Annual Report 2003

TÜRK HAVA YOLLARI

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Turkish Airlines' Mission Statement

As Turkey's flag-carrier, Turkish Airlines' mission is to provide air transportation according to the objectives below:

- To cultivate the Corporation's identity as a global airline, by expanding its long distance flight network,
- To improve the Corporation's identity and status as a technical service provider, by transforming its maintenance unit to a leading maintenance base within the region,
- To promote the Corporation's identity as a service provider in all areas of strategic civil aviation, including handling and flight training,
- To preserve the Corporation's leading status in domestic air transportation,
- To provide non-stop, high quality air transportation by collaborating with a global airline alliance that complements its network, in order to further improve the Corporation's image abroad and to increase marketing opportunities, and
- To transform Istanbul into an important hub.

While preserving its leading status in domestic air transportation, Turkish Airlines intends to cultivate its identity as a global airline by expanding the long distance flight network.

Legal Status

Turkish Airlines was established on May 20, 1933, in Ankara by Law No. 2186, as a department of the Ministry of Defense as the State Airlines Administration; in 1935, it was assigned to the Ministry of Public Works. In 1938, this entity was renamed the General Directorate of State Airlines. From 1939 onward, it operated as a department of the Ministry of Transportation.

In 1955, it was restructured by Law No. 6623 as a private corporation to be managed and operated under private law. From then on, it operated as Turkish Airlines Inc.

As published in the Official Gazette No. 18570 on November 9, 1984, Turkish Airlines was classified as a State Economic Enterprise by Statutory Decree No. 233 concerning Certain State Institutions and Enterprises.

According to Council of Ministers' Decree No. 90/822, it was included among the State Economic Enterprises to be privatized by Law No. 3291, and published in on the Official Gazette dated September 25, 1990, No. 20646. The Corporation's new Articles of Association were approved by the Supreme Planning Council on October 30, 1990 by Decision No. 90/18, whereby the Corporation was registered with the Trade Register on November 5, 1990.

The Turkish Airlines Corporation was redefined as a State Economic Enterprise under the jurisdiction of the Privatization Administration according to Article 35 of Law No. 4046 concerning the Regulation of Privatization Procedures and the Amendment of Certain Statutory Decrees, published in the Official Gazette No. 22124, dated November 27, 1994. According to Article 20/a of the aforementioned law the Corporation's Articles of Association were amended with the approval of the Privatization Administration dated December 5, 1996 and further amendments were made and approved by Decision No. 33/953, dated July 5, 2002, by the Capital Markets Board and re-approved by Decision No. 1006, dated November 8, 2002, by the Privatization Administration. These amendments were put into effect following the approval of the Extraordinary General Assembly held on January 17, 2003.

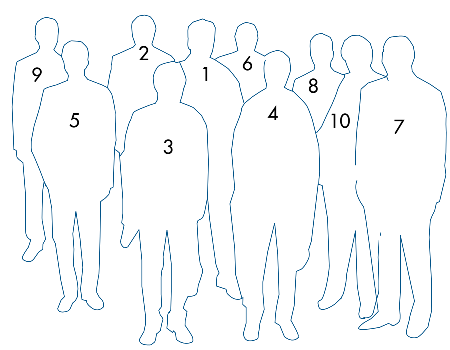
Board of Directors

(as of December 31, 2003)

1	**Abdurrahman GÜNDOĞDU**	*Chairman*
2	**Dr. Candan KARLITEKİN**	*Vice Chairman*
3	**Prof. Dr. Cemal ŞANLI**	*Member*
4	**Prof. Dr. Ömer DİNÇER**	*Member*
5	**Hüseyin Atilla ÖKSÜZ**	*Member*
6	**Hamdi TOPÇU**	*Member*
7	**Mehmet BÜYÜKEKŞİ**	*Member*

Board of Auditors

8	**İsmail GERÇEK**	*Member*
9	**Hasan GÜL**	*Member*
10	**Ateş VURAN**	*Member*

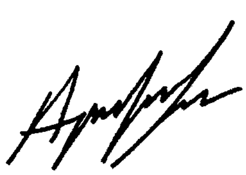


Message from the Chairman

Aiming to broaden its flight network, Turkish Airlines will build a fleet with a majority of young planes, thereby expanding its existing fleet and renewing ageing aircraft.

The fact that the United States was planning to start a military operation in Iraq at the beginning of 2003 troubled not only the countries of the region, but the entire world. Since a possible long-term operation would inevitably have negative effects on our country, the markets waited in quiet suspense. However, what we worried about did not come true and the operation led by the United States took less time than expected. In the end, the markets were revived and people regained confidence in the future of our economy. Yet, the SARS epidemic that influenced the whole world right after the war in Iraq brought a new set of worries with it. War and epidemics are two significant events that cause people all over the world curtail travel plans.
Unfortunately in 2003, we experienced both of these consecutively, which had a negative effect on Turkish Airlines as well. This year, despite these difficult circumstances, Turkish Airlines not only caught up with 2002's passenger numbers but in fact surpassed them with 10.4 million passengers - an increase of 0.4%-.
In 2003, the scheduled domestic flight capacity remained the same as the previous year, while traffic increased by 2.1%. As a result, the passenger load factor was increased by 1.4 points reaching 72.1%. The number of scheduled domestic passengers was approximately five million; additionally 28 thousand tons of cargo and mail were carried.
While scheduled international flight capacity decreased by 1.3% due to the global epidemic and the regional war, traffic also decreased by 5.7%. This resulted in a decrease of three points in the passenger load factor, which totaled 65.3% at the end of the year; 4.9 million passengers and 88 thousand tons of cargo and mail were carried.
Compared to the previous year, there was a 20% increase in charter flights. As for pilgrimage flights, a total of 109,549 passengers were carried to the Hadj; 27,696 passengers were carried on Umrah flights.
While the same antagonistic circumstances caused a 0.6% decrease in cargo capacity, cargo traffic also decreased by 0.8% following the reduction in capacity. Cargo income increased by 5.8% due to the priority we assign to high revenue cargo in the utilization of the existing cargo capacity. We applied a flexible pricing policy to adapt to the changes in demand in the market. Due to this competitive pricing policy, our flexible flight organization and measures to lower expenses, our Corporation achieved a pre-tax profit of TL 287 trillion and an after-tax profit of TL 214 trillion based on the International Financial Reporting Standards (IFRS) in 2003.
In addition to passenger and cargo transportation, Turkish Airlines provides maintenance and training services to other airlines in addition to, its own aircraft and staff at the THY Maintenance Center, one of the largest in the region. Turkish Airlines' Flight Training Center is equipped with state-of-the-art technology. Our goal is to transform our technical maintenance unit into a globally effective center as we develop our identity as a prominent provider of technical services.
Turkish Airlines continues to work toward the establishment of Istanbul as the most important point of transit flights between Europe, America, the Far and the Middle East in the near future. The result of this drive will be felt in the economy and society in general and not only within our Corporation.
We aim to maintain Turkish Airlines' leading status in domestic air transportation while we develop our identity as a global airline, by expanding the long distance flight network.
Aiming to broaden its flight network, Turkish Airlines' will build a fleet with a majority of young planes, thereby expanding its existing fleet and renewing old aircraft.
Our Corporation has succeeded in establishing an excellent reputation as one of the best airlines in Europe and around the world. Within the highly competitive air transportation market, we continuously strive to maintain the integrity of our services, keeping us parallel with other global competitors. We have worked diligently to increase the quality of our service and flight networks while achieving flexible fleet utilization. Our goal is to carry Turkish Airlines to even higher levels ranking it among the top three airlines in Europe by the year 2010.
I believe our Corporation's success can only grow in the coming years, supported by our passengers, staff, union, partners and all collaborating institutions with whom we work.

Abdurrahman GÜNDOĞDU
Chairman



Traffic Figures

Overview

	1999	2000	2001	2002	2003
Number of Landings	113,964	117,916	109,028	102,607	100,807
Kilometers flown (000)	138,742	149,349	143,617	138,058	137,392
Available Seat-Kms (millions)	23,101	26,001	24,890	24,071	24,040
Revenue Passenger-Kms (millions)	13,903	17,396	15,679	16,594	16,112
Passenger Load Factor (%)	60,2	66,9	63,0	68,9	67,0
Available Ton-Kms (millions)	3,117	3,502	3,574	3,285	3,229
Revenue Ton-Kms (millions)	1,578	1,976	1,968	2,118	2,055
Overall Load Factor (%)	50.6	56,4	55,1	64.5	63,6
Revenue Passengers (000)	10,410	12,031	10,277	10,383	10,420
Cargo (tons)	110,598	125,742	104,778	118,906	117,923
Mail (tons)	4,249	4,595	4,648	5,999	4,899
Excess Baggage (tons)	1,881	2,624	2,524	2,187	2,515
Total Staff (End of Year)	11,759	12,480	11,242	10,984	10,239

By the end of 2003, Turkish Airlines had flown to 103 destinations and traveled 137 million kilometers.

Financial Figures

Profit/Loss (TL millions)

According to Uniform Accounting System

	1999	2000	2001	2002	2003
Operating Revenues	541,672,304	959,662,893	1,665,236,226	2,171,619,433	2,390,842,395
Operating Expenses	649,647,344	1,087,205,111	1,837,236,504	2,152,412,536	2,208,871,203
Operating Profit/(Loss)	(107,975,040)	(127,542,218)	(172,000,278)	19,206,896	181,971,193
Revenue and Profit from Other Operations	38,408,599	35,728,573	159,125,631	196,467,307	260,294,470
Expenses and Losses from Other Operations	5,301,600	8,719,398	31,845,838	131,755,070	223,934,191
Financial Expenses	12,297,519	11,957,025	21,417,159	249,208	2,223,214
Ordinary Profit/(Loss)	(87,165,560)	(112,490,068)	(66,137,644)	83,669,926	216,108,258
Extraordinary Revenues and Profits	40,032,779	61,312,556	111,054,387	24,093,063	45,769,987
Extraordinary Expenses and Losses	20,381,596	12,856,882	24,973,439	7,961,281	9,368,673
Provisions for Taxes	-	-	-	32,398,092	78,990,691
Net Profit/(Loss)	(67,514,377)	(64,034,394)	19,943,304	67,403,616	173,518,880

Profit/Loss (TL millions)

According to Capital Market Law Serial XI, Decree No:1

	1999	2000	2001	2002
Operating Revenues	541,672,304	959,662,893	1,665,236,225	2,255,511,670
Operating Expenses	653,722,218	1,094,169,382	1,849,765,894	2,173,408,963
Operating Profit/(Loss)	(112,049,914)	(134,506,489)	(184,529,669)	82,102,707
Revenue and Profit from Other Operations	38,319,322	34,724,275	158,920,291	200,298,421
Expenses and Losses from Other Operations	4,042,760	7,240,369	31,253,906	124,593,621
Financial Expenses	12,297,519	11,957,025	21,417,159	249,208
Ordinary Profit/(Loss)	(90,070,871)	(118,979,608)	(78,280,443)	157,558,299
Extraordinary Revenues and Profits	40,122,056	62,316,854	111,381,184	27,201,800
Extraordinary Expenses and Losses	20,381,594	12,856,882	24,973,438	47,442,683
Provisions for Taxes	-	-	-	32,398,092
Net Profit/(Loss)	(70,330,409)	(69,519,636)	8,127,303	104,919,324

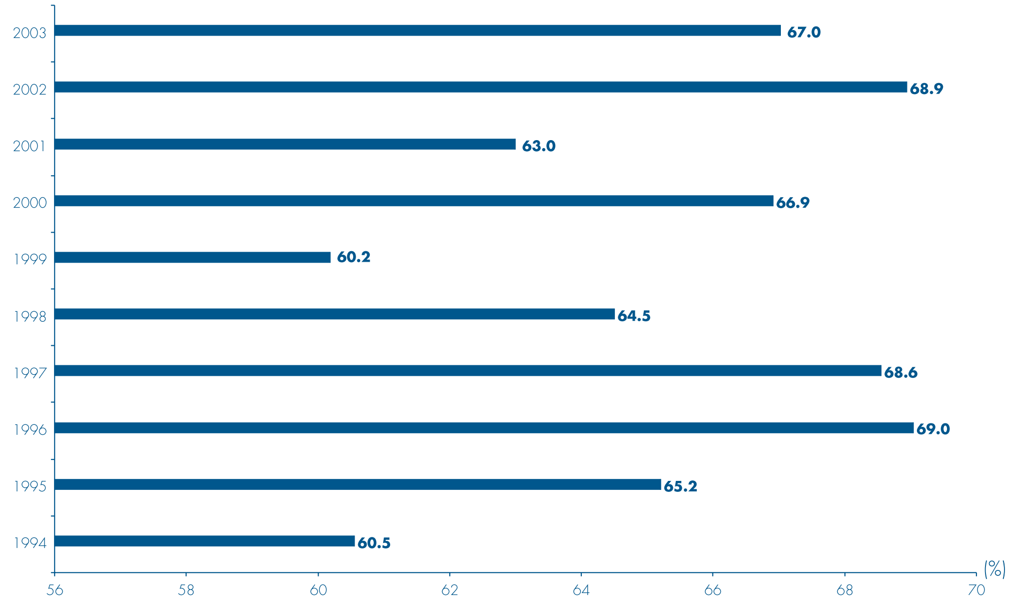
Profit/Loss (TL millions)

According to IFRS (All figures are restated to TL money values at December 31, 2003 pursuant to IAS 29)

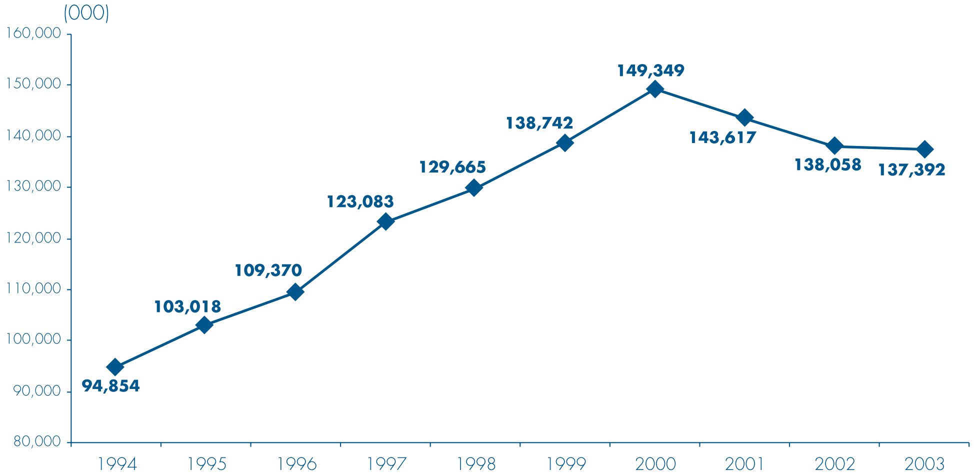
	1999	2000	2001	2002	2003
Operating Revenues	2,523,989,677	3,074,499,802	3,071,608,330	2,950,540,284	2,499,793,339
Operating Expenses	2,902,389,840	3,362,536,635	2,972,408,926	2,567,609,822	2,174,674,745
Operating Profit/(Loss)	(378,400,163)	(288,036,833)	99,199.404	382,930,462	325,118,594
Income from Other Operations	110,401,096	111,133,743	221,632,579	43,699,711	89,948,593
Loss from Other Operations	61,817,126	30,166,642	45,916,276	8,150,546	10,681,740
Ordinary Profit/(Loss)	(329,816,193)	(207,069,732)	274,915,707	418,479,627	404,385,447
Net Financial Revenue	(979,859,566)	(724,319,882)	(2,266,353,888)	(438,861,860)	259,735,872
Monetary Gain/(Loss)	949,756,639	802,392,032	1,806,831,384	479,134,761	(376,874,468)
Income Before Taxation	(359,919,120)	(128,997,582)	(184,606,797)	458,752,528	287,246,851
Tax Provisions	8,651,329	2,888,391	(8,929,353)	(111,237,890)	(73,386,988)
Net Profit/(Loss)	(351,267,791)	(126,109,191)	(193,536,150)	347,514,638	213,859,863
Minority Shares	(8,366,511)	5,993,782			
Net Profit/(Loss)	(359,634,302)	(120,115,409)	(193,536,150)	347,514,638	213,859,863
Exchange Rate, end of year (US$ 1.00)	540,098	671,765	1,439,567	1,634,501	1,395,835
Exchange Rate, yearly average (US$ 1.00)	417,095	623,355	1,220,517	1,503,494	1,496,088

