	321.093.319	313.578.768
Adjustments Regarding Share Capital of Participations		288.324.696	288.324.696
Share Premiums		-	-
Value Increase Funds		6.957.915	6.957.915
Foreign Currency Translation Differences		-	-
Restricted Reserves Assorted from Profit		1.083.311	1.055.200
<b>Income / (Loss) From Previous Period</b>		17.212.846	22.959.960
<b>Net Profit / (Loss) of the Period</b>		7.514.551	(5.719.003)
<b>Minority Interst</b>		-	-
<b>Total Liabilities</b>		<b>395.930.589</b>	<b>400.381.350</b>

The accompanying policies and explanatory notes are an integral part of the financial statements.

**TÜRK HAVA YOLLARI TEKNİK A.Ş.**  
**INCOME STATEMENT AS OF JUNE 30 AND DECEMBER 31, 2007**

(Currency- In New Turkish Lira Unless Stated Otherwise.)

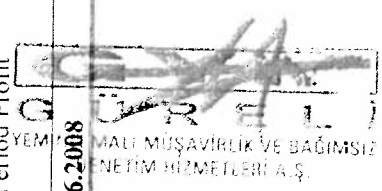
		Reviewed January 01, 2008- June 30, 2008	Unreviewed April 01, 2008- June 30, 2008	Reviewed January 01, 2007 - June 30, 2007	Unreviewed April 01, 2007 - June 30, 2007
	Note				
<b>CONTINUED OPERATIONS</b>					
Sales (net)	28	270.091.624	146.662.282	303.246.690	157.926.954
Cost of Sales (-)	28	(231.330.192)	(110.202.090)	(301.721.485)	(156.436.903)
<b>GROSS PROFIT / (LOSS) FROM BUSINESS OPERATIONS</b>					
		<b>38.761.432</b>	<b>36.460.192</b>	<b>1.525.205</b>	<b>1.490.051</b>
Interest, charge, premiums, commissions and other income		-	-	-	-
Interest, charge, premiums, commissions and other expenses (-)		-	-	-	-
<b>Gross Profit / ( Loss) from Financial Operations</b>					
<b>GROSS PROFIT / (LOSS)</b>					
		<b>38.761.432</b>	<b>36.460.192</b>	<b>1.525.205</b>	<b>1.490.051</b>
Marketing, Sales and Distribution Expenses (-)	29	(1.600.784)	(818.890)	(949.467)	(564.985)
General Administration Expenses (-)	29	(15.882.064)	(8.419.867)	(14.046.813)	(8.755.263)
Research and Development Expenses (-)	29	-	-	-	-
Other Operating Income	31	8.955.764	5.383.370	3.774.759	3.291.863
Other Operating Expenses (-)	31	(23.538.103)	(17.811.108)	(4.862.956)	(164.057)
<b>OPERATING PROFIT / (LOSS)</b>					
		<b>6.696.245</b>	<b>14.793.697</b>	<b>(14.559.272)</b>	<b>(4.702.391)</b>
Share in Profit / (Loss) of Investments Evaluated According to Equity Method		-	-	-	-
Financial Income	32	24.147.672	10.966.954	11.008.740	7.370.487
Financial Expenses (-)	33	(21.361.500)	(13.871.123)	(9.658.624)	(6.909.867)
<b>CONTINUED OPERATIONS PROFIT BEFORE TAXATION</b>					
		<b>9.482.417</b>	<b>11.889.528</b>	<b>(13.209.156)</b>	<b>(4.241.771)</b>
<b>Continued Operations Tax Income / (Expense)</b>					
		<b>(1.967.865)</b>	<b>(2.339.630)</b>	<b>2.604.853</b>	<b>815.439</b>
- Tax Income / (Expense) for the Period		(1.362.976)	(1.243.777)	(505.006)	(370.489)
- Deferred Tax Income/ (Expense)	35	(604.889)	(1.095.853)	3.109.859	1.185.928
<b>CONTINUED OPERATIONS PROFIT / (LOSS) PROFIT / (LOSS) FOR THE PERIOD</b>					
		<b>7.514.551</b>	<b>9.549.896</b>	<b>(10.604.303)</b>	<b>(3.426.332)</b>
		<b>7.514.551</b>	<b>9.549.896</b>	<b>(10.604.303)</b>	<b>(3.426.332)</b>
<b>Distribution of Profit / (Loss) for the Period</b>					
<b>Minority Interest</b>					
		-	-	-	-
Parent Company Share		7.514.551	9.549.896	(10.604.303)	(3.426.332)
<b>Profit / (Loss) Per Share (Ykr)</b>	<b>36</b>	<b>2,36</b>	<b>3,00</b>	<b>(3,33)</b>	<b>(1,08)</b>

The accompanying policies and explanatory notes are an integral part of the financial statements.

**TÜRK HAVA YOLLARI TEKNİK A.Ş.**  
**AS OF JUNE 30, 2008 AND DECEMBER 31, 2007**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Currency- In New Turkish Lira Unless Stated Otherwise.)**

	Paid-in Capital	Adgustment Regarding to Share Capital of Participants (-)	Share Premiums	Value Increase Funds	Foreign Currency Translation Differences	Retained Earnings- (Losses) / Legal Reserves	Previous Years' Profits / (Losses)	Net Period Profit / (Loss)	Total Shareholders' Equity
<b>31.12.2006</b>	<b>288,324,696</b>	-	-	<b>6,957,915</b>	-	-	-	<b>24,015,160</b>	<b>319,297,771</b>
Transfer	-	-	-	-	-	-	24,015,160	(24,015,160)	-
Transfers to Reserves	-	-	-	-	-	1,055,200	(1,055,200)	-	-
Capital Increase	-	-	-	-	-	-	-	-	-
Current Period Profit	-	-	-	-	-	-	-	(10,604,303)	(10,604,303)
<b>30.06.2007</b>	<b>288,324,696</b>	-	-	<b>6,957,915</b>	-	<b>1,055,200</b>	<b>22,959,960</b>	<b>(10,604,303)</b>	<b>308,693,468</b>
<b>31.12.2007</b>	<b>288,324,696</b>	-	-	<b>6,957,915</b>	-	<b>1,055,200</b>	<b>22,959,960</b>	<b>(5,719,003)</b>	<b>313,578,768</b>
Transfer	-	-	-	-	-	-	(5,719,003)	5,719,003	-
Transfers to Reserves	-	-	-	-	-	28,111	(28,111)	-	-
Capital Increase	-	-	-	-	-	-	-	-	-
Net Period Profit	-	-	-	-	-	-	-	7,514,551	7,514,551
<b>30.06.2008</b>	<b>288,324,696</b>	-	-	<b>6,957,915</b>	-	<b>1,083,311</b>	<b>17,212,846</b>	<b>7,514,551</b>	<b>321,093,319</b>

The accompanying policies and explanatory notes are integral part of the financial statements



# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## CASH FLOW STATEMENT

	Reviewed June 30, 2008	Reviewed June 30, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Period Profit / (Loss)	7.514.551	(10.604.303)
<b>Adjustments :</b>		
Depreciation (+)	35.694.056	52.198.500
Provision For Termination Indemnities (+)	3.410.010	3.653.446
Interest Income	-	-
Loss in Sale of Fixed Assets	15.463.902	-
Increase/(Decrease) in Provision for Impairment	12.104.036	1.545.826
Interest Expense	-	-
Rediscount Expense	6.672	-
Foreign Exchange Loss/Gain on Leasing	-	-
Provision for Doubtful Receivables (+)	(75.747)	8.175
<b>Operational Income Before Changes in Working Capital:</b>	<b>74.117.481</b>	<b>46.801.645</b>
Increase in Accounts Receivable	(15.798.690)	3.780.132
Increase/Decrease in Short-Term and Long-Term Trade Receivables Due From Related Parties	-	(24.479.088)
Increase/Decrease in Other Short and Long Term Receivables	(1.277.891)	(673.060)
Increase/Decrease in Inventories	(14.557.687)	(39.776.115)
Increase/Decrease in Other Current Assets	(1.811.337)	(6.240.943)
Increase/Decrease in Other Non-Current Assets	-	(393.097)
Increase/Decrease in Trade Payables	(23.845.356)	1.633.283
Increase/Decrease in Trade Receivables Due to Related Parties	-	25.940.766
Increase/Decrease in Advances Received	-	374.860
Increase/Decrease in Short-Term Provisions	2.821.472	4.110.466
Increase/Decrease in Other Short-Term and Log-Term Liabilities	4.620.382	(755.708)
Retirement Benefits Paid	-	-
Interest Payments (-)	-	-
Taxes Paid in Advance	-	-
<b>Net Cash Inflow Provided/(Used) From Operating Activities:</b>	<b>24.268.372</b>	<b>10.323.139</b>
<b>CASH PROVIDED/(USED) FROM INVESTMENT ACTIVITIES</b>		
Cash Inflow from Sale of Tangible and Intangible Assets	-	13.998
Interest Received (+)	-	-
Tangible Fixed Assets Acquisitons	(49.848.492)	(3.833.779)
<b>Net Cash Used in Investment Activities:</b>	<b>(49.848.492)</b>	<b>(3.819.781)</b>
<b>CASH FLOW PROVIDED/(USED) FROM FINANCIAL ACTIVITIES</b>		
Capital Increase	-	-
Increase/Decrease in Financial Liabilities	1.633.067	-
Increase/Decrease in Other Financial Liabilities	-	-
<b>Cash Provided/(Used) From Financial Activities:</b>	<b>1.633.067</b>	<b>-</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>(23.947.053)</b>	<b>6.503.358</b>
<b>BEGINNING BALANCE of CASH and CASH EQUIVALENTS</b>	<b>38.657.984</b>	<b>14.755.306</b>
<b>ENDING BALANCE of CASH and CASH EQUIVALENTS</b>	<b>14.710.932</b>	<b>21.258.665</b>



# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 1 ORGANIZATION AND BUSINESS SEGMENTS

Türk Hava Yolları Teknik A.Ş. ("The Company") has been established in 23.05.2006, with the purpose to bring the company to an important technical maintenance base in the area in air transport arena and provide maintenance and repair services to civil aviation sector and every kind of technical and infrastructural assistance related with the airlines sector.

Türk Hava Yolları Anonim Ortaklığı (THY A.O.), has decided to establish a company with the corporate name THY Teknik A.Ş. taking successful practices in the international sector into consideration by placing capital in kind amounting to at most 15 % of the assets of THY A.O. as of March 31, 2006 and based on the registered values on the uniform balance sheet of THY A.O. also as of March 31, 2006.

As of June 30, 2008 the total number of the employees in the company is 2.533. (June 30, 2007: 2.573)

	30.06.2008	30.06.2007
Administrative Personnel	617	650
Production Personnel	1.916	1.923
<b>Total</b>	<b>2.533</b>	<b>2.573</b>

As of June 30, 2008 the average number of the employees in the company is 2.525. (June 30, 2007: 2.518)

The company is registered in Turkey and the official address of the company is as follows:  
"İstanbul Bakırköy-Yeşilköy Atatürk Airport B Entrance".

## 2 PRINCIPLES RELATED TO THE PRESENTATION OF THE FINANCIAL STATEMENTS

### 2.01 Accounting Standards

The Company maintains its books of account and prepares its statutory financial statements in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation.

Capital Markets Board (CMB) published a comprehensive set of accounting principles in accordance with the communiqué Serial: XI, No:29 on "Communiqué on Financial Reporting at Capital Markets". This communiqué has become valid for the first interim financial subsequent to January 01, 2008. The supplementary commune Serial: XI, No: 29 was issued as an amendment to Communiqué Serial: XI NO: 25 and states that, the financial statements will be prepared in accordance with the International Financial Reporting Standards ("IFRS") as conceded by the Europe Union ("EU"). IFRS will be applied until the time differences between the IFRS and Turkish Accounting/Financial Reporting Standards ("TFRS") are declared by the Turkish Accounting Standards Board. Thus TFRS, which are in complaint with the applied standards, will be adopted.

As the differences between the IFRS and the TFRS have not been declared as of the date of this report, the accompanying financial statements and notes have been prepared in accordance with IFRS as declared in the communiqué Serial: XI, No: 29, with the required formats announced by the CMB on April 14, 2008 and the necessary classifications are made.

### 2.02 Dealing with the Inflation Effects in Hyper-Inflationary Periods

According to the decision dated March 17, 2005 with No:11/367 made by the CMB, the inflation accounting has been no longer effective for the perids after January 01, 2005 for the companies that are operating in Turkey and preparing financial statements in accordance with CMB standards. Therefore,

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

application of International Accounting Standards 29 "Financial Reporting on Hyper-Inflationist Economies" was ended after January 01, 2005.

## 2.03 Changes in Accounting Policies

The changes to the current accounting policies can be made either if it is necessary or the changes will provide more appropriate and reliable presentation of the transactions and events pertaining to the financial position, performance and the cash flow of the Company. If the changes in accounting policies affect the prior periods, the financial statements are retroactively adjusted.

## 2.04 Changes in Accounting Estimates and Errors

Accounting estimates are made based on reliable information and using appropriate estimation methods. However, if new or additional information becomes available or the circumstances, which the initial estimates based on, change, then the estimates are reviewed and revised, if necessary. If the change in the accounting estimates is only related to a sole period, then only that period's financial statements are adjusted. On the other hand, if the amendments are related to the current as well as the forthcoming periods, then both current and forthcoming periods' financial statements are adjusted.

In instances where the accounting estimates affect both current and forthcoming periods, then description and monetary value of the estimate is disclosed in the notes to the financial statements. However; if the affect of the accounting estimate to the financial statement is not determinable, then it is not disclosed in the notes to the financial statements.

The following rates, determined in accordance with the useful lives of the components and repairables, are used in calculation of depreciation:

Type	Former Economic Life	New Economic Life
Components	4-5-8-10	7
Repairable Replacements (R Material)	2-3	7
Repairable Replacements (X Material)	2-3	3

## 2.05 Summary of Significant Accounting Policies

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

### 2.05.01 Income

The Company recognizes income according to the accrual basis, when the Company reasonably determines the income and economic benefit is probable. Revenue is reduced for customer returns and sales discounts.

Revenue from the sale of goods is recognized when all the following conditions are gratified:

- The significant risks and the ownership of the goods are transferred to the buyer;
- The Company refrains the managerial control over the goods and the effective control over the goods sold;
- The revenue can be measured reasonably;
- It is probable that the the economic benefits related to transaction will flow to the entity;
- The costs incurred or will be incurred in conjunction with the transaction can be measured reliably.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the 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 differences 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 every kind of technical and infrastructural assistance related with the airlines sector. Incomes are recorded according to accrual basis.

## 2.05.02 Inventories

Inventories are stated either at the lower of acquisition cost or net realizable value. The cost basis of the inventories includes; the acquisition cost, conversion costs, and the costs incurred to bring the inventories to their existing status.

Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued using the monthly weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

The following rates, determined in accordance with the useful lives of the components and repairable, are used in calculation of depreciation:

	<u>Economic Life (year)</u>
- Components	7
- Repairable Replacements (R Material)	7
- Repairable Replacements (X Material)	3

## 2.5.03 Tangible Fixed Assets

Fixed assets are reflected to the financial statements by deducting their accumulated depreciation from their acquisition values as of June 30, 2008. Depreciation is calculated for all of the categories by straight-line method based on useful life.

Economic life of assets are as follows;

	<u>Economic Life (year)</u>
- Machine and Equipment	3-15
- Furniture and Fixtures	4-15
- Vehicles	4-7
- Other Tangible Fixed Assets	4-15
-Special Costs	5

The profit and loss arisen from fixed asset sales are determined by comparing the net book value with the sales price and the difference is recorded as operating profit or loss.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

Maintenance and repair costs are recorded as expense as at their realization date. If the maintenance and repair expenses clearly improve the economic value or performance of the related asset, then these costs are capitalized.

## 2.05.04 Intangible Assets

Intangible assets consist of computer software and other intangible assets. These are recorded with the acquisition cost as of June 30, 2008 and the other intangible assets are amortized with straight line method based on their useful lives.

## 2.05.05 Impairment of Assets

The carrying value of non-current assets comprising tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If the recoverable amount of an asset is below its carrying amount, impairment loss is recognized by making provision.

## 2.05.06 Financial Instruments

The company determines the appraised fair values of the financial instruments using the current market information and appropriate evaluation methods. However; by appraisal of fair value, interpretation of market information is required. According to this, the presented appraisals in this report may not show the amounts, which can be obtained by the company regarding the current market conditions in case the company's assets are disposed.

Fair values of some of the financial assets are considered to be equal to their cost values due to their short-term nature.

The most significant financial assets of the company are cash and cash equivalents, trade receivables, receivables from related parties, and assets ready for sale.

