

CONVENIENCE TRANSLATION OF REPORT AND FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH

TÜRK HAVA YOLLARI TEKNİK A.Ş.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011

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.

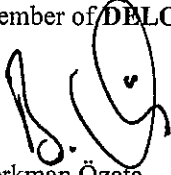
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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(Convenience Translation of Report and Financial Statements Originally Issued in Turkish)
TÜRK HAVA YOLLARI TEKNİK A.Ş.
BALANCE SHEET AS OF 31 DECEMBER 2011
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

ASSETS	Notes	Current period Audited 31 December 2011	Prior period Audited 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
<i>Related Party Trade Receivables</i>		<i>100.324.159</i>	<i>101.868.812</i>
<i>Other Trade Receivables</i>		<i>83.789.392</i>	<i>84.102.179</i>
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
Investments 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 Assets	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.

(Convenience Translation of Report and Financial Statements Originally Issued in Turkish)
TÜRK HAVA YOLLARI TEKNİK A.Ş.
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
Financial Debt	8	3.439.030	13.304
Trade payables	10, 37	111.180.997	79.842.069
<i>Related Party Trade Payables</i>		<i>29.980.486</i>	<i>31.859.813</i>
<i>Other Trade Payables</i>		<i>81.200.511</i>	<i>47.982.256</i>
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.

(Convenience Translation of Report and Financial Statements Originally Issued in Turkish)
TÜRK HAVA YOLLARI TEKNİK A.Ş.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 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
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.

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

TÜRK HAVA YOLLARI TEKNİK A.Ş.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are 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.

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

TÜRK HAVA YOLLARI TEKNİK A.Ş.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

(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		<u>168.217.821</u>	<u>138.074.794</u>
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		<u>49.748.540</u>	<u>13.408.856</u>
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		<u>38.195.905</u>	<u>(816.029)</u>
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		<u>(154.626.383)</u>	<u>(103.351.929)</u>
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		<u>116.405.726</u>	<u>111.998.853</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(24.752)</u>	<u>7.830.895</u>
CASH AND CASH EQUIVALENTS		<u>30.405.267</u>	<u>22.574.372</u>
AT THE END OF THE YEAR		<u>30.380.515</u>	<u>30.405.267</u>

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

(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.

	<u>31 December 2011</u>	<u>31 December 2011</u>
Administrative Staff	642	736
Production Staff	1.497	2.177
Total	<u>2.139</u>	<u>2.913</u>

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.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

2.1 Basis of Presentation (cont'd)

Statutory Decree No: 660, which has 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:

Name of the Company	Principal Activity	Participation Rate		Country of Registration
		31 December 2011	31 December 2010	
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
Turbine 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).

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

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.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

(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)

(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.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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

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.

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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).

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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.

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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.

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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.

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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:

	<u>Useful Life (years)</u>
- 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:

	<u>Useful Life (years)</u>
- 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.

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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". Classification 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.

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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.

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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.

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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:

	<u>Closing Rate</u>	<u>Average Rate</u>
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:

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2011	2,4438	2,3244
31 December 2010	2,0491	1,9886

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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.

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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.

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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.

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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:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Banks (Demand Deposits)	871.892	3.066.897
Banks (Time Deposits)	29.508.623	27.338.370
	<u>30.380.515</u>	<u>30.405.267</u>

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

<u>Capital</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2011</u>
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
					<u>29.508.623</u>
<u>Capital</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2010</u>
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
					<u>27.338.370</u>

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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7. FINANCIAL ASSETS

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

(*)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:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Short term	3.439.030	13.304
	<u>3.439.030</u>	<u>13.304</u>

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

31 December 2011

<u>Name of Bank</u>	<u>Maturity</u>	<u>Original</u> <u>Amount</u>	<u>Currency</u>	<u>Balance</u>
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
				<u>3.349.030</u>

31 December 2010

<u>Name of Bank</u>	<u>Maturity</u>	<u>Original</u> <u>Amount</u>	<u>Currency</u>	<u>Balance</u>
Garanti Credit Card	-	10.439	TL	10.439
Garanti Credit Card	-	1.853	US Dollar	2.865
				<u>13.304</u>

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).