Figures over 10 Years

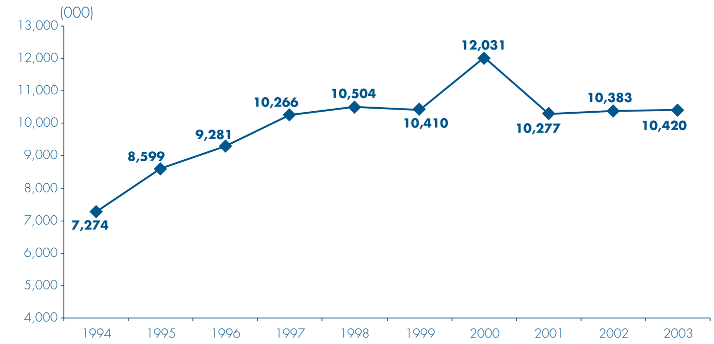
1994-2003 Passenger Load Factor



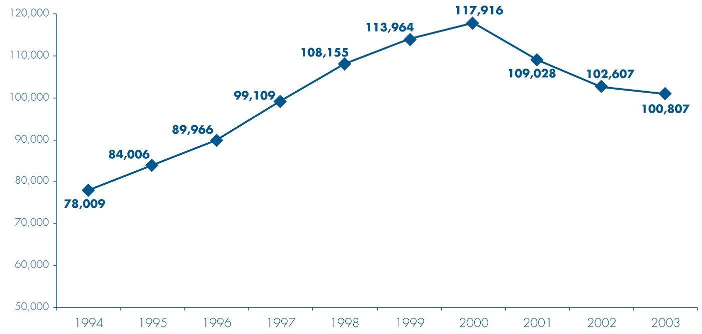
1994-2003 Kms Flown



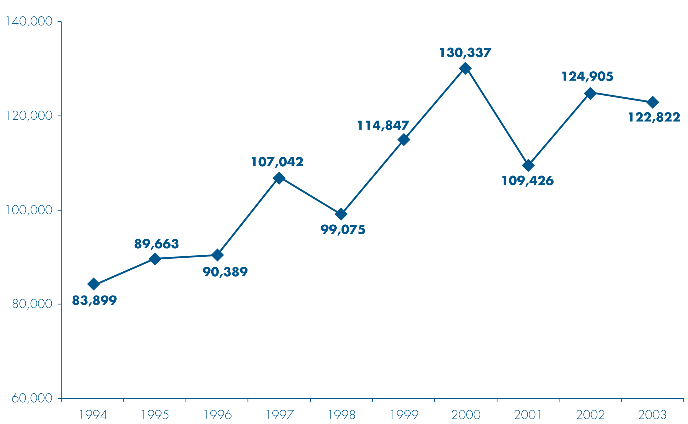
1994-2003 Revenue Passengers



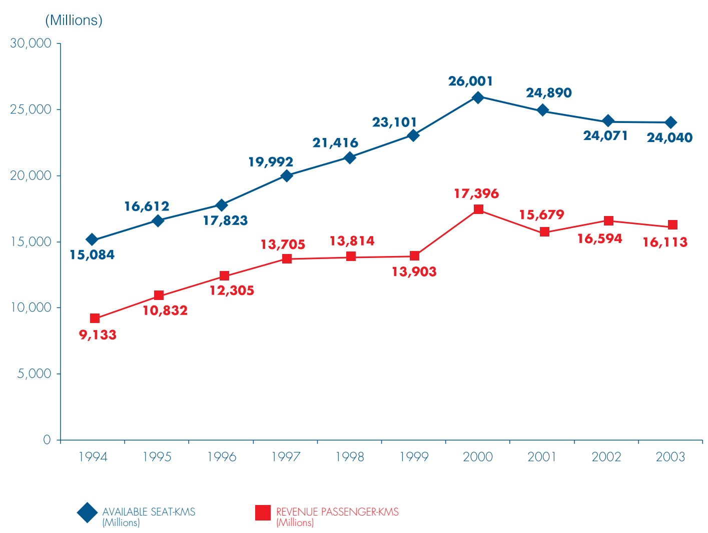
1994-2003 Number of Landings



1994-2003 Cargo and Mail (Tons)



1994-2003 Available Seat-Kms and Revenue Passenger-Kms



Year 2003 Operations

FLIGHT AND TRAFFIC DEVELOPMENT

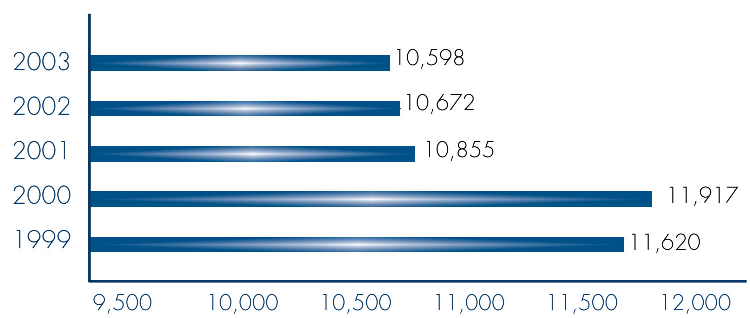
Flight Operations

By the end of the year, the number of passenger aircraft in Turkish Airlines fleet totaled 65 with a total seat capacity of 10,598. In addition to passenger aircraft, cargo operations were carried out by one A300-200 cargo plane obtained on an ACMI basis. An ACMI leased aircraft, an A310-400, was utilized as of December 19, 2003 during the Pilgrimage season to the Hadj.

The Fleet as of December 31, 2003

Passenger Aircraft	Number of Planes	Age of Fleet (End of the Year)
A340-300	7	7.54
A310-300	5	15.25
B737-400	14	10.76
B737-500	2	11.55
B737-800	26	4.13
RJ100	8	9.79
RJ70	3	7.64
Total	65	7.87

Total Seat Capacity as of December 31, 2003



By the end of the year, the number of planes in Turkish Airlines' fleet of passenger aircraft totaled 65 with a total seat capacity of 10,598.

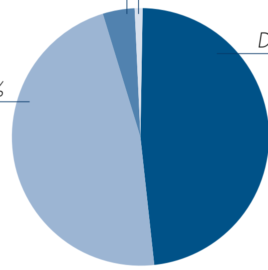
Traffic Development

In 2003, a total of 10.4 million passengers were carried; this figure includes 5.0 million domestic passengers, 4.9 million international passengers, 137,000 pilgrims visiting the Hadj and Umrah and 430,000 charter flight passengers. Where the capacity (available seat kilometers) regarding the totality of traffic operations remained the same; traffic (revenue passenger kilometers) decreased by 3.0%. As a result, the passenger load factor decreased by 1.9 points equaling 67.0%.

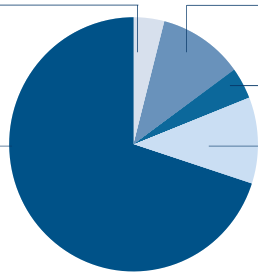
A total of 123,000 tons of cargo and mail were carried throughout the year.

By the end of 2003, Turkish Airlines had flown to 103 destinations and traveled 137 million kilometers.

Breakdown of Passengers



Breakdown of International Passengers into Geographic Regions

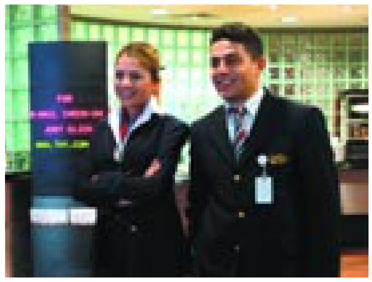


Domestic Flights

	1999	2000	2001	2002	2003
Number of Landings	66,783	66,872	58,239	51,542	49,959
Kms Flown (000)	36,654	36,979	32,298	28,782	28,087
Available Seat-kms (million)	4,988	5,077	4,333	3,858	3,863
Revenue Passenger-kms (million)	3,371	3,588	2,876	2,732	2,790
Passenger Load Factor (%)	67.6	70.7	66.4	70.8	72.2
Available ton-kms (million)	611	620	778	468	478
Revenue ton-kms (million)	294	314	292	278	283
General Load Factor (%)	48.1	50.6	37.5	59.4	59.2
Revenue Passengers (000)	6,067	6,491	5,189	4,970	5,031
Cargo (tons)	35,288	36,835	24.627	26,346	26,628
Mail (tons)	1,921	1,901	1,771	1,759	1,289
Excess Baggage (tons)	714	918	801	896	1,077

International Flights

	1999	2000	2001	2002	2003
Number of Landings	47,181	51,044	50,789	51,065	50,848
Kms Flown (000)	102,088	112,370	111,318	109,276	109,305
Available Seat-kms (million)	18,113	20,924	20,557	20,213	20,177
Revenue Passenger-kms (million)	10,532	13,808	12,803	13,862	13,322
Passenger Load Factor (%)	58.1	66.0	62.3	68.6	66.0
Available ton-kms (million)	2,506	2,882	2,796	2,817	2,751
Revenue ton-kms (million)	1,284	1,662	1,676	1,840	1,772
General Load Factor (%)	51.2	57.7	59.9	65.3	64.4
Revenue Passengers (000)	4,343	5,540	5,088	5,413	5,389
Cargo (tons)	75,310	88,907	80,151	92,560	91,295
Mail (tons)	2,328	2,694	2,877	4,240	3,610
Excess Baggage (tons)	1,167	1,706	1,723	1,291	1,438

In 2003, a total of 10.4 million passengers were carried; this figure includes 5.0 million domestic passengers, 4.9 million international passengers, 137,000 pilgrims visiting the Hadj and Umrah and 430,000 charter flight passengers.

Flight Network-Schedule Structure

As of September 18, 2003 Turkish Airlines' flights have commenced to New Delhi.

On the Summer Schedule 2003, the number of flights to Beijing/Shanghai has increased from three to five per week.

Turkish Airlines' final flight to Johannesburg/Cape Town was on March 29, 2003, according to the decision to terminate the route by March 30, 2003.

Flights to Tbilisi were reactivated on September 15, 2003, which was terminated on April 15, 2003 due to lack of permission from the Georgian authorities.

Flights to Hong Kong were suspended between April 16 and June 30, 2003, while flights to Beijing and Shanghai were similarly stopped between May 14 and July 15 due to the SARS epidemic.

Scheduled Flights

While scheduled domestic flight capacity remained the same as in the previous year, traffic increased by 2.1%. Likewise, the passenger load factor increased to 72.1%, an increase of 1.4 points. The number of passengers carried was 5.0 million, total cargo and mail amounted to 28,000 tons.

In 2003, the war in Iraq and the SARS epidemic had a negative effect on international flights.

While scheduled international flight capacity decreased by 1.3%, traffic decreased by 5.7%; resulting in a decrease of 3 points in the passenger load factor, which totaled 65.3% at the end of the year. On these international flights, 4.9 million passengers were carried along with 88,000 tons of cargo and mail.

	Available Seat-kms	***Revenue Passenger-kms***	***Passenger Load Factor (%)***	
	03/02 (change %)	03/02 (change %)	2002	2003
Scheduled Domestic	0.1	2.1	70.6	72.1
Scheduled International	(1.3)	(5.7)	68.3	65.3
Europe	(2.1)	(3.8)	66.5	65.3
North Africa	8.5	11.3	68.8	70.5
Middle East	3.0	7.0	62.8	65.3
Far East	3.3	(7.6)	72.1	64.5
North America	6.3	(0.8)	70.5	65.8

While scheduled domestic flight capacity remained the same as in the previous year, traffic increased by 2.1%; the passenger load factor was 72.1%, an increase of 1.4 points.

Charter Flights

In 2003, Turkish Airlines achieved 2,731 charter flights; of these 2,342 were international and 389 were domestic. Compared to 2002, there was an increase of 20% on charter flights. The distribution of international flights by region were as follows - Europe 86%, the Middle East 7%, North Africa 5% and the Far East 2%.

Pilgrimage Flights (Hadj and Umrah)

A total of 109,549 pilgrims were carried on Hadj, departing between January 10 and February 5 and arriving between February 14 and March 13.

A total of 27,696 passengers were carried on Umrah.

Cargo

The negative effect on air transportation of the war in Iraq and the SARS epidemic, which started in the Far East and spreaded to other regions caused Turkish Airlines cargo capacity to decrease by 0.6%. This reduction in capacity resulted in a decline in cargo traffic, which also decrease by 0.8%. Despite the decrease in traffic, Turkish Airlines cargo income increased by 5.8% since top priority was given to high revenue cargo in the utilization of the existing cargo capacity. This, coupled with the application of a flexible pricing policy, made Turkish Airlines capable of adapting to the changes in market demand.

In order to minimize the negative influences of these circumstances in 2003, Turkish Airlines chose to increase cargo traffic by ensuring customer satisfaction and offering a variety of services to make the best use of the existing cargo capacity.

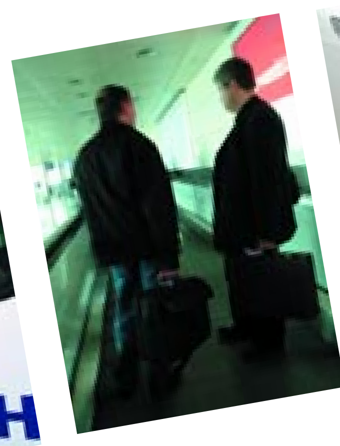
In addition to customer services, such as cargo tracking and accessing information on domestic prices and schedules over the Internet, a new WAP services program was launched for tracing cargo via cellular phone.

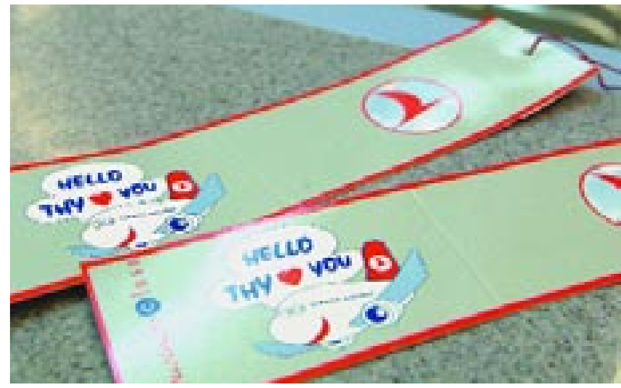
In order to trace the Unit Load Devices (ULD) used as the loading element in cargo operations from one carrier to the next, to perform healthy inventory control and to achieve better use of the equipment, Turkish Airlines joined the IATA Interline ULD system and launched this operation. A scheduled, combined land-air cargo transportation project was also created that aimed to revive domestic cargo traffic in Turkey and to enhance the Airline's capacity to serve neighbouring countries. All the elementary preparations for this project have been completed with inauguration scheduled for the beginning of 2004.

The ISO 9002 Quality Certification awarded to Turkish Airlines in 2000 in recognition of high levels of customer satisfaction plus fast, reliable service was renewed in 2003 according to the revisions of the ISO 9001:2000.

	2002	2003	03/02 Change %
Number of Landings	102,607	100,807	(1.8)
Passenger Flights	102,354	100,594	(1.7)
Cargo Flights	253	213	(15.8)
Cargo (Tons)	118,906	117,923	(0.8)
Passenger Flights	110,794	110,656	(0.1)
Cargo Flights	8,112	7,267	(10.4)
Mail (Tons)	5,999	4,899	(18.3)

Despite reduced traffic, Turkish Airlines' cargo income increased by 5.8% due to the priority assigned to high revenue cargo in the utilization of the existing cargo capacity.





In an effort to meet cargo demands to North American and certain destinations in Europe where the cargo capacity of Turkish Airlines' passenger aircraft did not suffice, Turkish Airlines leased cargo aircraft on an ACMI basis and carried 7,267 tons of cargo to Frankfurt and Maastricht. Furthermore, the Corporation signed a capacity lease contract with Atlas Air, a cargo company based in the USA and carried 1,581 tons of extra cargo on the Amsterdam-Istanbul-Amsterdam-New York route, thereby achieving a total of 8,848 tons carried by cargo aircraft.

With the addition of 4,899 tons of mail, the total of mail and cargo reached 124,403 tons in 2003.

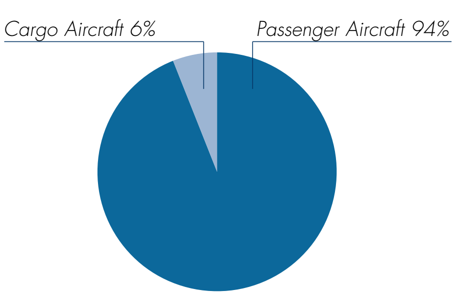
The most frequent cargo destinations in 2003, in order of frequency and tonnage were New York, Frankfurt, London, Maastricht and Tel Aviv.

In 2003, Turkish Airlines' cargo income amounted to US$ 161.6 million; US$ 7.1 million of which was for domestic and US$ 154.5 million for international cargo. (*)

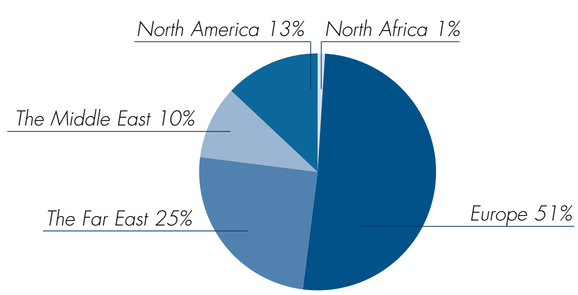
With the addition of US$ 5.4 million of mail revenue, total cargo and mail revenue reached US$ 167 million.