It is estimated that the book values of the trade receivables and receivables from related parties are approximately equal to their market values after the provisions for uncollectible receivables are subtracted and the receivables are rediscounted.

It is estimated that the book values of the trade payables and payables to related parties are approximately equal to their market values after the payables are rediscounted.

Financial expenses are accounted for using the accrual principle. They are followed under other expense accruals if not paid in the related period. The trade and other payables and payables to affiliates are presented with their nominal values which are considered to be approximate to the market values.

## Price Risk

- Foreign Exchange Rate Risk

The company is exposed to foreign exchange rate risk as a result of the The Company's foreign currency receivables exceeds foreign currency liabilities in the downward trend in the period.

- Interest Risk

The company is exposed to interest risk as a result of the assets and liabilities which bear interest.

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

- Market Risk

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

*(i) Financial Assets*

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

Other financial assets are classified as “financial assets, whose fair value differences are reflected to the profit or loss”, “financial assets held to the maturity”, “financial assets available for-sale” and “loans and receivables”.

*(ii) Prevailing Interest Method*

Prevailing interest method is the valuation of financial asset with their amortized cost and allocation of interest income to the relevant period. Prevailing interest rate is that discounts the estimated cash flow for the expected life of financial instrument or where appropriate a shorter period.

Income related to financial assets, except the “financial assets, whose fair value differences are reflected to the profit or loss”, is calculated by using the prevailing interest rate.

*a) Financial Assets Whose Fair Value Differences Are Reflected to the Profit or Loss*

“Financial assets whose fair value differences are reflected to the profit or loss”, are the financial assets that are held for trading purposes. If a financial asset is acquired for trading purposes, it is classified in this category. Also, derivative instruments, which are not exempt from financial risk, are also classified as “Financial assets whose fair value differences are reflected to the profit or loss”. These financial assets are classified as current assets.

*b) Financial Assets Which Will Be Held to the Maturity*

Debt instruments, which the Company has the intention and capability to hold to maturity, and/or have fixed or determinable payment arrangement are classified as “Investments Held to the Maturity”. Financial asset that will be held to the maturity, are recorded after deducting the impairment from the cost basis, which has been amortized with prevailing interest method. All relevant income is calculated using the prevailing interest method.

*c) Loans and Receivables*

Trade receivables, other receivables, and loans are initially recognized at their fair value. Subsequently, receivables and loans are measured at amortized cost using the effective interest method.

*Impairment of Financial Assets*

Financial assets, Whose Fair Value Differences Are Reflected to the Profit or Loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired, where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

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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 with the impairment loss directly for all financial assets with the exception of 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, which were previously written off, are reversed against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

## Cash and Cash Equivalents

Cash and cash equivalents are cash, demand deposit and other short-term highly liquid investments, which their maturities are 3 months or less from the date as of acquisition, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## (ii) Financial Liabilities

Financial liabilities and equity instruments are classified according to the contractual agreements entered into and the definition of financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all the liabilities. Accounting policies determined for the financial liabilities and the financial instruments based on equity are explained below.

Financial liabilities are classified as either “financial liabilities whose fair value differences are reflected to the profit /loss” or other financial liabilities.

### a) Financial Liabilities Whose Fair Value Differences Are Reflected to the Profit /Loss

“Financial liabilities whose fair value differences are reflected to the profit /loss” are recorded with their fair value and are re-evaluated at the end of each balance sheet date. Changes in fair values are recorded on the income statement. Net earnings and/or losses recorded on the income statement also include interest payments made for this financial liability.

### b) Other Financial Liabilities

Other financial liabilities are initially determined with their fair value, after deducting the 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.

Prevailing interest method is used to calculate the amortized costs of a financial liability and to allocate the interest expense over the relevant period. Prevailing interest rate is that discounts the estimated cash flow for the expected life of financial instrument or where appropriate, a shorter period.

### (iii) Derivative Financial Instruments

Derivative financial instruments are initially recorded with their fair value and evaluated with fair value in next periods. The Company occasionally uses derivative instruments to minimize their risks from liabilities denominated in foreign currency.

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## 2.05.07 Effects of Currency Fluctuations

All transactions, denominated in foreign currencies, are converted into YTL by the exchange rate ruling at the transaction date. All foreign currency denominated monetary assets and liabilities stated at the balance sheet are converted into YTL by the exchange rate ruling at the balance sheet date. Foreign exchange gains and/or losses as a result of the conversions are recorded in the income statement.

Average exchange rates and exchange rates of USD for the periods ended are as follows;

	<u>End of Period Rate</u>	<u>Average Rate</u>
June 30, 2008	1,2237	1,2265
December 31, 2007	1,1647	1,3003
June 30, 2007	1,3046	1,3687
December 31, 2006	1,4056	1,4297

Average exchange rates and exchange rates of EURO for the periods ended are as follows;

	<u>End of Period Rate</u>	<u>Average Rate</u>
June 30, 2008	1,9271	1,8782
December 31, 2007	1,7102	1,7773
June 30, 2007	1,7585	1,8183
December 31, 2006	1,8515	1,8032

## 2.05.08 Earnings per Share

Earnings per share in the income statement is calculated by dividing net income by the weighted average number of common shares outstanding for the period.

## 2.05.09 Subsequent Events

Subsequent events cover all events that occur between the balance sheet date and the publication date of the financial statements. If there is a substantial evidence that the subsequent events existed or arose after the balance sheet date, these events are disclosed and explained in the notes to the financial statements.

The Company adjusts its financial statements if the above-explained subsequent events require any adjustments.

## 2.05.10 Provisions, Contingent Liabilities and Assets

A provision shall be recognized when an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and reliable estimate can be made of the amount of the obligation.

The assets and liabilities which can be confirmed according to eventuation of one or more issues which are not fully in control of the company and which arise from previous transactions are not presented in the financial statements and they are determined as contingent liabilities and assets.

## 2.05.11 Related Party Disclosures

The partners' of the Company, Company's management personnel, Companies directors, close family members in the charge of the Company, and other companies directly or indirectly controlled by the

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Notes to the Financial Statements as of June 30, 2008

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Company are considered related parties. The transactions with related parties are disclosed in the notes to the consolidated financial statements.

## 2.05.12 Taxation and Deferred Tax

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

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The 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 used in the computation of taxable profit, and are 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 associates, 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 utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that may arise from 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.

### Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income to the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in the equity, or where they arise from the initial accounting for a business combination. In the case of a



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business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

Taxes on financial statements contain changes in current period taxes and deferred tax. Company calculates current period tax and deferred tax based on period results.

## Offsetting in Taxation

Corporate tax amounts are related to prepaid corporate tax amounts and these amounts are offsetting in financial statements. Deferred tax assets and liabilities are also offsetting in financial statements.

### *2.05.13 Retirement Pay Provision*

According to Turkish Labor Law, employee termination benefits are reflected to financial tables when the termination indemnities are deserved. Termination indemnity liability is reflected to the financial statements with the amount calculated for value at balance sheet date of lump pension in the next years by discounting by adequate interest rate. Interest cost added to the lump pension expense is shown as interest expense in the results of operations.

### *2.05.14 Cash Flow Statement*

The Company prepares cash flows as an integral part of the consolidated financial statements to provide information about the change in net assets and financial structure of the Company and the ability of the Company to manage the amount and timing of cash flows according to changing circumstances.

### *2.05.15. Government Grants and Assistance*

Government grants are not recognized until there is a reasonable assurance that the entity will comply with the conditions set forth in the contractual agreements and the grants will be received. Income from the government grants are matched with the related costs, which the Company will be compensated on a systematic basis, and recognized as income over the necessary period. Company does not have any Government Grants and Assistance in current period and in previous period.

### *2.05.16 Investment Property*

Company does not have any investment property.

## **2.06 Comparative Presentation and Adjustment of Prior Period Financial Statements**

The comparative financial statements have been presented to enable to perform the financial position and the performance trend analysis. All necessary adjustments have been made in prior financial statements to present consistent and comparative financial statements.

## **2.07 Offsetting**

The financial assets and liabilities in the consolidated financial statements are offset and the net amount reported in the balance sheet, where there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

## **3 BUSINESS COMBINATIONS**

There are not any business combinations in the current period.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 4 BUSINESS ASSOCIATIONS

None.