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NOTES TO FINANCIAL STATEMENTS
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10. TRADE RECEIVABLES AND PAYABLES

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
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)
	<u>184.113.551</u>	<u>185.970.991</u>

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

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
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)
	<u>38.669.345</u>	<u>29.892.949</u>

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:

	<u>31 December 2011</u>		<u>31 December 2010</u>	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Letters of Guarantees	2.077.755	2.077.755	1.952.654	1.952.654
	<u>2.077.755</u>	<u>2.077.755</u>	<u>1.952.654</u>	<u>1.952.654</u>

Short term trade payables are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>111.180.997</u>	<u>79.842.069</u>

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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

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11. OTHER RECEIVABLES AND PAYABLES

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>1.328.153</u>	<u>1.703.837</u>

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

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
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	<u>15.437</u>	<u>14.937</u>

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>30.929.535</u>	<u>25.754.928</u>

12. RECEIVABLES AND PAYABLES FROM FINANCIAL SECTOR OPERATIONS

None (31 December 2010: None).

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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

13. INVENTORIES

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
Obsolete Equipment Inventories	14.368.647	14.368.647
Provision for Impairment(-)	(14.368.647)	(14.368.647)
	<u>379.238.605</u>	<u>330.342.340</u>

Movement of allowance for impairment on inventory is as follows:

	<u>1 Ocak - 31 December 2011</u>	<u>1 Ocak - 31 December 2010</u>
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	<u>14.368.647</u>	<u>14.368.647</u>

Movement of components and spare parts are as follows:

<u>Cost</u>	<u>Components and Spare Parts Repairable</u>
Opening balance, 1 January 2011	327.545.637
Additions	77.911.351
Disposals	(82.461.632)
Closing balance, 31 December 2011	<u>322.995.356</u>
<u>Accumulated Depreciation</u>	
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	<u>151.759.283</u>
Net book value at 31 December 2011	<u>171.236.073</u>
Net book value at 31 December 2010	<u>174.994.258</u>

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

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13. INVENTORIES (cont'd)

<u>Cost</u>	<u>Components and Spare Parts Repairable</u>
Opening balance, 1 January 2010	319.829.495
Additions	76.359.882
Disposals	(68.643.740)
Closing balance, 31 December 2010	<u>327.545.637</u>
<u>Accumulated Depreciation</u>	
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	<u>152.551.379</u>
Net book value at 31 December 2010	<u>174.994.258</u>
Net book value at 31 December 2009	<u>172.784.049</u>

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:

	<u>31 December 2011</u>	<u>31 December 2010</u>
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	-
Turbine Teknik Gaz Turbinleri Bakım Onarım A.Ş.	7.980.428	-
TCI Kabiniçi Sistemleri Sanayi ve Ticaret A.Ş.	701.439	-
	<u>85.012.266</u>	<u>53.692.268</u>

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
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

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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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:

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
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:

	<u>31 December 2011</u>
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:

	<u>1 January - 31 December 2011</u>
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:

	<u>31 December 2011</u>
Assets	16.309.186
Liabilities	348.330
Shareholders' Equity	15.960.856
The Company's share in shareholders' equity	7.980.428

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ

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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 Kabinîçi 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 Kabinîçi 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
Turbine Teknik Gaz Turb. Bakım Onarım A.Ş.	Turkey	50%	50%	Maintenance Services
TCI Kabinîçi Sistemleri San. Ve Tic.A.Ş	Turkey	21%	21%	Interior Maintenance Services

17. INVESTMENT PROPERTY

None (31 December 2010: None).