Turkish Airlines Cargo is the market leader with regard to domestic cargo and in 2003 it served 50% of the entire cargo market in Turkey.

Breakdown of Cargo by Tons



Breakdown of Cargo by Regions



(*) Cargo income has been calculated based on the yearly average of US$ exchange rates.

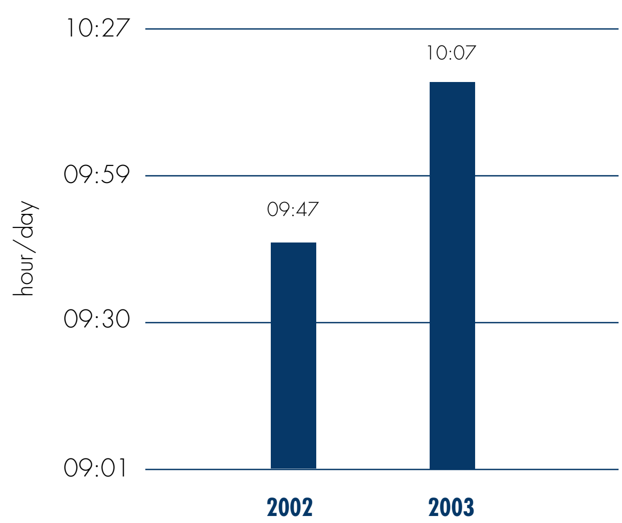
COMMERCIAL PERFORMANCE

Flexible Pricing/Sales

Given Turkish Airlines' goal of expanding the role of air transportation in domestic market and the increasing competition due to the entrance of private airlines into the market; Turkish Airlines has adopted a simple and economic pricing structure. Within this structure, a promotional fee is applied until three days before the flight and an economic fee is applied on the last three days, on any route. Turkish Airlines has implemented a 30% discount on domestic flights and a 10% discount on international flights and a more flexible pricing policy on international flights. With the application of these fees, not only did the passenger load factor on domestic flights increase to 72.2%, but also the income reached TL 2.4 quadrillion demonstrating an effective use of resources.

Operation of Planes/ Increased Effectiveness

In order to ensure that Turkish Airlines' aircraft are used most effectively, the flight schedule has been optimized utilizing the latest software technology. This has resulted in a three percent increase of airplane availability as of the end of 2003. Thus, the effective use of the fleet resulted in a capacity increase of two additional planes. Turkish Airlines managed to lower aircraft expenses by increasing usage and thus extended its capacity to compete with low-expense carriers in the market.




BOEING 737-400

We have continued to add new destinations in our international network to further promote our Corporation's identity as a "global network carrier."

Development of Flight Network/ New Destinations

Growing competition in the international market, plus successive economic crises has forced airlines build stronger network structures. Turkish Airlines also continued to add new destinations to its international network, further promoting its corporate identity as a "global network carrier."

As of September 18, 2003, Turkish Airlines recommenced flights to India's capital city, New Delhi, one of the largest and fastest growing markets in the world. Passengers that traveled via Istanbul on the European and North American routes and the New Delhi route, a route which achieved a high passenger load factor from the day it started, helped strengthen Turkish Airlines' network.

China, despite the SARS epidemic, continues to exceed the general growth trend in the market. Turkish Airlines has restructured its flight schedule to maximize the use of its long distance fleet and take advantage of this growing market. In this regard, Turkish Airlines terminated its Johannesburg/Cape Town flights on March 30, 2003 and began channeling the new capacity toward the Beijing/Shanghai route. For the summer season, Turkish Airlines has increased the number of flights to these destinations from three to five per week.

As a result of a careful research, number of flights per week to Dubai, one of the favorite holiday spots of the last few years, have been increased. Turkish Airlines' flights revived quickly after the war in Iraq and have regained previous customary load factors. The Dubai route, the capacity of which was raised by 18.1% in 2003 compared to the previous year, reached a very high load factor level with an increase in number of

Initiatives to Lower Expenses/ Call Center

The Call Center reorganized and redesigned according to changing economic conditions is now able to offer a greater variety of services, capacity and quality. To offer its customers better service, Turkish Airlines moved its staff from other branches to the Call Center. It has closed down Call Centers in Izmir and Ankara and redirecting its staff to the Call Center in Istanbul in an effort to standardize services. The explanations menu (444 0 THY - 444 0 849) has been simplified, working conditions for the Call Center staff have been improved and investments have been made for state-of-the-art technology. The Center's capacity was upgraded from 40 trunks to 45 trunks as of July 8, 2003. In order to support the Call Centers assigned to existing offices both in the US and England, Turkish Airlines has redirected calls originating in these countries to the Istanbul Center.

Based on initial results after the application of the aforementioned changes, the number of answered calls has doubled even as the number of incoming calls has increased.

Effective Crisis Management

The airline industry was shaken by crises in 2003. The war in Iraq, so close to Turkey and the SARS epidemic, originating in the Far East that subsequeutly became a global crisis, had negative effects on all airlines during the first half of the year. Turkish Airlines took precautions to minimize the damage as it anticipated what could happen worst and exercised effective crisis management techniques. During the war in Iraq, Turkish Airlines cancelled flights to many destinations in the Middle East, avoiding empty flights and minimizing loss. In that period, 848 international and 1,850 domestic flights were terminated. Similarly, flights on the routes most intensely affected by SARS were also cancelled; between April 16 and June 30, 2003 Hong Kong flights stopped and between May 14 and July 15 the Beijing/Shanghai flights did not take place.

During the ensuing crisis period caused by the Iraq war and SARS epidemic, Turkish Airlines implemented a proactive strategy by canceling flights on low-income routes and channeling the existing capacity to routes with a higher rate of return. This strategy was structured at times by employing temporary flight cancellations and adding extra flights or by increasing or decreasing frequency; at other times the strategy was to reorganize the schedule according to customer demand. As a result, on routes where an expansion capacity was employed, there was an average increase of 50% in income per landing with respect to the previous routes on which the mentioned capacity was used; the unit income value

As part of the Regional Aviation Project, we began scheduling flights between cities with high passenger potential in addition to flights to or from Istanbul and Ankara.

A Stronger Network Structure

Global competition in the airline industry continues to be more and more challenging. It has led Turkish Airlines to become a global network carrier within the world market serving passengers on an international level rather than simply an airline that limits itself to the local market. In this respect, the Corporation has come a long way in pursuit of its goal to 'provide a bridge between the Turkic countries, the Balkans, Near East and Far East, America and Europe.' Turkish Airlines' schedule has been revamped to provide more connections between these geographical regions and to establish Istanbul as an important international hub.

Despite all efforts, unfavorable developments during the first six months of 2003, i.e. the war in Iraq in the Middle East and the SARS epidemic in the Far East, prevented an increase in the number of transit passengers during that time. In the next six-month period however, when the effects of the crises had dissipated, Turkish Airlines' efforts paid off and the total transit passenger rate increased by 2.1%.

As part of the Regional Aviation Project, Turkish Airlines began scheduling flights between cities with high passenger potential and flights to or from Istanbul and Ankara. October 2, 2003, scheduled flights with two frequencies in a week on the Izmir-Adana route started, serving passengers who previously flew via Ankara or Istanbul.

TECHNICAL SERVICES

Two multi-purpose hangars are situated at the Turkish Airlines Maintenance Center at Atatürk Airport. Maintenance Base One and Two cover an area of 51,000 square meters and 80,000 square meters, respectively. These hangers have the capacity to simultaneously provide technical assistance to two A340s, two A310s, five B737s or one B737 and three RJ airplanes.

With this much hangar space and staff capacity, Turkish Airlines is able to provide technical assistance to aircraft from private airlines and also sell technical equipment to domestic and international customers.

The technical assistance offered by the Maintenance Base has generated US$ 46.7 million in revenue from technical service sales, US$ 2.0 million from route maintenance services delivered to contracted companies, US$ 1.2 million from surplus equipment sales and US$ 4.4 million from 'warranty' making up a total of US$ 53.1 million.

In 2003;

The PWS Weather Radar System and EGPWC were installed on five THY A340 airplanes.

The first S2 check upkeep was performed on one of the airplanes in Turkish Airlines' A340 fleet (TC-JDJ); the test flight was successfully completed.

Winglet Modification was performed on some customer aircraft and three B737-800s in the Turkish Airlines fleet.

Cockpit door reinforcement modifications for the entire Turkish Airlines fleet were completed in 2003. Cockpit modifications were also performed on customer aircraft.

An A310-200-type TC - JCO belonging to Cyprus Turkish Airlines was overhauled. After successfully completing a test flight, it began flying for Turkish Airlines. Additionally, Turkish Airlines performed C check for the first time on an A300-600 type aircraft, a model that does not exist in its fleet but belongs to Onur Air.

The first S2 check upkeep was performed on one of the airplanes in Turkish Airlines' A340 fleet (TC-JDJ); the test flight was successfully completed.


TURKISH AIRLINES
TECHNIC


TURKISH AIRLINES
BUSINESS CLASS

HUMAN RESOURCES

Turkish Airlines staff totaled 10,239 at the end of 2003, a 6.8% decrease over figures from the previous year (10,984).

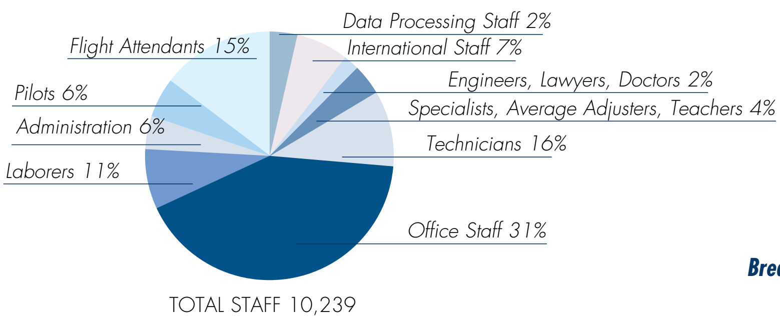
The number of passengers per employee increased by 6.7% with respect to 2002's figures, thereby increasing productivity and effectiveness.

1999-2003 Development of Staff Efficiency

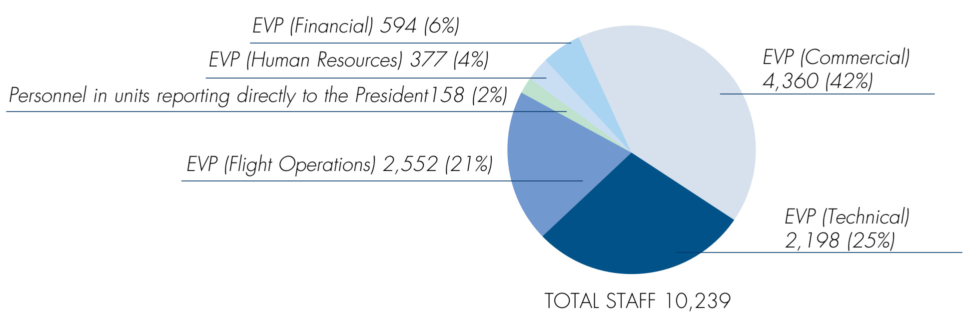
Year	Number of Employees Per Plane	Number of Passengers Per Employee
1999	157	885
2000	171	964
2001	163	914
2002	166	945
2003	158	1,017

On August 18, 2003, Turkish Airlines signed the 19th Term Collective Labor Agreement.

Breakdown of Staff by Title as of December 31, 2003



Breakdown of Staff by Administrative Unit as of December 31, 2003



A total of 1,348 trainees took part in 95 courses offered for cockpit training, while 2,258 trainees attended 93 courses for cabin training at the Flight Training Center.

On July 15 and 16, 2003, Turkish Airlines was inspected by the RWTÜV External Inspection Company for a renewal of the ISO 9000-2000 Quality Management System Certification. This inspection was successfully concluded and the Certificate was renewed.

Training

The Turkish Airlines Training Department earns income by providing courses on engine types, fuselage types and avionics systems to domestic and international airlines. Additionally income is gained through courses on ticket sales and reservation to agents, cargo sales hazardous material handling for cargo agents, and manners and quality training to all interested customers. Turkish Airlines is authorized by the Civil Aviation General Directorate to carry out licensing exams on a fee basis.

In 2003, 12,363 staff members were offered courses on passenger sales and services, reservations, ground operations, cargo, quality control, computers, technical English and basic technical issues.

On July 15 and 16, 2003, Turkish Airlines was inspected by the RWTÜV External Inspection Company for a renewal of the ISO 9000-2000 Quality Management System Certification. This inspection was successfully concluded and the Certificate was renewed.

For the first time in Turkish Airlines' history, Turkish Airlines began providing courses on A320-B4 Fuselage/Engine Types. Participants in this program came from private aviation companies; the success of this program assures that Turkish Airlines will organize the course again in the future.

	2002		2003	
	COURSE	PARTICIPANT	COURSE	PARTICIPANT
Commercial	303	4,384	303	3,976
Technical	89	1,239	110	1,549
Quality	75	1,502	97	1,839
CE	63	530	40	405
Other	12	474	236	4,594
TOTAL	542	8,129	786	12,363

Flight Training Center

The Flight Training Center consists of two divisions; Cockpit Training and Cabin Training. For use in cockpit training, Turkish Airlines has a B737-400, an RJ and a B737-800 Full Flight Simulator. Within the Cabin Training Division, one A340 First Class cabin service mock-up, one B737 Economy Class cabin service mock-up, one B737/A310/A340 mobile emergency evacuation simulator and one A310 wing exit mock-up is utilized.

A total of 1,348 trainees took part in 95 courses offered for cockpit training; 2,258 trainees took advantage of 93 courses for cabin training within the Flight Training Center.

Cockpit and cabin training activities for external organizations generated for US$ 2.7 million in additional revenue in 2003.


THY

Among the services accessible via Internet are Online Ticket Sales, Online Check-In, Flight Schedules, Miles&Miles Services, Lost Baggage, Cargo Services (reservation, cargo tracking, scheduling, pricing and domestic fees) plus departure and arrival information.

SERVICES

On-line Services

The new design of the Turkish Airlines website was launched on August 22, 2003. Among the services accessible via Internet are Online Ticket Sales, Online Check-In, Flight Schedules, Miles&Miles Services, Lost Baggage, Cargo Services (reservation, cargo tracking, scheduling, pricing and domestic fees) plus departure and arrival information.

Turkish Airlines provides alternative ticket delivery methods for passengers who purchase their tickets directly from the website; such as, "ticketing at the office," tickets by mail for passengers on flights originating in Turkey, USA, England and Germany and “ticketing at the airport” at most of the prominent airports in Turkey and abroad.

The Ticket on Departure -Ticketing at the Airport (TOD) application facilitating passengers to obtain their tickets at the airport up to an hour prior to departure on domestic flights and two hours before departure on international flights was extended from five days to fifteen days.

TOD points are located in Adana, Ankara, Antalya, Bodrum, Dalaman, Gaziantep, Istanbul, Izmir, Kayseri, Konya, Samsun, Trabzon, Diyarbakır, Malatya and Van within Turkey. Similar service is available in New York, Chicago, London, Manchester, Paris, Lyon, Strasbourg, Nice, Frankfurt, Munich, Stuttgart, Nuremberg, Hamburg, Hannover, Berlin, Düsseldorf, Köln, Madrid, Barcelona, Milan, Vienna, Bucharest, Athens, Tel Aviv, Zurich, Geneva, Brussels, Stockholm, Kiev and Odessa.

Turkish Airlines has completed the necessary groundwork for online check-in; this service was initiated in April. Online check-in is available in Turkey in Adana, Ankara, Antalya, Bodrum, Dalaman, Denizli, Elazığ, Gaziantep, Istanbul, Izmir, Kayseri, Konya, Samsun, Trabzon, Diyarbakır, Erzurum, Malatya, Şanlıurfa, Van and outside the country in Amsterdam, Barcelona, Bucharest, Cairo, Frankfurt, Hamburg, Kiev, Madrid, Milan, Odessa, Paris and Strasbourg.

Miles&Miles members who purchased tickets over the Internet were also included in the online check-in as of April 21, 2003. Turkish Airlines installed a Frequently Asked Questions (FAQ) section to its website to answer passenger querries.

On March 17, 2003, Turkish Airlines initiated online ticketing service in German language. Links were set up from the official website (www.thy.com) to sites prepared by local Turkish Airlines bureaus abroad. In 2003, websites were launched in China, Poland and Korea, in addition to those already established in the USA, Japan, Hungary and Singapore.

Miles&Miles Frequent Flyer Program

The Miles&Miles Program is Turkish Airlines' frequent flyer program that offers special customer services as free tickets, companion tickets and seating upgrades in return for miles earned from Turkish Airlines and other contracted airlines, hotel accommodations, car rentals and purchases made on the Shop&Miles credit card, co-branded by Garanti Bank.

By adding Mileage Status and Mileage Allocation functions to its website, Turkish Airlines has enabled its members to calculate miles earned from paid flights and the additional miles necessary for Miles&Miles free tickets. Moreover, accessibility of the Elite card for the Miles Spent function which enables members to view all the free mileage used plus the Elite card querry function enabling members to calculate the required number of flights and mileage to upgrade membership, has also been added to the website.