## 5 REPORTING FINANCIAL INFORMATION BY SEGMENTS

None. (December 31, 2007: None)

## 6 CASH AND CASH EQUIVALENTS

The cash and cash equivalents of the company as of June 30, 2008 and December 31, 2007 are as follows:

	<u>June 30, 2008</u>	<u>Dec 31, 2007</u>
Cash	42.847	-
Banks	565.650	627.782
Banks (time deposit)	14.102.435	38.030.202
	<u>14.710.932</u>	<u>38.657.984</u>

There are no blocked deposits. (December 31, 2007: None)

Time deposits of the Company are as follows:

<u>Amount</u>	<u>Currency</u>	<u>Beginning</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>June 30, 2008</u>
11.130.719	USD	30.06.2008	%3,05 - %3,65	01.07.2008	13.620.660
250.000	EUR	30.06.2008	%3,60	01.07.2008	481.775
					<u>14.102.435</u>
<u>Amount</u>	<u>Currency</u>	<u>Beginning</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Dec 31, 2007</u>
6.700.000	YTL	27.12.2007- 31.12.2007	%18	11.01.2008	6.700.000
26.899.804	USD	03.12.2007- 31.12.2007	%4,20 - %5,80	02.01.2008- 28.01.2007	31.330.202
					<u>38.030.202</u>

## 7 FINANCIAL INVESTMENTS

None. (December 31, 2007: None)

## 8 FINANCIAL PAYABLES

Financial payables of the company as of June 30, 2008 are as follows;

	<u>June 30, 2008</u>	<u>Dec 31, 2007</u>
Short Term	1.595.735	-
Long Term	37.332	-
	<u>1.633.067</u>	<u>-</u>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

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Short term financial payables of the company as of June 30, 2008 are as follows;

<u>Banks</u>	<u>Due Date</u>	<u>Original Currency</u>	<u>Accrual of Interest</u>	<u>YTL</u>
Halkbank	July 01, 2008	1.547.694 YTL	-	1.547.694
Garanti Credit Card	-	10.554 YTL	-	10.554
Garanti Credit Card	-	154 USD	-	189
Turkiye Teknoloji Gelistirme Proje Destekleme Vakfi	June 30, 2009	30.508 USD	-	37.332
<b>Total</b>				<b>1.595.735</b>

Long term financial payables of the company as of June 30, 2008 are as follows;

<u>Bank</u>	<u>Due Date</u>	<u>Original Currency</u>	<u>Accrual of Interest</u>	<u>YTL</u>
Turkiye Teknoloji Gelistirme Proje Destekleme Vakfi	30 Haziran 2010	30.508 USD	-	37.332
<b>Total</b>				<b>37.332</b>

## 9 OTHER FINANCIAL LIABILITIES

None (December 31, 2007: None)

## 10 TRADE RECEIVABLES AND PAYABLES (NET)

Short Term Trade Receivables are as follows;

	<u>June 30, 2008</u>	<u>Dec 31, 2007</u>
Trade Receivables	73.037.364	57.841.894
<i>THY A.O. Trade Receivables</i>	49.885.951	48.036.598
<i>Sun Ekspres</i>	653.471	573.302
<i>Other Trade Receivables</i>	22.497.942	9.231.994
Credit Note Receivables	266.845	114.196
Notes Receivable	526.318	-
Rediscount on Notes Receivable (-)	(6.672)	-
Doubtful Receivables	301.764	382.511
Provision for Doubtful Receivables (-)	(301.764)	(382.511)
<b>Total</b>	<b>73.823.855</b>	<b>57.956.090</b>

Changes in Provision for Doubtful Receivables for the periods ended June 30, 2008 and June 30, 2007 are as follows;

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Provisions at the beginning of the period	382.511	108.530
Current Period Expense	32.783	8.175
Receivables Recovered	(113.530)	-
Receivables written off	-	-
Provisions at the end of the period	<b>301.764</b>	<b>116.705</b>

There are no long term trade receivables for the periods.

### Guarantees Received For Receivables

Letter of Guarantees Received for Trade Receivables amount is USD 1.160.000 , EURO 75.000 and YTL 40.000.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

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Short term trade payables are as follows;

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Suppliers	34.090.383	58.008.913
<i>THY A.O. Trade Payables</i>	6.789.838	16.526.582
<i>Other Suppliers</i>	27.300.545	41.482.331
Other	96.439	23.265
	<b>34.186.822</b>	<b>58.032.178</b>

There are no long term trade payables for the periods.

## 11 OTHER RECEIVABLES AND PAYABLES

Other short term receivables are as follows;

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Receivables from Various Companies	1.588.670	1.393.353
Receivables from the Tax Administration	1.401.470	460.132
Due from the Personnel	3.334	8.821
THY A.O. Non-Trade Receivables	293.571	141.045
Other Doubtful Receivables	21.152	21.152
Provision for Other Doubtful Receivables (-)	(21.152)	(21.152)
Deposits and Guarantees Given	1.579	1.502
Other Receivables	133	6.013
	<b>3.288.757</b>	<b>2.010.866</b>

Other short term payables are as follows;

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Deposits and Guarantees Received	3.670	3.500
Taxes, Charges and Other Duties Payable	4.915.552	6.085.381
Social Security Premiums Payable	4.286.950	4.103.205
Due to Personnel	261.182	244.800
Cash Advances	1.094.099	795.966
THY A.O. Non-Trade Payables	6.701.090	2.256.120
	<b>17.262.543</b>	<b>13.488.972</b>

## 12 RECEIVABLES AND PAYABLES FROM / TO FINANCIAL OPERATIONS

None. (Dec 31, 2007: None)

## 13 INVENTORIES (NET)

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Technical Equipment Inventories	94.803.032	88.585.477
BFE Equipment Inventories	2.372.410	3.338.592
Components and Repairables	323.125.069	327.244.647
Components and Repairables	(154.678.781)	(153.043.938)
Accumulated Depreciation (-)		
Technical Equipment Inventories in Transit	4.458.500	5.321.034
Obsolete Equipment Inventories	22.949.544	10.845.508
Provision for Decrease in Value of Inventories (-)	(22.949.544)	(10.845.508)
Other	-	1.935.188
	<b>270.080.230</b>	<b>273.381.000</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

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The transactions related with the provision for decrease in value of inventories;

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Provisions at the beginning of the period	10.845.508	4.910.688
Provisions made in the period	12.104.036	4.127.802
Cancellation of the provisions made in the period	-	(2.581.976)
Provisions at the end of the period	<b>22.949.544</b>	<b>6.456.514</b>

The transactions related with components and repairables are as follows:

	<b>Components and Repairables</b>
<b><u>Cost</u></b>	
Opening Balance, January 01, 2008	327.244.647
Additional	42.655.420
Disposals	(46.774.998)
Ending Balance, June 30, 2008	323.125.069
<b><u>Accumulated Depreciation</u></b>	
Opening Balance, January 01, 2008	153.043.938
Depreciation for the Period	33.011.441
Disposals	(31.376.598)
Ending Balance, June 30, 2008	154.678.781
<b>June 30, 2008 Net Book Value</b>	<b>168.446.288</b>
<b>Dec 31, 2007 Net Book Value</b>	<b>174.200.709</b>

## 14 BIOLOGICAL ASSETS

None. (December 31, 2007: None)

## 15 CONSTRUCTION CONTRACTS IN PROGRESS

None. (December 31, 2007: None)

## 16 INVESTMENTS EVALUATED BY EQUITY METHOD

None. (December 31, 2007: None)

## 17 INVESTMENT PROPERTIES

None. (December 31, 2007: None)

Notes to the Financial Statements as of June 30, 2008

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**18 TANGIBLE FIXED ASSETS (NET)**

<b>Cost</b>	<b>Plant, Machinery and Equipment</b>					<b>Leasehold Improvements</b>	<b>Total</b>
	<b>Vehicles</b>	<b>Furniture and Fixture</b>	<b>Other Non-Current Assets</b>	<b>Contructions in Progress</b>	<b>Improvements</b>		
Opening Balance, January 01, 2008	76,098.885	10,755.181	4,363.742	930.054	576.637	1,990.172	94,714.671
Additions	5,026.370	27,096	635.534	64.831	1,391.156	-	7,144.987
Disposals	(9,862.981)	(3,596.228)	(616.493)	(126.377)	-	-	(14,202.079)
Transfer	-	-	-	(358.485)	358.485	-	-
Ending Balance, June 30, 2008	71,262.274	7,186.049	4,382.783	868.508	1,609.308	2,348.657	87,657.579
<b>Accumulated Depreciation</b>							
Opening Balance, January 01, 2008	61,630.110	10,221.278	2,342.410	475.165	-	103.065	74,772.028
Depreciation for the Period	1,956.614	116.421	320.042	52.835	-	219.689	2,665.601
Disposals	(9,812.800)	(3,596.122)	(612.070)	(115.585)	-	-	(14,136.577)
Ending Balance, June 30, 2008	53,773.924	6,741.577	2,050.382	412.415	-	322.754	63,301.052
<b>June 30, 2008 net book value</b>	<b>17,488.350</b>	<b>444.472</b>	<b>2,332.401</b>	<b>456.093</b>	<b>1,609.308</b>	<b>2,025.903</b>	<b>24,356.527</b>
<b>December 31, 2007 net book value</b>	<b>14,468.775</b>	<b>533.903</b>	<b>2,021.333</b>	<b>454.887</b>	<b>576.637</b>	<b>1,887.107</b>	<b>19,942.642</b>

YEMİNLİ MALİ MUŞAVİRLİK VE BAĞIMSIZ DENETİM HİZMETLERİ A.Ş.