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18. TANGIBLE ASSETS

Cost	Plant, Machinery and	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
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 December 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

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18. TANGIBLE ASSET (cont'd)

Cost	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress	Leasehold Improvements	Total
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

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NOTES TO FINANCIAL STATEMENTS
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19. INTANGIBLE ASSETS

<u>Cost</u>	<u>Rights</u>
Opening balance, 1 January 2011	1.185.503
Additions	1.761.170
Disposals	991
Closing balance, 31 December 2011	2.945.682
<u>Accumulated Depreciation</u>	
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

<u>Cost</u>	<u>Rights</u>
Opening balance, 1 January 2010	942.522
Additions	242.981
Closing balance, 31 December 2010	1.185.503
<u>Accumulated Depreciation</u>	
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).

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NOTES TO FINANCIAL STATEMENTS
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22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

i) Provisions

	<u>31 December 2011</u>	<u>31 December 2010</u>
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:

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
Provision at the beginning of the period	898.751	98.545
Charge for the year	2.519.572	800.206
Provision at the end of the year(*)	<u>3.418.323</u>	<u>898.751</u>

(*) 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

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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	

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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.

<u>Commitments related to operating lease land can not be canceled</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>72.562.296</u>	<u>60.561.328</u>

24. EMPLOYEE BENEFITS

Short term employee benefits are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>18.831.857</u>	<u>46.414.025</u>

Provision for long term retirement pay liability comprised the following:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Provision for Retirement Pay Liability	32.928.181	27.229.192

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (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 beginning 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).

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26. OTHER ASSETS AND LIABILITIES

Other short term assets are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>47.696.925</u>	<u>21.620.672</u>

Other short term liabilities are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Expense Accruals	8.200.903	2.713.145
Deferred Revenue	243.270	1.479.997
Other Liabilities	569.372	41.460
	<u>9.013.545</u>	<u>4.234.602</u>

Other non-current assets are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Prepayments for Tangible Assets	23.998.473	44.944.407
Prepaid Expenses	2.145.777	806.873
	<u>26.144.250</u>	<u>45.751.280</u>

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26. OTHER ASSETS AND LIABILITIES (cont'd)

Other non-current liabilities are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Income Relating to Future Years	-	196.572
	<u>-</u>	<u>196.572</u>

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:

	%	<u>31 December 2011</u>	%	<u>31 December 2010</u>
THY A.O.	100	693.000.000	100	693.000.000
Unpaid Capital		<u>(149.994.000)</u>		<u>(262.974.000)</u>
		<u>543.006.000</u>		<u>430.026.000</u>

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.

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27. SHAREHOLDERS' EQUITY (cont'd)

d) Retained Earnings (cont'd)

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>764.292.910</u>	<u>583.254.051</u>

28. SALES AND COST OF SALES

Sales are as follows:

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
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)	<u>818.968.812</u>	<u>720.705.944</u>
Cost of Sales (-)	<u>(671.588.224)</u>	<u>(584.975.934)</u>
Gross Operating Profit/(Loss)	<u>147.380.588</u>	<u>135.730.010</u>

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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
	<u>671.588.224</u>	<u>584.975.934</u>

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	<u>89.804.795</u>	<u>80.928.313</u>

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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

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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)

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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).

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35. TAX ASSETS AND LIABILITIES

Tax liability for the current profit is as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Provision for Corporate Tax Liability	18.866.938	8.213.633
Prepaid Taxes	(13.499.820)	(11.087.934)
Corporate Tax Liability	<u>5.367.118</u>	<u>(2.874.301)</u>

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

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
Tax Provision for the Period	(18.866.938)	(8.213.633)
Deferred Tax Expense	(2.892.596)	(7.715.989)
	<u>(21.759.534)</u>	<u>(15.929.622)</u>

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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.

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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.