Starting on December 15, 2003, limited seating for free tickets earned by mileage was terminated, giving Miles&Miles members the same opportunity as revenue passengers on domestic flights. An identical change was initiated for international flights on January 22, 2004.

Miles&Miles members are able to perform the same operations available on the website also at the kiosks located in CIP halls and Business Class counters at domestic and international sections of the Atatürk Airport and at the B (domestic) Terminal of Ankara Esenboğa Airport.

Turkish Airlines offers all passengers staying at Turkish Airline contracted hotels the opportunity to pick up their boarding cards before going to the airport.

444 0 THY - Flight Route Project

Telephone reservation services are performed locally through Turkish Airlines' Call Center - 444 0 THY – 444 0 849. Calls from Miles&Miles members and customers who use the online facilities are also served through this number.

Return Check-in

Turkish Airlines provides return check-in services to customers without luggage, that depart and return the same day, between Istanbul, Ankara, Izmir, Antalya, Adana, Bodrum, Dalaman, Trabzon, Gaziantep, Samsun, Erzurum, Malatya, Kayseri, Van, Elazığ, Diyarbakır, Konya, Denizli, Batman, Mardin, Şanlıurfa, London, Frankfurt, Paris and Athens. Customers without luggage are able to check-in for the returning flight if they have a reserved seat, while they check-in for departure.

Hotel Check-in

Turkish Airlines offers all passengers staying at Turkish Airline contracted hotels the opportunity to pick up their boarding cards before going to the airport.

Electronic Ticketing

The use of electronic ticketing, a state-of-the-art technology in the airline industry, is expanding rapidly throughout the world - especially in the USA. Electronic ticketing reduces the amount of manpower employed for printed ticketing and thus minimizes distribution expense and reduces the risk of misplacing the valuable documents. This system enables all ticketing information to be accumulated electronically in a database, facilitating operations such as change of flight or airport check-in and allows flight information to be channeled directly into the income recording system without the need to provide the passenger with a printed ticket.

Turkish Airlines completed infrastructure preparations regarding the initiation of the electronic ticketing system and first began issuing this type of tickets for staff on December 9, 2003.

INFORMATION TECHNOLOGY PROJECTS

Projects realized in 2003 by the EDP Department, the group that provides all the data processing systems for Turkish Airlines, are explained in detail within the sections of this Annual Report titled; Commercial Developments, Cargo and Services. One of these projects, the electronic ticketing project, has brought the latest in ticketing technology to Turkish Airlines. Due to Reservation and Departure Control (DCS) projects, the number of Turkish Airlines bureaus connected online has increased to 22 in Turkey and 35 abroad. Moreover, Turkish Airlines now serves 21 local and 42 international airports and 485 local and 249 international sales agents connected online.

Since the development of the TOD, it is now possible to purchase tickets over the Internet. This system, developed at the Data Processing Center, is being used in Turkey and abroad.

The software developed for the Miles&Miles project allowed Turkish Airlines to offer passengers a variety of services, directly or through the Internet. New applications, such as cargo schedule information, airway bill search and domestic fee information were put to use with the aid of Internet technology that was installed for cargo projects. Other web applications enable the flight staff to acquire information regarding their personal flight schedules; it also permits the Civil Aviation General Directorate to access and check Turkish Airlines' flight information from the Internet. Seminars have been held to introduce potential clients to Turkish Airlines' income evaluation program, TRACES. To date, US$ 76,500 worth of software related services have been sold to Icelandic Airlines.

Again this year, preparations have started for the computing infrastructure of the Call Center, another project that is of crucial importance to Turkish Airlines.

Turkish Airlines is the local distributor for GALILEO, a company that provides airline, hotel and car reservations and ticketing software and systems to travel agents around the world. With the development of a project led by the EDP Department, Turkish Airlines has increased the number of travel agent locations that are now utilizing the GALILEO system to 187 and has achieveda revenue of US$ 1.8 million.

The comparative operation results of Turkish Airlines for the years 2002 and 2003 are as follows:

Profit/Loss (TL Millions)	31 December 2003 (UAS)*	31 December 2002 (UAS)*	31 December 2003 (IFRS)**	31 December 2002 (IFRS)**
Operating Income	2,390,842,395	2,171,619,433	2,499,793,339	2,950,540,284
Operating Expenses	(2,208,871,203)	(2,152,412,536)	(2,174,674,745)	(2,567,609,822)
Operating Profit/Loss	181,971,192	19,206,897	325,118,594	382,930,462
Other Operating Income	306,064,457	220,560,370	89,948,593	43,699,711
Other Operating Expenses	(233,302,864)	(139,716,351)	(10,681,740)	(8,150,546)
Fin./Mon. Gain/Pre-tax Prof./Loss	254,732,785	100,050,916	404,385,447	418,479,627
Financial Income/(Exp.) (Net)	(2,223,214)	(249,208)	259,735,872	(438,861,860)
Monetary Gain/(Loss)	-	-	(376,874,468)	479,134,761
Income Before Taxation	252,509,571	99,801,708	287,246,851	458,752,528
Provisions for Taxes	(78,990,691)	(32,398,092)	(73,386,988)	(111,237,890)
Net Profit/Loss	173,518,880	67,403,616	213,859,863	347,514,638
Profit/Loss per Share	992	385	1,222	1,986

On 15 November 2003, Capital Markets Board ("CMB") published Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards". The Communiqué is applicable to the first interim financial statements ending after 1 January 2005 and is effective from the date of publishing. However, companies may choose to adopt Communique No: 25 of Series XI, for years or interim periods ending on or after 31 December 2003.

As explained in the first temporary clause of Article 34 of the foresaid Communiqué - General Provisions related to financial statements obligations, preparation and public announcement of financial statements in accordance with IFRS until the beginning of that period in which application Communiqué No: 25 of Series XI becomes enforceable, is counted for fulfillment of provisions of preparation of financial statements and public announcement in accordance with that Communiqué. Consequently, the Company prepared and publicly announced its financial statements as of 31 December 2003 in accordance with IFRS.

The companies which choose to apply Communiqué No: 25 of Series XI or IFRS as of 31 December 2003 are not required to report in accordance with CMB Communiqué No.1 of Series XI “Rules and Principles Relating to Financial Statements and Reports in Capital Markets”, Communiqué No: 20 of Series XI “Rules and Principles Relating to Adjustment of Financial Statements in Hyperinflationary Periods” and Communiqué No: 21 of Series XI “Rules and Principles Relating to Consolidated Financial Statements and Accounting For Equity Participations”.

(*) According to Uniform Accounting System
(**) According to International Financial Reporting Standards

CAPITAL REVIEW

Turkish Airlines adopted the registered capital system pursuant to Decision No. 815 made by the Capital Markets Board on October 26, 1990. According to this, the Company's share capital ceiling is TL 700 billion. The Public Housing and Public Participation Administration became a shareholder of Turkish Airlines as per the Supreme Planning Council's Decree No. 89/12 of July 17, 1989. It was subsequently decided, however, that the Company be subject to Law No. 4046 which regulates privatization practices and amends certain decree laws. This law, which went into effect after being published in the Official Gazette of November 27, 1994 numbered 22124, transferred control of Turkish Airlines to the Turkish Privatization Administration.

As of December 31, 2003, the registered capital of Turkish Airlines was TL 500 trillion, with issued capital standing at TL 175 trillion.

REGISTERED CAPITAL	ISSUED CAPITAL
TL 500,000,000,000,000	TL 175,000,000,000,000

The distribution of issued shares as of December 31, 2003 are as follows:

SHAREHOLDER	CLASS	TYPE	NUMBER OF SHARES	CAPITAL (TL)
Privatization Administration	A	Bearer	171,788,947,558	171,788,947,557,834
Privatization Administration	C	Registered	1	1
Other Shareholders	A	Bearer	3,211,052,441	3.211,052,441,166
TOTAL			175,000,000,000	175,000,000,000,000

AFFILIATES AND SUBSIDIARIES

(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

COMPANY NAME	Ownership (%)	Subscribed	Committed	Paid-in
SUBSIDIARIES				
Sun Express A.Ş.	50	24,000,000,000	(6,000,000,000)	18,000,000,000
AFFILIATES				
Uçak Servisi A.Ş. (USAŞ)	5.25	299,250,000,000		299,250,000,000
Emek İnşaat ve İşletme A.Ş.	0.3	6,000,000,000		6,000,000,000

DIVIDENDS FROM AFFILIATES AND SUBSIDIARIES (TL)	In 2003	In 2002
Uçak Servisi A.Ş. (USAŞ)	1,757,880,000,000	-
Emek İnşaat ve İşletme A.Ş.	1,536,941,470	937,579,071

SUN EKSPRESS A.Ş.

An airline company that operates charter flights in the tourism charter market. The other major partner is Condor with a 50% share.

UÇAK SERVİSİ A.Ş. (USAŞ)

In accordance with the 2nd article of the share transfer agreement, regarding the five-year catering service contract signed on 15.11.2001 between Gate Gourmet Holding A.G. (GGH), the major partner of USAS, and Turkish Airlines, GGH agreed to transfer Group B shares corresponding to 15% of the total capital of USAS to Turkish Airlines free of charge in 5 years. In accordance with this agreement, 10% of shares, corresponding to 570 million shares and nominal value of TL 570 billion, were transferred to Turkish Airlines in April 2002. In January 2003, an additional 1.25% of shares (71.25 million shares) were transferred to Turkish Airlines. The remaining 3.75% of shares will be transferred in January 2004, 2005 and 2006, in equal portions of 1.25%. The 342 million of shares transferred were sold at Istanbul Stock Exchange in November and December, 2003. So, the closing balance of USAS shares in balance sheet of Turkish Airlines decreased to 299.3 million shares, amounting to 5.25% of USAS capital.

EMEK İNŞAAT VE İŞLETME A.Ş.

Operates in the construction and property management area. Major shareholders are the Turkish State Pension Fund (49%) and the Turkish Red Crescent Foundation (49%).

FOREIGN CURRENCY TRANSACTIONS

(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

Out of the Company's total revenue of TL 2,696,906,852 million in 2003, TL 2,123,818,935 million portion was in, or convertible to foreign currency.

Foreign exchange expenses of Turkish Airlines during 2003 amounted to TL 1,285,228,092 million.

Thus, the net foreign currency of contribution of Turkish Airlines to Turkish economy has been TL 838,590,843 million. This corresponds to US Dollar 570.2 in terms of funds in or convertible to foreign currency.

The following table indicates these figures in both Turkish Lira and US Dollar terms (according to average exchange rates).

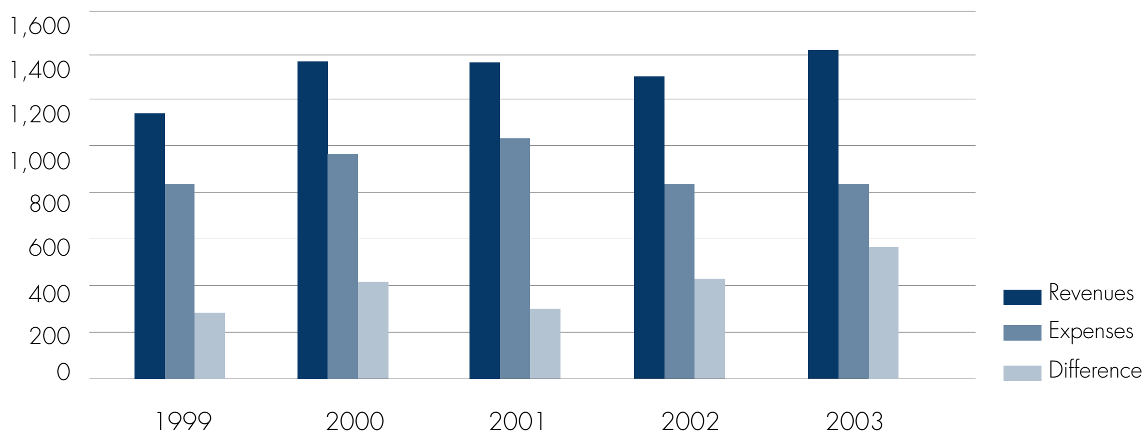
Turkish Lira (Million)

YEARS	REVENUES	EXPENSES	NET TL CONTRIBUTION
1999	473,154.509	354,239,739	118,914,770
2000	845,926,702	600,427,871	245,498,831
2001	1,647,000,952	1,265,809,495	381,191,457
2002	2,145,798,051	1,313,954,722	831,843,329
2003	2,123,818,935	1,285,228,092	838,590,843

US Dollar (Full)

YEARS	REVENUES	EXPENSES	NET FC CONTRIBUTION
1999	1,133,401,035	831,683,746	301,717,289
2000	1,356,317,658	949,517,917	406,799,741
2001	1,344,595,660	1,025,415,599	319,180,061
2002	1,297,434,193	861,876,698	435,557,495
2003	1,429,193,108	858,955,360	570,237,748

FOREIGN CURRENCY REVENUES AND EXPENSES (US Dollar Millions)



Every year starting from the year 1995, Turkish Airlines has been presented the Best Exporter Award by Istanbul Chamber of Commerce. Awards for the year 2003 have not been announced yet.

Foreign currency revenues in 2003 amounted to US Dollar 1,018 million.

The following table indicates the foreign currency revenues of Turkish Airlines since the year 1994:

FC REVENUE YEAR	AWARD YEAR	FC INFLOW (US$ Millions)	RANKING	AWARD
1994	1995	676	1.	GOLD PLAQUE
1995	1996	707	1.	GOLD PLAQUE
1996	1997	816	1.	GOLD PLAQUE
1997	1998	820	1.	GOLD PLAQUE
1998	1999	806	1.	GOLD PLAQUE
1999	2000	975	1.	GOLD PLAQUE
2000	2001	938	1.	GOLD PLAQUE
2001	2002	901	1.	GOLD PLAQUE
2002	2003	858	2.	GOLD PLAQUE

SUMMARY OF ANNUAL RESULTS 2003-2002

(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

FINANCIAL RESULTS
(TL Millions)

	2003	2002	03/02 Change (%)
REVENUES			
Ticket revenues	1,866,713,503	1,711,743,688	9.1
Excess Baggage Revenues	15,762,108	13,529,606	16.5
Mail Revenues	8,067,382	8,679,421	(7.1)
Cargo Revenues	241,791,442	225,513,198	7.2
Charter Revenues	42,562,403	37,479,129	13.6
Pilgrimage Revenues	84,405,610	39,800,659	112.1
Other Revenues	131,539,947	134,873,731	(2.5)
Income and Profit From Other Operations	260,294,470	196,467,307	32.5
Extraordinary Revenues and Profits	45,769,987	24,093,063	90.0
TOTAL REVENUES	2,696,906,852	2,392,179,803	12.7
EXPENSES			
Direct Operating Expenses	701,609,195	620,190,679	13.1
Passenger Service Expenses	141,580,102	130,058,124	8.9
Direct Maintenance Expenses	190,072,868	196,046,701	(3.0)
Manufacturing Overhead Expenses	665,711,354	712,471,320	(6.6)
Marketing Sales & Distribution Expenses	377,650,505	365,550,181	3.3
General Administrative Expenses	132,247,178	128,095,531	3.2
Other Operating Expenses	223,934,191	131,755,070	70.0
Financial Expenses	2,223,214	249,208	792.1
Extraordinary Expenses and Losses	9,368,673	7,961,281	17.7
TOTAL EXPENSES	2,444,397,281	2,292,378,095	6.6
Profit (or Loss)	252,509,571	99,801,708	153.0
Taxes and Statutory Obligations	(78,990,691)	(32,398,092)	143.8
NET PROFIT/LOSS	173,518,880	67,403,616	157.4
TRAFFIC			
Available Seat-Kms	24,039,592,530	24,071,004,377	(0.1)
Revenue Passenger-Kms	16,112,677,971	16,593,898,265	(2.9)
Number of Revenue Passengers	10,420,116	10,382,909	0.4
Cargo Carried (Tons)	117,923	118,587	(0.6)
Passenger Load Factor (%)	67	69	(2.9)
Hours Flown	240,069	242,506	(1.0)
Number of Landings	100,807	102,607	(1.8)
Kms Flown	137,392,371	138,056,860	(0.5)
Post Carried (Tons)	4,899	5,999	(18.3)
AVERAGE VALUES FOR ALL FLIGHTS (PASSENGER AIRCRAFTS)			
Average Number of Revenue Passengers per Aircraft	153,237	152,690	0.4
Average Daily Flight Time per Aircraft	10:12	10:06	1.0
Employees per Aircraft	164	168	(2.4)
Passengers Carried per Flight	103	101	2.0
Passengers per Employee	927	924	0.3
Average Speed (Km/Hour)	572	569	0.5
Average Flight Distance (Km.)	1,363	1,345	1.3

TURKISH AIRLINES INC.