Notes to the Financial Statements as of June 30, 2008

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	Plant, Machinery and Equipment	Vehicles	Furniture and Fixture	Other Non- Current Assets	Constructions in Progress	Leasehold Improvements	Total
<b>Cost</b>							
Opening Balance, January 01, 2007	83.516.726	13.661.635	14.746.642	695.262	512.712	-	113.132.977
Additions	1.659.012	38.839	475.219	71.063	606.127	879	2.851.139
Disposals	(746.947)	(808.876)	(32.791)	(443)		-	(1.589.057)
Ending Balance, June 30, 2007	84.428.791	12.891.598	15.189.070	765.882	1.118.839	879	114.395.059
<b>Accumulated Depreciation</b>							
Opening Balance, January 01, 2007	72.711.721	13.166.693	13.574.091	400.428	-	-	99.852.933
Depreciation for the Period	1.453.150	110.362	190.905	38.346	-	14	1.792.777
Disposals	(743.250)	(801.379)	(29.987)	(443)	-	-	(1.575.059)
Ending Balance, June 30, 2007	73.421.621	12.475.676	13.735.009	438.331	-	14	100.070.651
<b>June 30, 2007 net book value</b>	11.007.170	415.922	1.454.061	327.551	1.118.839	865	14.324.408
<b>December 31, 2006 net book value</b>	10.805.005	494.942	1.172.551	294.833	512.712	-	13.280.043

YEMİNLİ MALİ MUŞAVİRLİK VE YATIRIM  
HİZMETLERİ A.Ş.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 19 INTANGIBLE ASSETS (NET)

<u>Cost</u>	<u>Rights</u>
Opening Balance, January 01, 2008	198.114
Additional	48.085
Disposals	(11.356)
Ending Balance, June 30, 2008	234.843
<b><u>Accumulated Depreciation</u></b>	
Opening Balance, January 01, 2008	131.013
Depreciation for the Period	17.014
Disposals	(11.356)
Ending Balance, June 30, 2008	136.671
<b>June 30, 2008 net book value</b>	<b>98.172</b>
<b>December 31, 2007 net book value</b>	<b>67.100</b>

<u>Cost</u>	<u>Rights</u>
Opening Balance, January 01, 2007	126.430
Additional	27.548
Disposals	(672)
Ending Balance, June 30, 2007	153.306
<b><u>Accumulated Depreciation</u></b>	
Opening Balance, January 01, 2007	116.496
Depreciation for the Period	5.882
Disposals	(672)
Ending Balance, June 30, 2007	121.706
<b>June 30, 2007 net book value</b>	<b>31.600</b>
<b>December 31, 2006 net book value</b>	<b>9.934</b>

## 20 GOODWILL

None. (December 31, 2007: None)

## 21 GOVERNMENT GRANT AND ASSISTANCE

None. (December 31, 2007: None)



# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 22 PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

### i) Provisions

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Provision for Payables	3.939.354	394.186
Provision for Legal Cases	97.950	-
	<b>4.037.304</b>	<b>394.186</b>

Changes in Provision for Legal Cases for the periods ended June 30, 2008 and June 30, 2007 are as follows;

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Provisions at the beginning of the period	<b>143.400</b>	-
Provisions made in the current period	7.950	<b>143.400</b>
Released Provisions	53.400	-
Provisions at the end of the period	<b>97.950</b>	<b>143.400</b>

### ii) Contingent Liabilities and Assets

#### **30.06.2008**

As of 30 June, 2008, there exist two compensation demands opened against Company, provision amount YTL 97.950- is made in the financial statements. As of June 30, 2008 these lawsuits are still continuing, about the results of the lawsuits, it is not possible to make positive and negative convictions.

As of 30 June, 2008, there exist three litigations by Company, all of them is compensation demands. For all of these lawsuits, the Company made provision at relevant periods. As of 30 June, 2008 this lawsuits are still continuing and about the results of the lawsuits, it is not possible to make positive and negative convictions.

#### **31.12.2007**

As of December 31, 2008, there exist three litigations by Company, all of them is compensation demands. For all of these lawsuits, the Company made provision at relevant periods. As of December 31, 2008 this lawsuits are still continuing and about the results of the lawsuits, it is not possible to make positive and negative convictions.

### iii) Contingent Liabilities:

#### **30.06.2008**

<b>Type</b>	<b>YTL AMOUNT</b>
Guarantee Letters Given	603.460
<b>TOTAL</b>	<b>603.460</b>

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Notes to the Financial Statements as of June 30, 2008

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## 31.12.2007

Type	YTL AMOUNT
Guarantee Letters Given	1.869.393
<b>TOTAL</b>	<b>1.869.393</b>

### *iv) Mortgages and Guarantees on Asset:*

None. (December 31, 2007: None)

### *v) Insurance Coverage on Assets:*

## 30.06.2008

Type of Insured Asset	Amount	Currencies
Buildings and Plant, Machinery and Equip.	136.522.394	YTL
Vehicles	243.940	YTL
Insurance of Replacement	250.000.000	USD
Other	280.000	YTL
<b>Total YTL</b>	<b>137.046.334</b>	
<b>Total USD</b>	<b>250.000.000</b>	

## 31.12.2007

Type of Insured Asset	Amount	Currencies
Buildings and Plant, Machinery and Equip.	131.435.897	YTL
Vehicles	219.688	YTL
Insurance of Replacement	250.000.000	USD
Other	648.714	YTL
<b>Total YTL</b>	<b>132.304.299</b>	
<b>Total USD</b>	<b>250.000.000</b>	

## 23 COMMITMENTS

None. (December 31, 2007: None)

## 24 EMPLOYEE TERMINATION BENEFITS

	<u>June 30, 2008</u>	<u>Dec 31, 2007</u>
Provision for Termination Indemnities	10.684.188	7.274.178

Under the Turkish Labor Law, the Company is required to pay employee termination benefits to each employee, who has entitled to receive provisions for employee termination benefits in accordance with the effective laws: No: 2422 on March 6, 1981 and No: 4447 on August 25, 1999 of the Social Insurance Act No: 506 and the requirements of the amended Article 60 of the related Act. The maximum employee termination benefit payable as of 30 June, 2008 is 2.087,92 YTL. (December 31, 2007: 2.030,19).

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of its employees. IAS 19 requires actuarial valuation methods to be

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

developed to estimate the Company's obligation under the defined benefit plans. In conjunction with that, the following actuarial valuation methods have been used to calculate the total liability:

The principal assumption is that the maximum liability for each year of service will increase in line with the inflation. Therefore, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the financial statements dated as of 30 June, 2008, the provision was 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 balance sheet dates have been calculated assuming an annual inflation rate of 5% and a discount rate of 11%. With that the real discount rate of 5.71% (December 31, 2007: 5.71%) was used in the computation.

Movement of provision for termination indemnities are as follows:

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Provisions at the beginning of the period	7,274,178	1.995.478
Current Service Cost	3.320.479	3.675.487
Interest Cost	207.834	57.014
Payments	(118,303)	(79.055)
Provisions at the end of the period	<b>10,684,188</b>	<b>5.648.924</b>

## 25 RETIREMENT BENEFIT PLANS

Other than the Employee Termination Benefits explained in Note:24, the Company does not employ any retirement benefit plans.