	1 January - 31 December 2011	1 January - 31 December 2010
<u>Confirmation of Tax Provision</u>		
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	<u>21.759.534</u>	<u>15.929.622</u>

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
	<u>(10.845.556)</u>	<u>(7.952.960)</u>

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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 Ekspres	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 İkrâm Hizmetleri ("Do & Co")	25.280	12.329
TGS Yer Hizmetleri A.Ş	204.702	145.912
TCI Kabinîci Sistemleri A.Ş.	58.387	-
Bosna &Herzegovina Airlines	945.602	-
Turbine Teknik Gaz Türbinleri Bakım Onarım A.Ş	-	-
	312.350	-
	<u>100.324.159</u>	<u>101.868.812</u>

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37. RELATED PARTY TRANSACTIONS (cont'd)

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
Türk Hava Yolları A.O.	34.398	21.407
Goodrich Thy Teknik Servis	38.638	-
TCI Kabinçi Sistemleri A.Ş.	7.959	-
Turbine Teknik Gaz Türbinleri Bakım Onarım A.Ş	9.671	-
Uçak Koltuk Üretimi San.ve Tic.A.Ş	1.814	-
	<u>92.480</u>	<u>21.407</u>

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
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
	<u>29.980.486</u>	<u>31.859.813</u>

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
Türk Hava Yolları A.O.	2.119.884	8.295.797

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37. RELATED PARTY TRANSACTIONS (cont'd)

b) Purchases and Sales from/to Related Parties

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
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	-
	<u>683.538.070</u>	<u>548.322.154</u>

	<u>1 January - 31 December 2011</u>	<u>1 January - 31 December 2010</u>
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
	<u>60.270.585</u>	<u>57.237.887</u>

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).

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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.

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

(b) Financial Risk Factors (cont'd)

CREDIT RISK OF FINANCIAL INSTRUMENTS

	31 December 2011					Deposits at Banks
	Trade receivables		Receivables			
	Related Party	Third Party	Related Party	Third Party	Third Party	
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)	-	#	-	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.	-	-	-	-	-	-

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

(b) Financial Risk Factors (cont'd)

CREDIT RISK OF FINANCIAL INSTRUMENTS

	31 December 2010					Deposits at Banks
	Trade receivables		Receivables			
	Related Party	Third Party	Related Party	Third Party	Third Party	
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.

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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	<u>Trade</u> <u>Receivables</u>	<u>Other</u> <u>Receivables</u>	<u>Deposits</u> <u>in Banks</u>	<u>Derivative</u> <u>instruments</u>	<u>Other</u>
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	<u>Trade</u> <u>Receivables</u>	<u>Other</u> <u>Receivables</u>	<u>Deposits</u> <u>in Banks</u>	<u>Derivative</u> <u>instruments</u>	<u>Other</u>
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)	-	-	-	-

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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.

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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:

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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	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	24,654,902	21,400,720	2,716,883	537,299	-	4,660,702	4,464,985	143,712	41,236
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
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. 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)
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)
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)
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)
20. Net Foreign Currency Asset / (Liability) Position (9-18+19)	140,168,964	163,879,174	(23,725,115)	177,058	(162,152)	93,224,152	93,420,307	(1,672,889)	683,538
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)
23. Exports	79,800,547	-	-	-	-	65,405,694	-	-	-
24. Imports	324,893,002	-	-	-	-	198,898,994	-	-	-

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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 be 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)

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

	Prior Period	
	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)

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39. FINANCIAL INSTRUMENTS (cont'd)

Categories and fair value of financial instruments

<u>31 December 2011</u>	<u>Loans and receivables</u>	<u>Financial liabilities at amortized cost</u>	<u>Carrying Value</u>	<u>Note</u>
<u>Financial assets</u>				
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
<u>Financial liabilities</u>				
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

<u>31 December 2010</u>	<u>Loans and receivables</u>	<u>Financial liabilities at amortized cost</u>	<u>Carrying Value</u>	<u>Note</u>
<u>Financial assets</u>				
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
<u>Financial liabilities</u>				
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.