DETAILED BALANCE SHEETS (ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

ASSETS	31 December 2003	31 December 2002
I. CURRENT ASSETS		
A. Liquid Assets		
1- Cash	174,680,334,110	122,462,322,767
2- Cheques Received	55,104,427,413	275,918,894,542
3- Banks	669,632,528,366,244	369,296,045,220,668
4- Cheques Given and Payment Orders (-)	(2,346,308,314,550)	(820,950,751,825)
5- Funds Awaiting for Disbursement	-	-
6- Other Liquid Assets	7,538,634,718,292	4,022,306,901,319
TOTAL (A)	675,054,639,531,509	372,895,782,587,471
B. Marketable Securities		
1- Share Certificates	11,910,721,910,775	11,910,721,910,775
2- Private Sector Bonds and Notes	-	-
3- Public Sector Bonds and Notes	-	3,850,000,000,000
4- Other Marketable Securities	-	-
5- Provision for Dec. in Value of Market. Sec. (-)	-	-
TOTAL (B)	11,910,721,910,775	15,760,721,910,775
C. Trade Receivables		
1- Customers	119,844,955,765,972	126,211,534,273,369
2- Notes Receivables	-	-
3- Rediscount on Notes Receivables (-)	-	-
4- Deposits and Guaranties Given	-	-
5- Doubtful Receivables	13,969,476,458,233	11,723,564,796,552
6- Provision for Doubtful Receivables (-)	(13,969,476,458,233)	(11,723,564,796,552)
TOTAL (C)	119,844,955,765,972	126,211,534,273,369
D. Other Receivables		
1- Due from Shareholders	10,000,000,000,000	10,000,000,000,000
2- Due from Affiliates	-	-
3- Due from Subsidiaries	-	108,141,434,424
4- Due from Personnel	218,159,074,560	1,902,301,294,268
5- Other Receivables	32,074,234,255,005	32,681,740,136,189
6- Rediscount on Other Notes Receivables (-)	-	-
7- Other Doubtful Receivables	9,918,157,893	533,394,893
8- Provision for Other Doubtful Receivables (-)	(9,918,157,893)	(525,804,162)
TOTAL (D)	42,292,393,329,564	44,692,190,455,613
E. Inventories		
1- Raw Materials and Supplies	100,814,269,873,515	94,664,772,659,293
2- Semi-finished Goods in Production	-	-
3- Finished Goods	-	-
4- Trade Goods	-	-
5- Inventories	328,062,127,028	652,554,768,178
6- Other Inventories	-	-
7- Provision for Inventories (-)	-	-
8- Advances Given for Purchases	187,858,916,499	310,580,430,767
TOTAL (E)	101,330,190,917,042	95,627,907,858,238
F. Prepaid Expenses and Income Accruals		
1- Prepaid Expenses for Future Months	18,027,625,262,894	20,114,788,359,036
2- Income Accruals	29,387,653,552,978	9,078,040,962,783
TOTAL (F)	47,415,278,815,872	29,192,829,321,819
G. Other Current Assets		
1- Deffered VAT	68,009,000,810	31,174,730,810
2- Deductable VAT	42,893,083,403	57,660,053,093
3- Other VAT	-	-
4- Prepaid Taxes and Funds	-	-
5- Work Advances	134,568,292,389	314,919,763,426
6- Advances to Personnel	321,000,502,218	278,423,561,199
7- Inventory Shortages	-	-
8- Other Current Assets	10,354,299,390	4,120,011,925
9- Provision for Other Current Assets (-)	-	-
TOTAL (G)	576,825,178,210	686,298,120,453
TOTAL CURRENT ASSETS	998,425,005,448,944	685,067,264,527,742

	31 December 2003	31 December 2002
II. LONG-TERM ASSETS		
A. Trade Receivables		
1- Customers	-	-
2- Notes Receivables	-	-
3- Rediscount on Notes Receivables (-)	-	-
4- Deposits and Guaranties Given	3,581,599,807,475	17,866,908,315,575
5- Provision for Doubtful Receivables (-)	-	-
TOTAL (A)	3,581,599,807,475	17,866,908,315,575
B. Other Receivables		
1- Due from Shareholders	-	-
2- Due from Affiliates	-	-
3- Due from Subsidiaries	-	-
4- Due from Personnel	1,300,515,661,186	-
5- Other Miscellaneous Receivables	645,971,500,475	934,279,137,099
6- Rediscount on Other Notes Receivables (-)	-	-
7- Provision for Other Doubtful Receivables (-)	-	-
TOTAL (B)	1,946,487,161,661	934,279,137,099
C. Financial Assets		
1- Long-Term Securities	6,000,000,000	6,000,000,000
2- Decrease in Value of Securities (-)	-	-
3- Affiliates	4,596,140,850,000	9,547,500,000,000
4- Capital Commitments for Affiliates (-)	-	-
5- Decrease in Value of Affiliates' Shares (-)	-	-
6- Subsidiaries	24,000,000,000	24,254,016,480
7- Capital Commitments for Subsidiaries (-)	(6,000,000,000)	(6,000,000,000)
8- Decrease in Value of Subsidiaries' Shares (-)	-	-
9- Other Financial Assets	534,778,236,465	534,778,236,465
10- Decrease in Value of Other Finan. Assets (-)	-	-
TOTAL (C)	5,154,919,086,465	10,106,532,252,945
D. Tangible Fixed Assets		
1- Lands	867,362	867,362
2- Land Improvements	-	-
3- Buildings	64,992,191,161,648	51,140,045,815,529
4- Plant, Machinery and Equipment	302,928,738,226,330	248,248,469,348,778
5- Motor Vehicles	335,852,152,518,302	333,709,481,769,080
6- Furnitures and Fixtures	7,800,660,767,741	6,755,904,519,214
7- Other Tangible Fixed Assets	482,641,751,032	384,867,532,118
8- Accumulated Depreciation (-)	(535,551,439,388,303)	(476,498,409,225,223)
9- Construction in Progress	1,009,059,998,059	1,021,131,617,403
10- Advances Given	73,288,478,591,860	85,819,664,607,116
TOTAL (D)	250,802,484,494,032	250,581,156,851,381
E. Intangible Assets		
1- Rights	10,173,082,704,142	7,642,127,830,163
2- Goodwill	-	-
3- Establishment and Formation Expenses	-	-
4- Research and Development Expenses	-	-
5- Extraordinary Costs	1,405,744,176,928	1,384,820,232,575
6- Other Intangible Fixed Assets	-	-
7- Accumulated Amortization (-)	(7,471,274,549,937)	(5,283,230,419,644)
8- Advances to Suppliers	-	-
TOTAL (E)	4,107,552,331,134	3,743,717,643,094
F. Assets Subject to Amortization		
1- Exploration/Research Expenses	-	-
2- Preparation and Development Expenses	-	-
3- Other Amortizable Assets	9,122,056,486,421	4,720,147,880,167
4- Accumulated Amortization (-)	(8,210,102,818,715)	(3,546,646,157,726)
5- Advances to Suppliers	-	-
TOTAL (F)	911,953,667,706	1,173,501,722,440
G. Prepaid Expenses and Accrued Income		
1- Prepaid Expenses for Future Years	15,637,175,080,960	19,748,848,816,772
2- Income Accruals	-	-
TOTAL (G)	15,637,175,080,960	19,748,848,816,772
H. Other Fixed Assets		
1- Deductible VAT in Future Years	-	-
2- Other VAT	-	-
3- Inventory and Tangible Fixed Assets to be Disposed	90,953,262,110	77,641,623,780
3- Other Fixed Assets	-	33,653,339
TOTAL (H)	90,953,262,110	77,675,277,120
TOTAL LONG-TERM ASSETS	282,233,124,891,543	304,232,620,016,428
TOTAL ASSETS	1,280,658,130,340,487	989,299,884,544,170
REGULATING ACCOUNTS	3,439,736,633,312,970	7,511,673,045,136,001

LIABILITIES	31 December 2003	31 December 2002
I. SHORT-TERM LIABILITIES		
A. Financial Liabilities		
1- Bank Loans	-	-
2- Current Portion of Long-Term Credits and Accrued Interest	-	739,393,936,328
3- Current Portion of Bonds and Accrued Interest	-	-
4- Bonds and Notes Issued	-	-
5- Other Securities Issued	-	-
6- Value Difference of Securities Issued (-)	-	-
7- Other Financial Liabilities	-	-
TOTAL (A)	-	739,393,936,328
B. Trade Payables		
1- Suppliers	171,550,346,804,454	160,717,518,280,700
2- Notes Payables	-	-
3- Rediscount on Notes Payables (-)	-	-
4- Deposits and Guaranties Received	6,834,121,750,503	5,480,025,190,907
5- Other Trade Payables	314,280,100,965	92,406,175,114
TOTAL (B)	178,698,748,655,921	166,289,949,646,721
C. Other Liabilities		
1- Due to Shareholders	-	-
2- Due to Affiliates	-	-
3- Due to Subsidiaries	-	-
4- Due to Personnel	2,006,969,826,173	214,369,812,576
5- Other Liabilities	16,343,682,177,469	18,863,076,284,471
6- Rediscount on Other Notes Payables (-)	-	-
TOTAL (C)	18,350,652,003,642	19,077,446,097,047
D. Advances Received	38,285,892,727,816	32,490,077,908,366
TOTAL (D)	38,285,892,727,816	32,490,077,908,366
E. Taxes Payable and Other Fiscal Liabilities		
1- Taxes and Funds Payable	35,522,053,384,883	19,565,598,937,002
2- Social Security Withholdings Payable	10,428,360,907,334	7,771,365,095,975
3- Overdue, Deffered or Restructured Taxes and Other Fiscal Liabilities	-	-
4- Other Fiscal Liabilities	1,340,294,085,010	98,937,735,847
TOTAL (E)	47,290,708,377,228	27,435,901,768,825
F. Provisions for Liabilities and Expenses		
1- Provisions for Income Taxes and Other Legal Liabilities on Profit	78,990,691,130,065	32,398,092,373,228
2- Prepaid Income Taxes and Other Legal Liabilities on Profit (-)	(77,188,777,955,262)	(40,930,793,461,329)
3- Provisions for Retirement Pay	14,982,271,050,000	21,518,321,400,000
4- Provisions for Other Debts and Liabilities	663,857,184,347	503,785,898,220
TOTAL (F)	17,448,041,409,150	13,489,406,210,118
G. Income and Expense Accruals for Future Months		
1- Income Relating to Future Months	167,415,677,705,466	133,017,883,192,473
2- Expense Accruals	102,173,592,976,145	120,832,283,263,146
TOTAL (G)	269,589,270,681,611	253,850,166,455,620
H. Other Short-Term Liabilities		
1- VAT Payable	78,359,526	157,438,970
2- Other VAT	-	-
3- Inventory Overages	-	-
4- Other Short-Term Liabilities	-	-
TOTAL (H)	78,359,526	157,438,970
TOTAL SHORT-TERM LIABILITIES	569,663,392,214,894	513,372,499,461,999

	31 December 2003	31 December 2002
II. LONG-TERM LIABILITIES		
A. Financial Liabilities		
1- Bank Loans	-	-
2- Bonds Issued	-	-
3- Other Securities Issued	-	-
4- Value Difference of Securities Issued (-)	-	-
5- Other Financial Liabilities	-	-
TOTAL (A)	-	-
B. Trade Payables		
1- Suppliers	-	-
2- Notes Payables	-	-
3- Rediscount on Notes Payables (-)	-	-
4- Deposits and Guaranties Received	8,880,094,614,192	10,710,841,119,562
5- Other Trade Payables	-	-
TOTAL (B)	8,880,094,614,192	10,710,841,119,562
C. Other Liabilities		
1- Due to Shareholders	-	-
2- Due to Affiliates	-	-
3- Due to Subsidiaries	-	-
4- Other Payables	-	-
5- Rediscount on Other Notes Payable (-)	-	-
6- Debts to The Public Sector, Deffered or Payable by Installments	10,647,617,086	59,999,093,696
TOTAL (C)	10,647,617,086	59,999,093,696
D. Advances Received	-	-
TOTAL (D)	-	-
E. Provisions for Debts and Expenses		
1- Provisions for Retirement Pay	117,317,887,383,623	97,021,226,031,701
2- Provisions for Other Debts and Expenses	3,136,744,197,856	2,136,185,999,211
TOTAL (E)	120,454,631,581,479	99,157,412,030,912
F. Income for Future Years and Expense Accruals		
1- Income Relating to Future Years	-	-
2- Expense Accruals	-	-
TOTAL (F)	-	-
G. Other Long-Term Liabilities		
1- VAT Deferred to Next Years	-	-
2- Other Long-Term Liabilities	-	-
TOTAL (G)	-	-
TOTAL LONG-TERM LIABILITIES	129,345,373,812,758	109,928,252,244,170

III. SHAREHOLDERS' EQUITY	31 December 2003	31 December 2002
A. Paid-in-Capital		
1- Capital	500,000,000,000,000	500,000,000,000,000
2- Un-paid Capital (-)	(325,000,000,000,000)	(325,000,000,000,000)
TOTAL (A)	175,000,000,000,000	175,000,000,000,000
B. Capital Reserves		
1- Share Premium	181,185,157,700	181,185,157,700
2- Share Premium of Cancelled Shares	-	-
3- Revuluation Fund of Tangible Fixed Assets	185,365,232,066,409	145,037,848,805,347
4- Revuluation Fund of Investments	3,868,043,228	3,868,043,228
5- Other Capital Reserves	34,157,906,076,199	32,089,172,373,348
TOTAL (B)	219,708,191,343,536	177,312,074,379,623
C. Profit Reserves		
1- Legal Reserves	417,010,819,429	417,010,819,428
2- Statutory Reserves	-	-
3- Extraordinary Reserves	7,806,888,830,770	7,806,888,830,769
4- Other Reserves	8,566,017	8,566,017
5- Special Funds	49,400,236,651,390	49,665,002,078,513
TOTAL (C)	57,624,144,867,606	57,888,910,294,729
D. Retained Earnings	-	-
TOTAL (D)	-	-
E. Accumulated Deficits (-)	(44,201,851,836,352)	(111,605,467,603,971)
TOTAL (E)	(44,201,851,836,352)	(111,605,467,603,971)
F. Net Profit (Loss) for The Period	173,518,879,938,046	67,403,615,767,618
TOTAL (F)	173,518,879,938,046	67,403,615,767,618
TOTAL SHAREHOLDERS' EQUITY	581,649,364,312,836	365,999,132,838,000
TOTAL LIABILITIES	1,280,658,130,340,487	989,299,884,544,170
REGULATING ACCOUNTS	3,439,736,633,312,970	7,511,673,045,136,001

TURKISH AIRLINES INC.

DETAILED STATEMENTS OF INCOME (ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

	31 December 2003	31 December 2002
A. Gross Sales		
1- Domestic Sales	1,061,594,101,885,550	882,183,685,518,218
2- Export Sales	1,334,474,583,026,343	1,370,477,676,870,370
3- Other Sales	131,539,947,330,371	134,873,731,005,659
TOTAL (A)	2,527,608,632,242,263	2,387,535,093,394,249
B. Sales Deductions (-)		
1- Sales Returns (-)	(89,211,187,799,880)	(72,375,994,551,776)
2- Sales Discounts (-)	-	-
3- Other Deductions (-)	(47,555,048,997,314)	(143,539,666,190,645)
TOTAL (B)	(136,766,236,797,194)	(215,915,660,742,421)
C. Net Sales (A - B)	2,390,842,395,445,069	2,171,619,432,651,827
D. Cost of Sales (-)		
1- Cost of Goods Sold (Product) (-)	-	-
2- Cost of Goods Sold (Trade) (-)	-	-
3- Cost of Services Rendered (-)	(1,698,973,520,225,893)	(1,658,766,824,272,860)
4- Cost of Sales (Other) (-)	-	-
TOTAL (D)	(1,698,973,520,225,893)	(1,658,766,824,272,860)
GROSS PROFIT OR LOSS	691,868,875,219,176	512,852,608,378,966
E. Operating Expenses (-)		
1- Research and Development Expenses (-)	-	-
2- Market., Selling and Distribution Expenses (-)	(377,650,504,502,682)	(365,550,180,726,590)
3- General Administration Expenses (-)	(132,247,178,052,994)	(128,095,531,334,837)
TOTAL (E)	(509,897,682,555,676)	(493,645,712,061,426)
OPERATING PROFIT OR LOSS	181,971,192,663,500	19,206,896,317,540
F. Income and Profit from Other Operations		
1- Dividend Income from Affiliates	3,123,426,572,832	248,314,860,437
2- Dividend Income from Subsidiaries	-	-
3- Interest Income	35,671,845,430,289	23,339,916,309,932
4- Commission Income	903,573,172,630	2,534,320,577,145
5- Provisions No Longer Required	100,414,344,652	729,476,055,453
6- Profit on Sale of Marketable Securities	-	-
7- Profit from Foreign Currency Exchange	219,821,171,229,737	166,334,496,629,549
8- Rediscount Income	-	-
9- Other Income and Profit	674,039,267,489	3,280,782,965,063
TOTAL (F)	260,294,470,017,629	196,467,307,397,581
G. Expenses and Losses from Other Operations (-)		
1- Revenue Share Interest Expense	-	-
2- Commission Expenses (-)	-	-
3- Provisions (-)	(2,355,807,318,282)	(6,764,097,113,165)
4- Loss on Sale of Marketable Securities (-)	(246,075,715,000)	-
5- Loss from Foreign Currency Exchange (-)	(219,667,191,772,201)	(124,104,581,319,464)
6- Rediscount Interest Expense (-)	-	-
7- Other Ordinary Expenses and Losses (-)	(1,665,115,911,033)	(886,391,187,047)
TOTAL (G)	(223,934,190,716,515)	(131,755,069,619,678)
H. Financial Expenses (-)		
1- Financial Expenses (Short-Term) (-)	(2,212,771,858,267)	(33,869,003,664)
2- Financial Expenses (Long-Term) (-)	(10,442,489,205)	(215,338,750,925)
TOTAL (H)	(2,223,214,347,472)	(249,207,754,588)
ORDINARY PROFIT OR LOSS	216,108,257,617,142	83,669,926,340,855
I. Extraordinary Revenues and Profits		
1- Previous Period Revenues and Profits	8,686,406,829,907	6,942,563,227,526
2- Other Extraordinary Revenues and Profits	37,083,579,706,650	17,150,499,494,229
TOTAL (I)	45,769,986,536,557	24,093,062,721,756
J. Extraordinary Expenses and Losses (-)		
1- Idle Capacity Expenses and Losses (-)	(1,103,086,310,188)	(2,427,221,575,405)
2- Previous Period Expenses and Losses (-)	(7,434,022,219,703)	(2,394,250,808,696)
3- Other Extraordinary Expenses and Losses (-)	(831,564,555,696)	(3,139,808,537,665)
TOTAL (J)	(9,368,673,085,588)	(7,961,280,921,765)
PROFIT OR LOSS FOR THE PERIOD	252,509,571,068,111	99,801,708,140,846
K. Provisions for Taxes and Other Stat. Obligations (-)	(78,990,691,130,065)	(32,398,092,373,228)
NET PROFIT/LOSS FOR THE YEAR	173,518,879,938,046	67,403,615,767,618