## 26 OTHER ASSETS AND LIABILITIES

Other current assets are as follows;

	<b>June 30, 2008</b>	<b>Dec, 31 2007</b>
Prepaid Expenses	345.985	169.056
Income Accruals	4.511.149	1.117.953
Deferred VAT	206.359	1.735.770
Job Advances	10.913	2.349
Personnel Advances	23.759	26.757
Advances Given for Purchases	1.353.994	1.961.556
Advances given for Fixed Assets	854.709	482.089
	<b>7.306.868</b>	<b>5.495.531</b>

Other short term liabilities are as follows;

	<b>June 30, 2008</b>	<b>Dec, 31 2007</b>
Income Relating to the Future months	-	150.945
Salary Accruals	5.771.355	5.271.027
Other Liabilities	24.149	131.608
	<b>5.795.504</b>	<b>5.553.580</b>

Other non-current assets are as follows;

	<b>June 30, 2008</b>	<b>Dec, 31 2007</b>
Prepaid Expenses for the Following Years	325.322	325.322
	<b>325.322</b>	<b>325.322</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 27 SHAREHOLDERS EQUITY

### i) Minority Interest

None. (December 31, 2007: None)

### ii) Share Capital/Elimination Adjustments

As of June 30, 2007, the share capital of the Company has been comprised of 318.000.000 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 structure of the Company's capital is as follows:

	%	June 30, 2008	%	Dec 31, 2007
THY A.O.	100	318.000.000	100	318.000.000
Unpaid Capital		(29.675.304)		(29.675.304)
		<b>288.324.696</b>		<b>288.324.696</b>

### iii) Capital Reserves

None. (December 31, 2007: None)

### iv) Restricted Reserves from Profit

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code (TCC).

The TCC stipulates that the first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's historical 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 historical paid-in share capital. Under TCC, the legal reserves are not available for distribution unless they exceed 50% of the historical paid-in share capital but may be used to offset losses in the event that historical general reserve is exhausted.

### vi) Previous Years' Profits

Profits of previous years consist of extraordinary reserves and profits of previous years.

In accordance with the CMB's decision numbered 7/242 dated on February 25, 2005; if the amount of net distributable profit based on the CMB's requirement on the minimum profit distribution arrangements, which is computed over the net profit determined based on the CMB's regulations, does not exceed the net distributable profit in the statutory accounts, the whole amount should be distributed, otherwise; all distributable amount in the statutory accounts are distributed. However, no profit distribution would be made if any financial statements prepared in accordance with the CMB or any statutory accounts carrying net loss for the period.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008  
(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

Detail of the Equity for the years ended are as follows;

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Paid-in Capital	288.324.696	288.324.696
Value Increase Funds	6.957.915	6.957.915
Restricted Reserves from Profit	1.083.311	1.055.200
Extraordinary Reserves	20.582.917	20.048.802
Other Previous Years Profits/(Losses)	(3.370.071)	2.911.158
Net Profit/(Loss) for the Period	7.514.551	(5.719.003)
	<b>321.093.319</b>	<b>313.578.768</b>

## 28 SALES AND COST OF SALES

Operating Income is as follows:

	<b>01 January - 30 June 2008</b>	<b>01 April - 30 June 2008</b>	<b>01 January - 30 June 2007</b>	<b>01 April - 30 June 2007</b>
Line Maintenance Income	35.414.305	18.935.759	33.090.844	17.534.209
Letter Check Services Income	74.958.078	42.274.611	53.213.213	31.161.035
Engine Services Income	60.207.799	35.026.435	64.919.762	38.892.949
Component Services Income	27.600.775	15.715.862	21.444.641	11.205.446
Pool Income	24.888.132	12.870.580	24.387.995	12.530.388
BFE & Retrofit Income	20.375.344	7.560.595	72.658.081	23.564.646
Other	26.647.191	14.278.440	33.532.154	23.038.281
<b>Income From Sales (Net)</b>	<b>270.091.624</b>	<b>146.662.282</b>	<b>303.246.690</b>	<b>157.926.954</b>
Cost of Sales (-)	(231.330.192)	(110.202.090)	(301.721.485)	(156.436.903)
<b>Gross Profit/(Loss) from Operations</b>	<b>38.761.432</b>	<b>36.460.192</b>	<b>1.525.205</b>	<b>1.490.051</b>

Cost of sales is as follows:

	<b>01 January - 30 June 2008</b>	<b>01 April - 30 June 2008</b>	<b>01 January - 30 June 2007</b>	<b>01 April - 30 June 2007</b>
Inventory Expense	32.535.075	7.027.034	36.619.319	27.203.707
BFE & Retrofit Expense	20.010.792	7.317.258	72.544.430	22.306.203
Personnel Expense	86.318.499	43.626.058	85.034.231	47.375.126
Repair Expense	33.801.089	15.827.668	37.366.992	25.435.729
Depreciation Expense	35.278.222	24.020.142	52.198.500	26.438.874
Provision for Termination Indemnity Expense	3.410.010	454.647	3.322.123	236.486
Other	19.976.505	11.929.283	14.635.890	7.440.778
	<b>231.330.192</b>	<b>110.202.090</b>	<b>301.721.485</b>	<b>156.436.903</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 29 RESEARCH AND DEVELOPMENT, MARKETING, SALES & DISTRIBUTION EXPENSES

Company Operating Expenses are as follows;

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
Marketing, Sales and Distribution Expenses (-)	1.600.784	818.890	949.467	564.985
General Administration Expenses (-)	15.882.064	8.419.867	14.046.813	8.755.263
<b>Total Operating Expenses</b>	<b>17.482.848</b>	<b>9.238.757</b>	<b>14.996.280</b>	<b>9.320.248</b>

## 30 EXPENSES RELATED TO THEIR NATURE

Operating expenses are as follows;

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
<b>Selling and Marketing Expenses (-)</b>				
Personnel Expenses	1.074.381	526.787	524.569	288.683
Other Expenses	526.403	292.103	424.898	276.302
	<b>1.600.784</b>	<b>818.890</b>	<b>949.467</b>	<b>564.985</b>
<b>General Administration Expenses (-)</b>				
Material Expenses	381.453	289.210	1.076.208	1.067.985
Personnel Expenses	11.457.095	5.789.495	8.875.540	5.405.748
Other Expenses	4.043.516	2.341.162	4.095.065	2.281.530
	<b>15.882.064</b>	<b>8.419.867</b>	<b>14.046.813</b>	<b>8.755.263</b>
<b>Total Operating Expenses</b>	<b>17.482.848</b>	<b>9.238.757</b>	<b>14.996.280</b>	<b>9.320.248</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## 31 PROFIT/(LOSS) AND INCOME/(EXPENSE) FROM OTHER OPERATIONS

Profit and income from other operations are as follows:

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
Plant Maintenance Income	463.606	245.578	423.650	423.650
Previous Period Income and Profit	4.200.612	2.969.573	496.314	496.314
Invoiced Income	3.183.712	1.540.162	1.733.187	1.733.187
Stock Count Surplus Income	625.372	272.176	796.474	396.372
Provisions no Longer Needed	113.530	113.530	-	-
Other Income and Profit	368.932	242.351	325.134	242.340
<b>Total Other Operating Income</b>	<b>8.955.764</b>	<b>5.383.370</b>	<b>3.774.759</b>	<b>3.291.863</b>

Expenses and Loss from other operations are as follows;

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
Previous Period Expense and Losses	(7.717.908)	(6.417.054)	(783.524)	(783.524)
Commission Expenses	(2.977)	(805)	(365)	(365)
Doubtful Receivable Provision Expense	(32.783)	(526)	(8.175)	(8.175)
Legal Case Provision Expenses	(97.950)	-	(143.400)	(143.400)
Expenses will be Billed	(3.445.381)	(1.742.119)	(1.951.800)	(1.572.145)
Stock Count Deficit Expense	(25.008)	(4.091)	(34.406)	(34.406)
Provision for Decrease in Value of Inventories	(12.104.036)	(9.536.284)	(1.545.826)	2.581.976
Other	(112.060)	(110.229)	(395.460)	(204.018)
<b>Total Other Operating Expenses</b>	<b>(23.538.103)</b>	<b>(17.811.108)</b>	<b>(4.862.956)</b>	<b>(164.057)</b>

## 32 FINANCIAL INCOME

Companys financial income is as follows;

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
Interest Income	593.627	139.709	397.247	244.046
Foreign Currency Exchange Gain	23.440.511	10.836.647	10.368.627	6.999.053
Maturity Difference Income	113.534	(9.402)	242.866	127.388
<b>Total Financial Income</b>	<b>24.147.672</b>	<b>10.966.954</b>	<b>11.008.740</b>	<b>7.370.487</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008  
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## 33 FINANCIAL EXPENSES

Company's financial expenses are as follows;

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
Foreign Currency Exchange Loss	(21,145,148)	(13,760,069)	(9,596,101)	(6,876,427)
Bank Expenses	(1,846)	(465)	(5,509)	(4,933)
Cost of Termination Indemnity Interest	(207,834)	(103,917)	(57,014)	(28,507)
Rediscount Expense	(6,672)	(6,672)	-	-
<b>Total Financial Expense</b>	<b>(21,361,500)</b>	<b>(13,871,123)</b>	<b>(9,658,624)</b>	<b>(6,909,867)</b>

## 34 FIXED ASSETS HELD FOR SALE PURPOSES AND DISCONTINUED OPERATIONS

None. (December 31, 2007: None)

## 35 TAX ASSETS AND LIABILITIES

The Company's tax income / (expense) is composed of current period's corporate tax expense and deferred tax income / (expense).