	UAS		IFRS	
RATIOS	31 December 2003	31 December 2002	31 December 2003	31 December 2002
LIQUIDITY RATIOS				
Current Ratio	1.75	1.33	1.20	0.84
Acid-Test Ratio	1.57	1.15	1.06	0.69
Cash Ratio	1.21	0.76	0.90	0.50
FINANCIAL STABILITY RATIOS				
Equity/Total Assets	0.45	0.37	0.30	0.19
Equity/Total Liabilities	0.83	0.59	0.43	0.23
Net Working Capital (Million TL)	428,761,613	171,694,765	144,457,745	(131,142,790)
LEVERAGE RATIOS				
Total Liabilities/Total Assets	0.55	0.63	0.70	0.81
Total Liabilities/Shareholders' Equity	1.20	1.70	2.34	4.32
Times Interest Earned	114.58	401.48	5.89	5.64
TURNOVER EFFICIENCY (DAYS)				
Receivables Turnover (Days)	24.41	28.33	17.01	16.97
Payables Turnover (Days)	37.86	36.09	29.96	24.78
DUPONT MODEL				
Net Profit Margin	0.07	0.03	0.09	0.12
Asset Turnover	1.87	2.20	0.85	0.83
* Return On Assets	0.14	0.07	0.07	0.10
Return On Equity	0.30	0.18	0.24	0.52

* Return On Assets = Net Profit Margin x Asset Turnover

TURKISH AIRLINES INC.

FINANCIAL STATEMENTS COMPARISON (ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

BALANCE SHEETS	31.12.2003	31.12.2002
ASSETS		
CURRENT ASSETS		
Liquid Assets	181 %	100 %
Marketable Securities	76 %	100 %
Trade Receivables (Net)	95 %	100 %
Inventories	106 %	100 %
Prepaid Expenses and Income Accruals	162 %	100 %
Other Current Assets	84 %	100 %
Other Receivables	95 %	100 %
Total Current Assets	146 %	100%
LONG-TERM ASSETS		
Trade Receivables	20 %	100 %
Other Receivables	95 %	100 %
Financial Assets	51 %	100 %
Tangible Fixed Assets	100 %	100 %
Intangible Fixed Assets	110 %	100 %
Amortizable Assets	78 %	100 %
Prepaid Expenses and Income Accruals	79 %	100 %
Other Long-Term Assets	117 %	100 %
Total Long-Term Assets	93 %	100%
TOTAL ASSETS	100 %	129%

BALANCE SHEETS	31.12.2003	31.12.2002
LIABILITIES		
CURRENT LIABILITIES		
Financial Liabilities	100 %	100 %
Trade Payables	107 %	100 %
Other Liabilities	96 %	100 %
Advances Received	118 %	100 %
Taxes and Other Obligations Payable	172 %	100 %
Provisions for Obligations and Expenses	129 %	100 %
Unearned Revenue and Expense Accruals	106 %	100 %
Other Current Liabilities	50 %	100 %
Total Current Liabilities	111 %	100%
LONG-TERM LIABILITIES		
Financial Liabilities	0 %	0 %
Trade Payables	83 %	100 %
Other Liabilities	18 %	100 %
Advances Received	0 %	0 %
Provisions for Obligations and Expenses	121 %	100 %
Unearned Revenue and Expense Accruals	0 %	0 %
Other Long-Term Liabilities	0 %	0 %
Total Long-Term Liabilities	118 %	100%
SHAREHOLDERS' EQUITY		
Paid-in Capital	100 %	100 %
Capital Reserves	124 %	100 %
Profit Reserves	100 %	100 %
Retained Earnings	0 %	0 %
Accumulated Deficits	40 %	100 %
Net Current Profit or Loss	257 %	100 %
Total Shareholders' Equity	159 %	100%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	129 %	100%

INCOME STATEMENTS	01.01.2003 31.12.2003	01.01.2002 31.12.2002
A- GROSS SALES	106 %	100 %
B- SALES DEDUCTIONS (-)	63 %	100 %
C- NET SALES (A-B)	110 %	100 %
D- COST OF SALES (-)	102 %	100 %
GROSS PROFIT OR LOSS (C-D)	135 %	100 %
E- OPERATING EXPENSES (-)	103 %	100 %
OPERATING PROFIT OR LOSS (C-D-E)	947 %	100 %
F- INCOME AND PROFIT FROM OTHER OPERATIONS	132 %	100 %
G- EXPENSES AND LOSSES FROM OTHER OPERATIONS (-)	170 %	100 %
H- FINANCIAL EXPENSES (-)	892 %	100 %
ORDINARY PROFIT OR LOSS	258 %	100 %
I- EXTRAORDINARY REVENUES AND PROFITS	190 %	100 %
J- EXTRAORDINARY EXPENSES AND LOSSES (-)	118 %	100 %
PROFIT OR LOSS	253 %	100 %
K- PROVISIONS FOR TAXES AND OTHER STAT OBLIGATIONS PAYABLE ON CURRENT PROFIT (-)	244 %	100 %
NET PROFIT OR LOSS	257 %	100 %

TURKISH AIRLINES INC.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003
Translated into English from The Original Turkish Report

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı ("the Company") as at 31 December 2003, and the related statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira as at 31 December 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2003 the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

   a) As it is explained in detail in Footnote 2, the Company has decided to announce to the public its financial statements prepared in accordance with IFRS as of 31 December 2003. Consequently, the Companies which choose to apply Turkish Capital Markets Board ("CMB") Bulletin XI No: 25 or IFRS, are not required to report in accordance with CMB Bulletins XI No:1, XI No: 20 and XI No: 21.

   b) In our report dated May 7, 2003 for the financial statements as of 31 December 2002, it was mentioned that the Company did not apply International Accounting Standard No: 36 "Impairment of Assets" for some of its aircrafts, since it was not yet certain as of 2001 report date, whether the decline in market prices of some of the Company's aircrafts, which occurred as a result of the terrorist attack in the United States on 11 September 2001, was permanent or temporary. Because market prices of used aircraft had not recovered as of 31 December 2002 and the Company's management was of the opinion that the decline in market prices was permanent, the Company has recorded the total impairment in 2002, including the amount that should be recorded in 2001 as an expense. While preparing its 2003 financial statements, in order to make statements of income for the year ended 31 December 2003 and 2002 comparable, the Management of the Company has restated its 2002 financial statements by adjusting its 2002 opening balance sheet.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.
Member Firm of **DELOITTE TOUCHE TOHMATSU**

Selçuk Ürkmez, Partner

Istanbul, 9 April 2004

TURKISH AIRLINES INC.

BALANCE SHEETS AS AT 31 DECEMBER 2003 AND 31 DECEMBER 2002

(All figures are restated to TL money values at 31 December 2003 pursuant to IAS 29)

ASSETS	Note	31 December 2003 TL 000,000	31 December 2002 TL 000,000 (As Restated)
Cash and Cash Equivalents	5	659,811,764	404,496,636
Held-to-Maturity Securities (Net)	6	-	4,386,782
Accounts Receivable (Net)	7	118,140,396	139,088,384
Due from Related Parties (Short-Term)	8	118,563	1,278,782
Inventories	9	45,817,994	60,091,448
Prepaid Tax	22	-	9,722,364
Other Receivables and Current Assets	10	52,831,597	60,378,034
TOTAL CURRENT ASSETS		876,720,314	679,442,430
Due from Related Parties (Long-Term)	8	52,352,936	42,843,201
Long-Term Advances Given	11	10,215,864	28,300,989
Investments At Equity	12	7,107,000	4,371,970
Available-For-Sale Investments (Net)	12	15,298,493	16,361,168
Fixed Assets (Net)	13	1,971,841,109	2,762,487,161
Other Long-Term Receivables and Assets	14	13,311,069	17,631,503
TOTAL LONG-TERM ASSETS		2,070,126,471	2,871,995,992
TOTAL ASSETS		2,946,846,785	3,551,438,422

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

(All figures are restated to TL money values at 31 December 2003 pursuant to IAS 29)

LIABILITIES	Note	31 December 2003 TL 000,000	31 December 2002 TL 000,000 (As Restated)
Bank Loans	15	-	846,546
Short-Term Capital			
Lease Obligations	16	243,716,034	342,345,135
Accounts Payable		180,964,338	176,710,883
Due to Related Parties	17	5,370,456	6,119,358
Other Short-Term Payables	18	49,830,210	54,110,889
Deposits and Advances Received	19	55,843,581	60,545,935
Passenger Flight Liabilities	20	112,186,108	95,503,684
Other Accrued Liabilities	21	65,089,400	74,402,790
Corporate Tax Payable	22	19,262,442	-
TOTAL SHORT-TERM LIABILITIES		732,262,569	810,585,220
Long-Term Capital			
Lease Obligations	16	1,201,436,117	1,914,296,367
Long-Term Trade Payables		-	136,727
Manufacturers' Credit (Net)	23	4,250,459	8,024,105
Long-Term Deferred Tax Liabilities	22	43,666,728	56,139,913
Retirement Pay Provision	24	78,644,063	87,418,602
Other Long-Term Payables	18	5,478,941	7,589,443
TOTAL LONG-TERM LIABILITIES		1,333,476,308	2,073,605,157
SHAREHOLDERS' EQUITY			
Capital	25	1,681,308,782	1,681,308,782
Additional Paid in Capital		786,622	786,622
Reserves	25	123,999,146	123,999,146
Accumulated Loss		(924,986,642)	(1,138,846,505)
TOTAL SHAREHOLDERS' EQUITY		881,107,908	667,248,045
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,946,846,785	3,551,438,422

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

TURKISH AIRLINES INC.

STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(All figures are restated to TL money values at 31 December 2003 pursuant to IAS 29)

	Note	31 December 2003 TL 000,000	31 December 2002 TL 000,000 (As Restated)
Operating Revenue	29, 34	2,499,793,339	2,950,540,284
Operating Expenses	30, 34	(2,174,674,745)	(2,567,609,822)
OPERATING PROFIT		325,118,594	382,930,462
Income from Other Operations	32, 34	89,948,593	43,699,711
Loss from Other Operations	33	(10,681,740)	(8,150,546)
INCOME BEFORE FINANCIAL INCOME/(EXPENSE), MONETARY (LOSS)/GAIN AND TAXATION		404,385,447	418,479,627
Financial Income/(Expense) (Net)	31	259,735,872	(438,861,860)
Monetary (Loss)/Gain		(376,874,468)	479,134,761
INCOME BEFORE TAXATION		287,246,851	458,752,528
Taxation	22	(73,386,988)	(111,237,890)
NET PROFIT		213,859,863	347,514,638
Profit per Share (TL)		1,222	1,986

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

TURKISH AIRLINES INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(All figures are restated to TL money values at 31 December 2003 pursuant to IAS 29)

	Capital TL 000,000	Additional Paid in Capital TL 000,000	Reserves TL 000,000	Revaluation Surplus (Note 4.4) TL 000,000	Accumulated Loss TL 000,000
Balance at 31 December 2001 (As Previously Reported)	1,681,308,782	786,622	123,999,146	109,320,972	(1,354,923,654)
To Record Impairment on Fixed Assets as of 31 December 2001 (After Tax Effect)	-	-	-	-	(132,531,440)
Other (After Tax Effect) (Note 21)	-	-	-	-	1,093,951
Balance at 31 December 2001 (As Restated)	**1,681,308,782**	**786,622**	**123,999,146**	**109,320,972**	**(1,486,361,143)**
Movement for the Year	-	-	-	(109,320,972)	-
Profit for the Year (As Restated)	-	-	-	-	347,514,638
Balance at 31 December 2002 (As Restated)	**1,681,308,782**	**786,622**	**123,999,146**	**-**	**(1,138,846,505)**
Profit for the Year	-	-	-	-	213,859,863
Balance at 31 December 2003	**1,681,308,782**	**786,622**	**123,999,146**	**-**	**(924,986,642)**

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

TURKISH AIRLINES INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(All figures are restated to TL money values at 31 December 2003 pursuant to IAS 29)

	31 December 2003 TL 000,000	31 December 2002 TL 000,000 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit prior to taxation	287,246,851	458,752,528
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Depreciation	276,145,633	300,326,508
Provision for Employee Termination Benefits	10,029,235	14,350,729
Interest Income	(39,462,868)	(29,305,612)
(Gain)/Loss on Fixed Asset Sales	142,704	(10,365,009)
Monetary (Gain)/Loss on Deferred Taxes	(6,869,482)	5,607,564
Impairment Loss/(Gain)	(59,459,995)	105,351,293
Income from Financial Investment Accounted per Equity Method	(2,735,030)	(2,028,744)
Provision for Diminution in Value of Available-For-Sale Investments	(3,582,445)	14,788,651
Interest Expense	58,687,724	98,796,843
Movement in Manufacturers' Credit	(3,773,646)	(3,933,956)
Foreign Exchange Loss/(Gain) on Leases (Net of Monetary Gain)	77,943,610	(207,987,931)
Gain on Sale of Available-for-Sale Invesment	(37)	-
Amortization of Deferred Income from USAŞ Share Transfer	(2,739,470)	(2,529,813)
Adjustments to the Opening Balance of Fixed Assets	99,460	-
(Decrease)/Increase in Provision for Doubtful Receivable	(5,212,836)	2,625,792
Operating Profit Before Working Capital Changes	586,459,408	744,448,843
Increase/Decrease in Trade Receivables	26,160,828	(11,753,673)
Increase/Decrease in Due From Related Parties	(8,349,516)	(7,125,623)
Increase/Decrease in Inventories	14,273,454	6,086,914
Increase/Decrease in Other Receivables & Short-Term Assets	7,546,437	(1,365,589)
Increase/Decrease in Other Long-Term Receivables and Assets	4,320,434	2,646,774
Increase/Decrease in Short-Term and Long-Term Advances Given	18,085,125	30,009,967
Increase/Decrease in Trade Payables	4,253,455	(138,088,807)
Increase/Decrease in Due to Related Parties	(748,902)	5,994,592
Increase/Decrease in Other Payables & Accrued Expenses	(13,803,728)	35,638,471
Increase/Decrease in Deposits and Guarantees Received	(4,702,354)	46,672,055
Increase/Decrease in Passenger Flight Liabilities	16,682,424	18,265,722
Increase/Decrease in Other Long-Term Trade Payables	(136,727)	(144,623)
Cash Generated from Operations	650,040,338	731,285,023
Retirement Benefits Paid	(18,803,774)	(3,922,416)
Interest Paid	(66,671,906)	(107,911,152)
Income Taxes Paid	(50,005,885)	(46,637,527)
Net Cash Provided by Operating Activities	514,558,773	572,813,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in Marketable Securities	4,386,782	(4,386,782)
Cash Proceeds from Sale of Financial Assets	5,483,785	1,722,709
Cash Proceeds from Fixed Assets Sales	20,839,216	88,204,615
Interest Received	39,462,868	29,305,612
Purchases of Fixed Assets	(62,944,981)	(115,914,342)
Net Cash provided by/(Used in) Investing Activities	7,227,670	(1,068,188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payment of Finance Leases	(265,624,769)	(306,809,825)
Principal Payment of Loans	(846,546)	(815,305)
Net Cash used in Financing Activities	(266,471,315)	(307,625,130)
NET INCREASE IN CASH AND CASH EQUIVALENTS	255,315,128	264,120,610
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	404,496,636	140,376,026
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	659,811,764	404,496,636

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

1. THE COMPANY'S OPERATIONS

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

As of 31 December 2003, the shareholders and their respective shareholdings in the Company were as follows:

Turkish Republic Privatization Administration	98.17%
Others	1.83%
Total	100.00%

The total number of employees working for the Company as of 31 December 2003 is 10,239. The average number of employees working for the Company in 2003 and 2002 is 10,683 and 11,084, respectively.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

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

On 15 November 2003, Capital Market Board ("CMB") published Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards". The Communiqué is applicable to the first interim financial statements ending after 1 January 2005 and is effective from the date of publishing. However, companies may choose to adopt Communiqué No: 25 of Series XI, for years or interim periods ending on or after 31 December 2003.