	01 January - 30 June 2008	01 April - 30 June 2008	01 January - 30 June 2007	01 April - 30 June 2007
Provision for Period Tax	(1.362.976)	(1.243.777)	(505.006)	(370.489)
Deferred Tax Income/(Expense)	(604.889)	(1.095.853)	3.109.860	1.185.928
	<b>(1.967.865)</b>	<b>(2.339.630)</b>	<b>2.604.854</b>	<b>815.439</b>

Provision for Tax Liability is as follows;

	June 30, 2008	Dec 31, 2007
Provision for Taxes	1.362.976	2.583.251
Prepaid Taxes	(125.134)	(523.763)
Tax Liability for the Current Period Profit	<b>1.237.842</b>	<b>2.059.488</b>

### i) Provision for Current Period Tax

The Company is subject to Corporate Tax in Turkey. The necessary tax liability provisions have been made for the estimated Company's operation results for the current period.

The corporate tax to be accrued over the taxable profit is calculated from the statutory accounting profit by adding back non-deductible expenses and deducting (i) dividends received from resident companies, (ii) income that is exempt from taxation and (iii) investment allowances.

### Effective Corporate Tax Rate:

According to the corporate tax law numbered 5520, which was published in the official gazette dated June 21, 2006, the effective corporate tax rate was set as 20%.



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Losses can be carried forward to offset the future taxable income for a maximum period of 5 years. On the other hand, such losses cannot be carried back to offset prior years' profits.

According to Corporate Tax Law's Article: 24, the corporate tax is imposed by the taxpayer's tax returns. There is no procedure for a final and definitive agreement on tax assessments. Annual corporate tax returns are submitted until the 25th of April following the closing of the accounting year. Moreover, the tax authorities have the right to examine the tax returns and the related accounting records within five years.

## Income Withholding Tax:

In addition to corporate tax, companies should also calculate income withholding tax on any dividends and income distributed. The rate of withholding tax has been increased from 10% to 15% upon the Cabinet decision No: 2006/10731, which was published in Official Gazette on July 23, 2006.

## ii) Deferred Tax:

The deferred tax asset and tax liability is based on the temporary differences, which arise between the financial statements prepared according to CMB's accounting standards and statutory tax financial statements. These differences usually due to the recognition of revenue and expenses in different reporting periods for the CMB standards and tax purposes.

Temporary differences are result of recognizing certain income and expense items differently for accounting and tax purposes. Temporary differences are calculated off of the tangible fixed assets (except land and buildings), intangible fixed assets, stocks, the revaluation of prepaid expenses, discount of receivables, provision for termination indemnities, and previous years' loss. Every accounting year, the Company reviews the deferred tax asset and in circumstances, where the deferred tax assets can not be used against the future taxable income, the Company writes-off the recorded deferred tax asset. Corporate tax rate is used in the calculation of deferred taxes.

## Temporary Differences: Deferred Tax Liability:

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Inventories	(4.275.175)	(460.315)
Fixed Assets	(749.591)	(845.004)
Provision for Decrease in Value of Inventories	4.589.909	2.169.102
Provision for Termination Indemnity	2.136.838	1.454.836
Provision for Doubtful Receivables	47.140	41.583
Other	190.806	184.613
	<b>1.939.926</b>	<b>2.544.815</b>
	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
<b>December 31, 2007 Deferred Tax Assets</b>	<b>2.544.815</b>	<b>(1.425.789)</b>
Deferred Tax Income / (Expense)	(604.889)	3.109.860
<b>June 30, 2008 Deferred Tax Assets</b>	<b>1.939.926</b>	<b>1.684.071</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

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## 36 NET EARNINGS PER SHARE

There are not any equity items (dilutive equity instruments) that have reducing effects on the Earnings per Share. The calculation of the weighted average and Earning per Share of the total share amount as of December 31, 2007 is as follows:

	<b>January 01 - June 30, 2008</b>	<b>January 01 - June 30, 2007</b>
Total Share Amount as of Periods (In full)	318.000.000	318.000.000
Share Amount as of Periods (In full)	318.000.000	318.000.000
Weighted Average of the total share amount in the Period (In full)	318.000.000	318.000.000
Net Profit for the Period	7.514.551	(10.604.303)
Net Earnings / (Losses) per Share (Ykr)	2,36	(3,33)

## 37 EXPLANATIONS OF RELATED PARTIES

### a) Payables and Receivables to/from Related Parties:

Short term trade receivables from the related parties are as follows :

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
THY A.O. Trade Receivables	49,885,951	48.036.598
Sun Ekspress	653,471	573.302
	<b>50.539.422</b>	<b>48.609.900</b>

Short term non-commercial receivables are as follows:

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
THY A.O. Non-Trade Receivables	293.571	141.045
	<b>293.571</b>	<b>141.045</b>

Short term commercial payables are as follows:

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
THY A.O. Trade Payables	6.789.838	16.526.582
	<b>6.789.838</b>	<b>16.526.582</b>

Short term non-commercial payables are as follows:

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
THY A.O. Non-Trade Payables	6.701.090	2.256.120
	<b>6.701.090</b>	<b>2.256.120</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## b) Purchases and Sales From/to Related Parties

Transactions with the related parties for the periods ended are as follows;

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Services and Goods Given to THY A.O.	191.229.729	277.353.814
Services and Goods Given to Sun Express	3.076.094	-
	<b>194.305.824</b>	<b>277.353.814</b>
	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Services and Goods Taken from THY A.O.	26.657.134	9.557.927
Services and Goods Taken from Sun Express	136.946	-
	<b>26.794.080</b>	<b>9.557.927</b>

c) Benefits and services to the senior administrators are YTL 344.595 (June 30, 2007: YTL 194.307)

## 38 THE CHARACTERISTICS AND LEVEL OF RISKS GROW OUT OF FINANCIAL INSTRUMENTS

### FOREIGN CURRENCY POSITION

Transactions by foreign currency cause the formation of rate risks. The Company is exposed to rate risk due to the changes in exchange rates used for exchanging the assets and liabilities from foreign currency to New Turkish Lira. Parity conservation strategies to fluctuations are being performed, forward and option products are evaluated by the Company. The Company has come to the decision about barrier leverage options. The main foreign currencies which constitute the mentioned risk are USD, Euro and Sterling.

A formally specified risk management model and its active application are not available within the Company; parity conservation strategies to fluctuations are being performed, forward and option products are evaluated. In addition, the domestic, foreign currency, capital and commodity market developments on the economic indicators defined and data is tracked on a regular basis with the direction the market trends and changes in the direction of a model to predict work within the Finance Department. Currency risk, interest rate risk and liquidity risk are some important risks of the Company's significant financial risks.

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

As of June 30, 2008 YTL equivalents of the Companys foreign currency position are as follows;

June 30, 2008	US Dollar	EURO	GBP	Other Currencies	Total
<b>Assets</b>					
Cash and Cash Equivalents	14.094.474	535.222	21.571	-	14.651.267
Trade Receivables (net)	68.711.118	4.268.023	-	613	72.979.754
Other Receivables (short term)	7.383	4.607	-	2.683	14.674
Other Assets	4.263.297	316.231	-	-	4.579.527
Order Advances given for Inventory Purchases and Inventories	1.103.432	846.572	50.352	208.348	2.208.703
	<b>88.179.704</b>	<b>5.970.655</b>	<b>71.923</b>	<b>211.644</b>	<b>94.433.925</b>
<b>Liabilities</b>					
Financial Payables (short term)(net)	37.488	-	-	-	37.488
Trade Payables (short term) (net)	27.915.970	4.129.563	79.914	77.591	32.203.037
Provision for Expenses and Liabilities (short term)	5.961	6.645	-	-	12.607
Advances Received	552.375	99.262	-	-	651.637
Other Liabilities (net)	1.819.868	471.004	6.241	-	2.297.113
Financial Payables (long term) (net)	37.332	-	-	-	37.332
	<b>30.368.994</b>	<b>4.706.474</b>	<b>86.155</b>	<b>77.591</b>	<b>35.239.215</b>
<b>Net Foreign Currency Position</b>	<b>57.810.710</b>	<b>1.264.181</b>	<b>(14.232)</b>	<b>134.054</b>	<b>59.194.710</b>

As of December 31, 2008 YTL equivalents of the Companys foreign currency position are as follows;

December 31, 2007	US Dollar	EURO	GBP	Other Currencies	Total
<b>Assets</b>					
Cash and Cash Equivalents	31.831.953	70.466	0	2.988	31.905.407
Trade Receivables (net)	55.554.454	893.010	56.232	802	56.504.498
Other Receivables (short term)	56	2.107	0	21.573	23.736
Other Assets	733.676	0	0	367.344	1.101.020
Order Advances given for Inventory Purchases	1.031.797	901.721	18.803	9.236	1.961.557
	<b>89.151.936</b>	<b>1.867.304</b>	<b>75.035</b>	<b>401.943</b>	<b>91.496.216</b>
<b>Liabilities</b>					
Trade Payables (short term) (net)	41.046.938	4.511.705	200.579	108.600	45.867.823
Provision for Expenses and Liabilities (short term)	114.474	901	170	0	115.544
Other Liabilities (net)	280.129	23.745	9.615	0	313.489
	<b>41.441.541</b>	<b>4.536.351</b>	<b>210.364</b>	<b>108.600</b>	<b>46.296.857</b>
<b>Net Foreign Currency Position</b>	<b>47.710.395</b>	<b>(2.669.047)</b>	<b>(135.329)</b>	<b>293.341</b>	<b>45.199.359</b>

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

## INFORMATIONS ABOUT IMPORT AND EXPORT

	<u>June 30, 2008</u>
Import	126.671.707
Export	32.177.132

## FURTHER INFORMATION ABOUT 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 the return to stakeholders through the optimization of the debt and equity balance.

The Company's capital structure consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 27 respectively.

Risks, associated with each type of capital, and capital costs are evaluated by the executive management level. During this review, the management assess risks associated with each class of capital and its costs and lay down for the decision to The Board of Directors. The company made the state the optimal capital diversify via obtain new loans, repayment the existing debt and/or capital increase depending on The Board of Directors appraisal.

General strategy of the Company based on resources is not different from the previous years.

### (b) Important Accounting Policies

The Company's important accounting policies relating to financial instruments are disclosed in the Note 2.

**TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ**

Notes to the Financial Statements as of June 30, 2008

(Amounts are expressed as New Turkish Lira unless otherwise indicated.)

(c) The categories of Financial Instruments

June 30, 2008 Balance Sheet	Financial Assets at amortized cost	Loans and Receivables	Investments available for sale	Financial Liabilities at amortized cost	Carrying Value	Fair Value	Note
<u>Financial Assets</u>							
Cash and Cash Equivalents	14.710.932	-	-	-	14.710.932	14.710.932	6
Trade Receivables	-	73.823.855	-	-	73.823.855	73.823.855	10
Financial Assets	-	-	-	-	-	-	7
<u>Financial Liabilities</u>							
Financial Payables	-	1.633.057	-	1.633.057	1.633.057	1.633.057	8
Leasing Payables	-	-	-	-	-	-	8
Other Financial Liabilities	-	-	-	-	-	-	9
Trade Payables	-	-	-	34.186.822	34.186.822	34.186.822	10
<b>December 31, 2007 Balance Sheet</b>	<b>Financial Assets at amortized cost</b>	<b>Loans and Receivables</b>	<b>Investments available for sale</b>	<b>Financial Liabilities at amortized cost</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Note</b>
<u>Financial Assets</u>							
Cash and Cash Equivalents	38.657.984	-	-	-	38.657.984	38.657.984	6
Trade Receivables	-	57.956.090	-	-	57.956.090	57.956.090	10
Financial Assets	-	-	-	-	-	-	7
<u>Financial Liabilities</u>							
Financial Payables	-	-	-	-	-	-	8
Leasing Payables	-	-	-	-	-	-	8
Other Financial Liabilities	-	-	-	-	-	-	9
Trade Payables	-	-	-	58.032.178	58.032.178	58.032.178	10

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

30 Haziran 2008 Tarihi İtibariyle Mali Tabloları

Tamamlayıcı Notlar

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

## (d) Market Risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see (e) below) and interest rates (see (f) below).

Distribution of expenses and incomes based the types of exchange rates and distribution of debts based on the types of exchange rates and fixed and variable interest rates are managed by the Company management.

## (e) Foreign Currency Risk Management

There is a natural balance in the foreign currency risk between the Company's incomes and expenses. This balance is tried to be kept through taking into consideration the future forecasts and market conditions.

### Sensitivity of Foreign Currency

The Company is mainly exposed to foreign currency risks in Euro and USD.

The table below demonstrates that the sensitivity of the Company against the 10% change in US Dollar and Euro exchange rates. Negative amount demonstrate the decrease effect of the 10% increase in the value of US Dollar and Euro against YTL in the net profit for the year.

	USD Effect (i)		Euro Effect (ii)	
	January 01- June 30, 2008	January 01- December 31 2007	January 01- June 30, 2008	January 01- December 31 2007
Income Statement Effect	5.781.071	4.771.039	(1.573.643)	(1.641.990)

(i) Related to receivables and payables in US Dollar not due yet as of the end of the period.

(ii) Related to receivables and payables in Euro not due yet as of the end of the period.

If US Dollar or Euro devaluated against the YTL by 10%, the amounts are the same as the figures in the table above and its effect in profit or loss will be reverse.

## (f) Management of interest rate risk

The current financial structure of the Company does not require financial debt.

## (g) Credit Risk Management

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. Additionally, the Company manages the risk through obtaining guarantees for its receivables.

## (h) Liquidity Risk Management

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

# TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

30 Haziran 2008 Tarihi İtibariyle Mali Tabloları

Tamamlayıcı Notlar

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

## Liquidity and Interest Risk Tables

The table below indicates the term divisions of derivative and non-derivative financial liabilities of the Company. The table also was prepared under the assumptions that all liabilities will be paid at the earliest time.

	Less than 1 Month	1 - 3 Month	3 Months- 1 Year	1 -4 Years	4 + Years	Balance Sheet Amount
June 30, 2008						
Financial Payables	1.558.402	-	37.332	37.332	-	1.633.066
Leasing Payables	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-	-
Trade Payables	34.186.822	-	-	-	-	34.186.822
	<u>35.745.224</u>	<u>-</u>	<u>37.332</u>	<u>37.332</u>	<u>-</u>	<u>35.819.888</u>
December 31, 2007						
Financial Payables	-	-	-	-	-	-
Leasing Payables	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-	-
Trade Payables	58.028.678	-	3.500	-	-	58.032.178
	<u>58.028.678</u>	<u>-</u>	<u>3.500</u>	<u>-</u>	<u>-</u>	<u>58.032.178</u>

## 39 FINANCIAL INSTRUMENTS ( DECLARATIONS WITHIN THE CONTEXT OF FAIR VALUE AND HEDGING)

A formally specified risk management model and its active application are not available within the Company; parity conservation strategies to fluctuations are being performed, forward and option products are evaluated. In addition, the domestic, foreign currency, capital and commodity market developments on the economic indicators defined and data is tracked on a regular basis with the direction the market trends and changes in the direction of a model to predict work within the Finance Department. Currency risk, interest rate risk and liquidity risk are some important risks of the Company's significant financial risks.

The Company management manages the risks through its decisions and applications. Even a formally specified risk management model is not available, corporate risk management model has been aimed and the related activities are being performed.

## 40 SUBSEQUENT EVENTS

None. (Dec 31, 2007: None)

## 41 OTHER SIGNIFICANT ISSUES

Company has decided to sign a good faith agreement to establish a joint venture company for dealing out Nacelle and Thurust Reserver maintenance service with Goodrich Aerostructures company which is a subsidiary company of Goodrich Corporation as part of HABOM project in November 8, 2007.