As explained in the first tentative clause of Article 34 of the foresaid Communiqué – General Provisions related with financial statements obligations, preparation and public announcement of financial statements in accordance with IFRS until the beginning of that period in which application Communiqué No: 25 of Series XI becomes enforceable, is counted for fulfillment of provisions of preparation of financial statements and public announcement in accordance with that Communiqué. Consequently, the Company prepared and publicly announced its financial statements as of 31 December 2003 in accordance with IFRS.

The companies which choose to apply Communiqué No: 25 of Series XI or IFRS as of 31 December 2003 are not required to report in accordance with CMB Communiqué No: 1 of Series XI "Rules and Principles Relating to Financial Statements and Reports in Capital Markets", Communiqué No: 20 of Series XI "Rules and Principles Relating to Adjustment of Financial Statements in Hyperinflationary Periods" and Communiqué No: 21 of Series XI "Rules and Principles Relating to Consolidated Financial Statements and Accounting For Equity Participations".

The basis of the financial statements used in the preparation of the accompanying financial statements are set out below and in Note 4.

Inflation Accounting

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

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29 restatement, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 181% for the three years ended 31 December 2003 based on the wholesale price index announced by the Turkish State Institute of Statistics.

The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index ("WIP") published by the State Institute of Statistics (with the index beginning in 1994 at 100). Such index and the conversion factors used to restate the accompanying financial statements as at the end of each period to 31 December 2003 are given below:

	Index	Conversion Factor
31 December 2000	2,626.0	2.8112
31 December 2001	4,951.7	1.4908
31 December 2002	6,478.8	1.1394
31 December 2003	7,382.1	1.0000

The annual change in the TL exchange rate against the US Dollar can be compared with the rates of general price inflation in Turkey according to the WPI as set out below:

Years	2003	2002	2001	2000	1999
Currency Deflation US$	(14.6)%	13.5%	114.3%	24.4%	72.7%
WPI Inflation	13.9%	30.8%	88.6%	32.7%	62.9%

As at 31 December 2003, the exchange rate announced by the Turkish Central Bank (which is a market rate) was TL 1,395,835 = US$ 1 (31 December 2002, TL 1,634,501 = US$ 1).

The main guidelines for the IAS 29 restatement are as follows:

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

3. SEGMENTAL REPORTING

3.1. Business Segments

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

3.2. Geographical Segments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1. Revenue Recognition and Commission Expenses

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

The Company develops estimations using historical statistics and data to estimate unredeemed tickets. Total estimated future unredeemed tickets of TL 43,472 Billion (approximately) were recognized as operating revenue in 2003 (2002: TL 33,484 Billion).

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

4.2. Inventory Valuation

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

4.3. Financial Investments

The Company designates its investments portfolio in accordance with IAS 39 as follows:

Investments Held-for-Trading:

Securities held-for-trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price. Subsequent to initial recognition, held-for-trading securities are valued at their fair value if reliably measured. Gains or losses on held-for-trading securities are included in net profit or loss for the period in which they arise.

Investments Held-to-Maturity:

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

Investments Available-for-Sale:

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

Investments At Equity:

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

4.4. Fixed Assets

Fixed assets are carried at indexed historical cost.

Depreciation is provided on a straight-line basis for all categories of property, plant and equipment, except for rotables and repairables, which are depreciated on a group basis. The depreciable lives and residual values used for the principal depreciable asset classifications are as follows:

	Useful Life	Residual Value
- Land	-	-
- Buildings	25-50	-
- Aircraft	15-20	10-30%
- Engines	15	30%
- Rotable Assets	5-8-10	-
- Repairables	2-3	-
- Simulator	10	-
- Machinery and Equipment	7	-
- Furniture and Fixtures	5	-
- Vehicles	5-7	-
- Other Equipment	5	-

Impairment on Assets:

As of 31 December 2003, the Company indexed aircraft and spare engines in a way that indexed values will not exceed the acquisition value in US$. An examination is then made of whether the US$ depreciated amount of each aircraft may exceed its recoverable amount. In accordance with IAS 36 "Impairment of Assets", recoverable amount is determined as higher of asset's net selling price or its value in use. Net selling price is determined as the lowest estimation of the Company's management developed from the International Aircraft Price Guide. The decrease in carrying amount is recorded as impairment loss under operating expense.

As of 31 December 2001, the acquisition value of aircraft in US$ that exceeds the indexed TL amounts is included to the shareholders equity as revaluation fund. As of 31 December 2002, the revaluation fund is cancelled in the financial statements since the restated TL amounts of aircrafts exceeded the acquisition value of aircraft in US$.

4.5. Manufacturers' Credits

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

4.6. Maintenance and Repair Costs

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

4.7. Frequent Flyer Program

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

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

4.8. Taxation and deferred taxes

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

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

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

4.9. Employee Retirement and Termination Indemnities

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

4.10. Related Parties

The shareholders of the Company and the companies related to those companies, their directors and key management personnel and any companies to which they are known to be related, are considered and referred to as related parties in the accompanying financial statements.

4.11. Foreign Currency Transactions

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

The ending and average TL to US Dollar exchange rates for the years ending 31 December are as follows:

	Ending Rate	Average Rate
31 December 2001	1,439,567	1,196,780
31 December 2002	1,634,501	1,504,597
31 December 2003	1,395,835	1,495,307

4.12. Leases

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

4.13. Financial Instruments

Financial Assets

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

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

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

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

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

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

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

Sun Express is accounted for using the equity method as the Company exercises a significant influence. Uçak Servis A.Ş. and France Telecom shares are classified as available-for-sale investments and changes in fair value relating available-for-sale investments are reported in net profit or loss.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include interest-bearing bank loans, accounts and other payables, due to related parties and finance lease obligations. Interest-bearing loans denominated in foreign currencies are translated at the year end exchange rates. Finance charges are accounted for on an accrual basis and are traced under related financial liability account to the extent that they are not settled in the period in which they arise. Accounts and other payables and due to related parties are recorded at their nominal value, which approximates their fair value.

Credit Risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and the current economic environment.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

Price Risk

• Currency Risk:

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

• Interest Risk:

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

• Market Risk:

The Company invests in government bonds acquired under reverse repurchase agreements made for short periods or deposits to banks on a daily basis. These investments fluctuated based on the market conditions.

• Liquidity Risk:

Usually, tickets are sold in advance and transportation is provided later. Therefore the Company takes advantage of collecting revenue in advance and incurring transportation cost later.

The Company also benefits from the difference between the collection and the payment period to its counter parties.

4.14. Offsetting

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

4.15. Use of Estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimations.

4.16. Earnings per Share

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

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

A summary of the weighted average number of shares outstanding during 2003 and 2002 and the basic earnings per share calculation is as follows:

	2003	2002
Number of shares outstanding at January 1, (in full)	175,000,000,000	175,000,000,000
Bonus shares issued (by transfer of the Revaluation fund) (in full)	-	-
New shares issued (cash increase) (in full)	-	-
Number of Shares outstanding at 31 December, (in full)	175,000,000,000	175,000,000,000
Weighted average number of shares outstanding during the year (in full)	175,000,000,000	175,000,000,000
Net Profit for the year (TL Million)	213,859,863	347,514,638
Basic Earnings per Share (TL)	1,222	1,986

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Cash	174,680	139,536
Cheques Received	55,104	314,389
Banks	652,043,345	399,459,599
Other Liquid Assets	7,538,635	4,583,112
	659,811,764	404,496,636

Foreign currency bank balances are TL 648,885,070 Million at 31 December 2003.

Time Deposits:

Amount	Currency	Opening Date	Interest rate %	Maturity	31 December 2003 TL 000,000
2,400,000	TL Million	31.12.2003	19.78%	02.01.2004	2,400,000
		18.08.2003	2.41%	02.01.2004	
205,300,000	USD	31.12.2003	3.83%	23.02.2004	286,564,926
		25.08.2003	2.81%	02.01.2004	
181,500,000	EURO	31.12.2003	3.69%	23.02.2004	316,730,568
					605,695,494

Amount	Currency	Opening Date	Interest rate %	Maturity	31 December 2002 TL 000,000
		29.11.2002	1.60%	02.01.2003	
165,750,000	USD	31.12.2002	3.01%	16.01.2003	308,691,079
22,700,000	EURO	30.12.2002	3.20 %	02.01.2003	44,060,303
					352,751,382

6. MARKETABLE SECURITIES HELD-TO-MATURITY (NET)

Marketable securities consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Repurchase Agreements	-	4,386,782
	-	4,386,782

7. ACCOUNTS RECEIVABLE (Net)

Accounts receivable consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Trade Receivables	137,745,398	164,797,444
Discount on Receivables	(336,333)	(1,227,557)
Provision for Doubtful Receivables	(19,268,669)	(24,481,503)
	118,140,396	139,088,384

8. DUE FROM RELATED PARTIES

Due from related parties in short-term consists of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Güneş Ekspress Havacılık A.Ş. (SUN EXPRESS)	104,936	1,147,538
Uçak Servisi A.Ş (USAŞ)	13,627	8,026
THY SRL	-	123,218
Due from Related Parties Short-Term	118,563	1,278,782

Due from related parties in long-term consists of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Turkish Republic Privatization Administration (*) (***)	14,256,960	11,668,795
Turban Turizm A.Ş. (**) (***)	38,095,976	31,174,406
Due from Related Parties Long-Term	52,352,936	42,843,201

(*) The interest rate applied to the receivable from Turkish Republic Privatization Administration is 40%. The balance of the account is reclassified from "Short-Term Receivables from Related Parties" to "Long-Term Receivables from Related Parties" as of 31 December 2003, since the maturity of the receivable is not determined yet.

(**) The receivable from the sale of equity participation is related to the sale of share in Kıbrıs Türk Hava Yolları to Turban Turizm A.Ş. (Turban) on 31 December 2000. THY has converted its receivable about this sale into Turkish Lira and applied interest at a rate of 40% commencing from December 2002. The balance of the account is reclassified from "Other Short-Term Receivables" to "Other Long-Term receivables" as of 31 December 2003, since the maturity of the receivable is not determined yet. Turban is considered to be related party as it is participation of Turkish Republic Privatization Administration.

(***) Interest at a rate of 40% is applied to the receivables from Turkish Republic Privatization Administration and Turban as to be valid for one year commencing from December 2002 based on the article sent by the Turkish Republic Privatization Administration to THY on 17 February 2003. Although this duration has expired in December 2003, same interest rate is still being applied after this date since a new interest rate is not determined by the two sides.

9. INVENTORIES

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Spare Parts, Flight Equipment	36,767,860	49,985,914
Other Inventories	9,050,134	10,105,534
	45,817,994	60,091,448

10. OTHER RECEIVABLES AND CURRENT ASSETS

Other receivables and current assets consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
VAT Receivable	110,902	101,221
Tax to be Refunded	2,746,417	3,267,933
Third Party Maintenance Service Income Accrual	12,396,213	3,831,329
Receivable due to Cancellation of A Type Handling License	-	13,202,901
Prepaid Operating Lease Expenses	3,062,365	6,506,295
Prepaid Sales Commissions	9,016,645	3,989,310
Deposits Given related to the Outstanding Litigations	1,902,043	4,357,273
Prepaid Rent	393,749	756,076
Other Prepaid Expenses	3,783,021	4,234,583
Receivable from Aircraft Manufacturers	-	1,306,800
Receivable from Personnel	539,160	670,639
Business Advances	134,568	358,827
Restriction on transfer of Funds From Banks (*)	16,671,880	15,210,807
Receivable from SITA Deposit Certificates	151,886	229,513
Other Receivables	1,922,748	2,354,527
	52,831,597	60,378,034

(*) The restriction on transfer of funds from banks is related to funds held at banks in Iran, Libya, Egypt and Uzbekistan and are classified in other receivables as they can be transferred to Turkey or used for payment of expenses in related sales bureaus within a period more than 3 months but less than a year.

11. LONG-TERM ADVANCES GIVEN

Advances given consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Pre-delivery Payments for Aircraft	6,634,264	8,192,916
Deposits Given for Operational Leases		
Operational Leases	1,437,710	17,703,525
Other Deposits Given	2,143,890	2,404,548
Total Long-Term Advances Given	10,215,864	28,300,989

12. FINANCIAL ASSETS

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

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Güneş Ekspress Havacılık A.Ş. (Sun Express)	7,107,000	4,371,970

Other financial assets available-for-sale are as follows:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Emek İnşaat ve İşletme A.Ş.	17,637	17,637
Sita INC.	1,568,636	1,568,636
Diminution in Value of Sita Inc. Shares	-	(1,112,597)
THY SRL	-	784
France Telecom Shares	17,756,759	17,756,759
Diminution in Value of France Telecom Shares	(9,742,874)	(11,008,323)
Uçak Servis A.Ş. (USAŞ)	6,223,507	12,649,066
Diminution in Value of USAŞ Shares	(525,172)	(3,510,794)
	15,298,493	16,361,168

Tender for the catering service was won by Uçak Servis A.Ş. (USAŞ) and service agreement was signed in 1 January 2002. Based on share transfer agreement made between USAŞ's main shareholder Gate Gourmet Holding A.G. (GGH) and the Company, USAŞ will transfer its group B free shares corresponding to 15% of its total capital to the Company. According to agreement, ownership of first 10% shares was transferred in 21 June 2002, and 1.25% shares was transferred on 2 January 2003; it will be completed to 15% by transferring the ownership of each 1.25% share in the years 2004, 2005 and 2006. Consequently, 641 million shares corresponding to first 11.25% share of USAŞ's capital, which was transferred to the Company, was recorded to "Financial Assets" and "Deferred income" accounts from market value of TL 13,487,695 Million. "Deferred income" amount will be amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 Million USAŞ shares in Istanbul Stock Exchange in 2003.

Details of the Company's long-term financial assets at 31 December 2003 are as follows:

Name of the Company	Place of Incorporation and Operation	Proportion of Ownership Interest	Proportion of Voting Power Held	Principal Activity
Güneş Ekspress Havacılık A.Ş. (SUN EXPRESS)	Turkey	50%	50%	Air Transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0.3%	0.3%	Construction
Sita INC.	Holland	Less than 0.1%	None	Information & Telecommunication Services
Uçak Servis A.Ş. (USAŞ)	Turkey	6.5%	6.5%	Catering
France Telecom	France	Less than 0.1%	None	Telecommunication

13. FIXED ASSETS

	Land, Land Improvement & Building	Technical Equipment, Simulator and Vehicles	Other Equipment, Fixtures and Software	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction In Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets & Simulator	Total Leased Assets	Total
Acquisition Cost											
Opening balance 1 January 2003	134,355,906	266,860,480	252,696,633	548,822,751	312,971,574	70,092	1,515,777,436	3,570,922,826	55,920,357	3,626,843,183	5,142,620,619
Adjustments to the Opening Balance (*)	11,245,739	(46,074,958)	1,832,812	(1,958,926)	-	-	(34,955,333)	(55,475)	-	(55,475)	(35,010,808)
Adjusted Opening Balance	145,601,645	220,785,522	254,529,445	546,863,825	312,971,574	70,092	1,480,822,103	3,570,867,351	55,920,357	3,626,787,708	5,107,609,811
Additions	80,017	3,049,486	5,421,486	-	42,806,066	11,587,900	62,944,955	-	-	-	62,944,955
Disposals	(1,071,303)	(2,640,922)	(6,050,931)	(46,620,812)	(126,620,732)	(11,609,912)	(194,614,612)	-	-	-	(194,614,612)
Closing balance 31 December 2003	144,610,359	221,194,086	253,900,000	500,243,013	229,156,908	48,080	1,349,152,446	3,570,867,351	55,920,357	3,626,787,708	4,975,940,154
Accumulated Depreciation											
Opening balance 1 January 2003	19,184,097	209,680,153	217,493,884	344,557,803	177,095,768	-	968,011,705	869,267,049	37,934,015	907,201,064	1,875,212,769
Adjustments to the Opening Balance (*)	16,557,358	(43,760,370)	(4,496,190)	(1,541,526)	-	-	(33,240,728)	(1,670,646)	-	(1,670,646)	(34,911,374)
Adjusted Opening Balance	35,741,455	165,919,783	212,997,694	343,016,277	177,095,768	-	934,770,977	867,596,403	37,934,015	905,530,418	1,840,301,395
Charge for the year	2,428,807	14,599,235	14,004,318	12,042,634	62,517,893	-	105,592,887	166,610,031	3,942,715	170,552,746	276,145,633
Disposals	(365,396)	(2,620,531)	(2,131,042)	(41,953,073)	(125,715,507)	-	(172,785,549)	-	-	-	(172,785,549)
Closing balance 31 December 2003	37,804,866	177,898,487	224,870,970	313,105,838	113,898,154	-	867,578,315	1,034,206,434	41,876,730	1,076,083,164	1,943,661,479
Accumulated Impairment	-	6,386,144	-	90,555,098	-	-	96,941,242	959,680,883	3,815,441	963,496,324	1,060,437,566
NBV at 31 December 2003	106,805,493	36,909,455	29,029,030	96,582,077	115,258,754	48,080	384,632,889	1,576,980,034	10,228,186	1,587,208,220	1,971,841,109
NBV at 31 December 2002	115,171,809	57,180,327	35,202,750	172,960,920	135,875,807	70,092	516,461,705	2,233,404,768	12,620,688	2,246,025,456	2,762,487,161

(*) The Company has formed a different database compared with prior years on the fixed assets that are subject to indexation. The indexation differences of this application are TL 99,460 Million after tax effect, and since the amount is immaterial, it is recorded as expense for current year.

14. OTHER LONG-TERM RECEIVABLES AND ASSETS

Other receivables and long-term assets consist of the following

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Prepaid Aircraft Financing Expense	3,176,775	4,180,934
Prepaid Eximbank USA Guarantee and Exposure Fee	8,096,853	10,444,639
Due from personnel	1,300,516	1,814,132
Receivables from SITA Deposit Certificate	645,972	1,064,540
Other Receivables	90,953	127,258
	13,311,069	17,631,503

15. BANK LOANS

Bank loans consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Short-Term Portion of Long-Term Bank Loans	-	846,546
	-	846,546

16. CAPITAL LEASE OBLIGATIONS

The future lease rental payments under financial leases are:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Not later than one year	285,240,832	415,792,596
Between 1 & 2 years	238,721,067	372,188,684
Between 2 & 5 years	429,378,465	629,351,205
Over 5 years	638,138,909	1,124,871,997
	1,591,479,273	2,542,204,482
Less: Future interest expense	(146,327,122)	(285,562,980)
Present value of future rentals shown in the balance sheets	1,445,152,151	2,256,641,502
Represented by:		
Current Liabilities	243,716,034	342,345,135
Long-Term Liabilities	1,201,436,117	1,914,296,367
	1,445,152,151	2,256,641,502
Interest Range		
Floating rate obligations	252,557,873	405,459,308
Fixed rate obligations	1,192,594,278	1,851,182,194
	1,445,152,151	2,256,641,502

As of 31 December 2003, the US$ denominated lease obligations' interest rates are between 6.25% and 7.68% for the fixed rated obligations, and LIBOR plus a margin ranging 0.02% ile 3% for the variable rated obligations.

17. DUE TO RELATED PARTIES

Due to related parties consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Sun Express	241,661	127,734
Uçak Servis A.Ş. (USAŞ)	5,128,795	5,991,624
	5,370,456	6,119,358

18. OTHER SHORT-TERM AND LONG-TERM PAYABLES

Other short-term payables consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Taxes and Dues Payable	18,061,535	22,293,512
Social Security Deductions Payable	10,428,361	8,857,828
Payable to Personnel	2,006,970	244,258
DHMI Protocol Payable	15,979,871	21,072,927
Discount on DHMI Protocol Payable	(1,297,585)	(1,978,088)
Deferred Income from USAŞ Share Transfer (Note 12)	2,739,470	2,529,813
Deferred Income	196,768	594,951
Other Liabilities	1,714,820	495,688
	49,830,210	54,110,889

Other long-term payables consist of the following:

Deferred Income from USAŞ Share Transfer (Note 12)	5,478,941	7,589,443
	5,478,941	7,589,443

19. DEPOSITS AND ADVANCES RECEIVED

Advances received consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Deposits and Guarantees Received	15,714,217	18,422,629
Advances Received for Mileage Credit Sales	25,467,314	24,194,457
Deposit Received From Turkish Republic Religious Affairs	12,640,901	12,856,715
Other Advances Received	2,021,149	5,072,134
	55,843,581	60,545,935

20. PASSENGER FLIGHT LIABILITIES

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Advanced Ticket Sales	82,355,688	77,808,918
Provision for Mile Liability resulting from Sales of Mileage	29,830,420	17,694,766
	112,186,108	95,503,684

21. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Sales Incentive Accrual	4,273,905	19,014,747
Fuel Oil Privilege Expense Accrual	9,597,577	7,332,327
Expense Accruals Related with rejected Passengers	725,834	-
Accrued Salaries	21,105,765	16,193,954
Accrued Maintenance Costs	11,594,684	14,282,742
Accrued Frequent Flyer Liability	11,445,887	13,500,439
Provision for Legal Claims	5,104,077	3,966,214
Other Liabilities	1,241,671	112,367
	65,089,400	74,402,790

During preparation of the financial statements as of 31 December 2003 in accordance with IFRS, the Company decided to cancel the unfunded internal insurance risk provision that was provided due to the Company is one of the state owned economic enterprises. Provision amount of TL 1,093,951 Million related to period before 2002, was restated by adjusting opening balance sheet of 2002 and hence accompanying financial statements as of 31 December 2002 and 2001 has been presented as restated.

22. TAXATION

Corporate Tax Payable/(Prepaid Taxes) is as follows:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Corporate Tax Payable	78,990,691	36,915,163
Prepaid Taxes and Funds	(59,728,249)	(46,637,527)
	19,262,442	(9,722,364)

Major Components of Taxation (Benefit)/Expense:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Current Tax Expense	78,990,691	36,915,163
Deferred Tax (Benefit)/Expense	(5,603,703)	74,322,727
Tax Expense	73,386,988	111,237,890

Corporate Tax:

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated tax liabilities based on the Company's financial results for the year.

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 rates of tax are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% surcharge of funds contribution on corporate tax.
- In 2003: 30% (10% fund contribution was abolished.)
- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004)

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, and to 33% for 2004.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within 15 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 that are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003 for all companies. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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

Inflation Adjusted Tax Calculation:

For 2003 and previous years, fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2004 and future years, if the actual rate of inflation meets certain thresholds. Application of the new principles is optional in the first quarterly advance tax return in 2004, however the application is obligatory in the case of occurrence of the stated criterions after the second quarter ending 30 June 2004.

Deferred Tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and are calculated over accounts like retirement pay provision and provision for doubtful receivables.

In previous years, the difference between the net book values of fixed assets in the nominal statutory books of account and their inflation adjusted net book values in the accompanying financial statements were considered as a taxable temporary difference, on which deferred tax was calculated.

The requirement of Ministry of Finance to apply inflation accounting from 2004 onwards includes a requirement to calculate an inflation-adjusted statutory balance sheet for 31 December 2003, which will form the starting point for the new inflation accounting, and in which the uplifts from the former book values are a tax-exempt gain. Accordingly, the difference between the depreciation rates determined for IFRS purposes and used in statutory records applied in the limits determined by the Ministry of Finance should be used in the calculation of deferred tax relating to fixed assets. The Company has calculated its fixed assets approximately based on the inflation accounting application of Ministry of Finance as of 31 December 2003.

Consequently, the deferred tax is calculated over the differences of depreciation rates of fixed assets (except for land and land improvements) in the accompanying financial statements different than the application in the previous years.

Temporary Differences: Deferred Tax Assets/(Liabilities)

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Allowance for Unrecoverable Bank Accounts	1,214,859	2,017,739
Provision for Doubtful Receivables	374,899	771,191
Restatement of Inventory	4,973,879	2,957,926
Accounting for Short-Term Lease Liability	54,708,849	83,298,345
Provision for Advance Ticket Sales	(16,136,675)	(15,766,781)
Accrued Liabilities	10,221,002	12,056,185
Restatement of Fixed Assets	(484,683,439)	(801,190,860)
Accounting for Long-Term Lease Liability	360,430,833	631,717,801
Retirement Pay Provision	23,593,219	28,848,139
Adjustment to Long-Term Assets	(1,990,279)	(2,621,191)
Adjustment to Manufacturers' Credit	1,275,137	2,647,955
Income Arising From Cancellation of A Type Handling License	-	(6,844,519)
Deferred Income	2,465,530	3,339,353
Discount on Receivables	100,900	405,095
Discount on Payables	(389,275)	(652,770)
Diminishing in Value of Marketable Securities and Financial Assets	1,113,501	2,876,479
Interest Accrual on Bank Accounts	(939,668)	-
Deferred Tax Liability	(43,666,728)	(56,139,913)

Movement in Deferred Tax Liability per balance sheet can be reconciled with Net Deferred Tax (Benefit)/Expense per Income Statement as follows:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Deferred Tax (Expense)/Income Related to the Origination and Reversal of Temporary Differences	1,124,572	(86,444,603)
Deferred Tax Benefit Resulting from Change in Effective Tax Rate	4,479,131	12,121,876
Net Deferred Tax (Expense)/Benefit	5,603,703	(74,322,727)
Deferred Tax Liability that will be deducted from Revaluation Fund	-	26,989,467
Monetary (Loss)/Gain on Deferred Tax Asset/(Liabilities)	6,869,482	(5,607,564)
Change in Net Deferred Tax	12,473,185	(52,940,824)

The reconciliation from the expected to the disclosed tax expense is as follows:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Profit before taxation	287,246,851	458,752,528
Expected tax at 30% for 2003 and 33% 2002	86,174,055	151,388,334
Reconciling Items:		
Tax exempt income	(937,028)	(353)
Investment incentives used	(1,042,244)	(23,312,870)
Non deductible expenses	5,217,092	24,460,494
Accumulated losses	-	(1,752,293)
Monetary (gains)/losses not (taxable)/deductible	5,488,666	(27,423,546)
Change in deferred tax calculation on the fixed assets	(17,034,422)	-
Deferred tax benefit resulting from change in effective tax rate	(4,479,131)	(12,121,876)
Actual Tax Expense	73,386,988	111,237,890

23. MANUFACTURER'S CREDIT (Net)

Unearned income from manufacturer's credits consists of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Gross Manufacturer's Credit	17,634,979	23,529,431
Accumulated Amortization (-)	(13,384,520)	(15,505,326)
	4,250,459	8,024,105

24. RETIREMENT PAY PROVISION

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, complete 25 years of service (20 years for women), are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of TL 1,389,950,000 as at 31 December 2003 (TL 1,260,150,000 as at 31 December 2002 at historic money values). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

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

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Current Service Cost	4,848,873	9,788,341
Interest Cost	5,180,362	4,562,388
	10,029,235	14,350,729

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

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Provision at January 1	87,418,602	76,990,288
Expense in the income statement	10,029,235	14,350,729
Payments	(18,803,774)	(3,922,415)
Provision at December 31	78,644,063	87,418,602

The estimated value of the vested benefit obligation is discounted with an approximate rate of 6% per annum after considering the effect of increase in eligible pay and its limit.

25. CAPITAL

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

	Class	%	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Turkish Republic Privatization Administration (*)	A,B,C	98.2	171,788,948	171,788,948
Others	A	1.83	3,211,052	3,211,052
Historic Capital (Nominal)			175,000,000	175,000,000
Restatement Effect			1,506,308,782	1,506,308,782
Restated			1,681,308,782	1,681,308,782

(*) 1,644 shares belonging to various private shareholders were not taken into consideration when THY was taken in to the privatization program in 1984. Subsequently, these shares were registered under the Privatization Administration according to THY's articles of association which was approved by decision of the Turkish Republic High Planning Board on October 30, 1990.

As at 31 December 2003, the Company's issued and paid-in share capital consists of 104,999,999,999 class A shares, 70,000,000,000 class B shares and 1 class C share, all with a par value of 1,000 TL each. Class A shares are ordinary shares, Class B shares are issued to name. The Class C share, which belongs to the Privatization Administration (P.A.), is a unique share with a par value of 1,000 TL with the following privileges:

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

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

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

a) To suggest a change in the Main Agreement
b) Increase or decrease in the share capital
c) Registration of the transfer of the shares issued to name in the 'Register of the Company'
d) To determine the bases of personnel regulations especially about terminating
e) To appoint the independent auditing organization
f) To determine the wages and bonuses of the top management
g) Suggestion of profit distribution
h) To determine the form of document indicating representation authority that takes part in the article 30th of the Main Agreement
i) To make decisions on strategy and investment decisions of the Company
j) To make decisions about establishing a new company or companies, to participate to the established ones or merge with them, to buy a company

Main Agreement Temporary Article 4: The Company's members of the Board of Directors, auditors and general manager are assigned by an instruction of the Turkish Republic Privatization Administration and the approval of the Prime Ministry until the Company's shares held by Turkish State are below 50%.

The profit per unconsolidated financial statements prepared based on the Communiqué No: 25 of Series XI/IFRS standards should be taken into account in profit distribution by the companies that are not obliged to prepare consolidated financial statements. The first legal reserve is appropriated out of the net profit in the unconsolidated financial statements and the restated capital figure in the unconsolidated financial statements should be taken into account in designation the first legal reserve on the base of the Article 466 of Turkish Commercial Code. Furthermore according to the CMB decree no: 1630 dated 30 December 2003, the amounts that are revealed in the financial statements prepared in accordance with IFRS, which are followed in prior years' losses under shareholders' equity account group, should be considered as deductions when calculating the inflation adjusted distributable profit figure.

The Shareholders' Equity accounts of the Company as of 31 December 2003 and 2002, based on the Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards" published by the Capital Market Board on 15 November 2003, are stated below with their nominal amounts and the differences arises from indexation of equity items is presented in "Equity Inflation Adjustment Differences" account.

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Capital	175,000,000	175,000,000
Additional Paid in Capital	181,185	181,185
Legal Reserves	417,011	417,011
Extraordinary Reserves	7,806,889	7,806,889
Other Profit Reserves	9	9
Equity Inflation Adjustment Differences (*)	1,622,689,456	1,622,689,456
Net Profit for the year	213,859,863	347,514,638
Accumulated Loss	(1,138,846,505)	(1,486,361,143)
	881,107,908	667,248,045

(*) Equity Inflation Adjustment Differences:

Capital	1,506,308,782	1,506,308,782
Additional Paid in Capital	605,437	605,437
Legal Reserves	53,179,514	53,179,514
Extraordinary Reserves	57,928,362	57,928,362
Other Profit Reserves	4,667,361	4,667,361
	1,622,689,456	1,622,689,456

26. CONTINGENT LIABILITIES

a) Guarantees Given:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Guarantee Letters Given	43,112,178	69,792,256

b) Purchase Commitments:

The Company has an optional to purchase aircraft with total value of approximately US$ 1.2 Billion. THY paid a deposit of US$ 5.2 Million in order to secure the option until December 2000. As of report date, the duration to use this option has expired, and the Company's management expects to use the deposit while buying new aircrafts.

c) Letter of Comfort:

	31 December 2003	31 December 2002
Letter of Comfort	USD 2,900,000	USD 2,900,000
Given to Sun Express	EURO 2,556,459	EURO 2,556,459

d) Land and buildings built on State Airports Administration (DHMI) lands, and their legal structure:

The majority of THY's airport and terminal buildings, repair and maintenance centers, data processing centers, and training facilities are located on the land leased from the State Airports Administration (DHMI). The buildings and facilities on these leased lands have been constructed by THY and are recorded as fixed assets of the Company. However the land on which all these buildings were built is not registered as THY's property. The title of the property on which all these buildings were built belongs to the Ministry of Finance and allocated to DHMI for its use. The Company pays rent to DHMI for the land. The rent agreements made with DHMI are valid for one year. The agreements are renewed automatically at the beginning of each year if there is not any disapproval from any sides. The net book value of these buildings are TL 87,827,801 Million as of 31 December 2003 and THY amortizes these buildings based on their useful lives which is 50 years. It is possible for THY to amortize related buildings in a period less than 50 years in case, DHMI does not renew the rent agreement.

There were informal claims from DHMI that THY should start paying rent for the buildings after 10 years from the date of construction. The latest claim was made by DHMI in 1996 for one building and no further claim was made for other buildings built by THY on this land. The Company's management believes that they do not need to pay rent for buildings built on DHMI land with THY financing. The authority to resolve this conflict rests with the Ministry of Transportation. In the event the dispute is resolved against THY, it may cause THY to pay rent for the airport facilities in the future.

e) The Company discounted its retirement pay provision to TL 78,644,063 Million (see note 24) according to IAS 19 (revised). The Company's total undiscounted liability for retirement pay would be TL 117,317,887 Million as of 31 December 2003, if all employees had been terminated as at that date.

27. OPERATING LEASE COMMITMENTS

Commitments for future operating leases are as follows:

	31 December 2003 TL 000,000
Aircraft Lease Payable	
Not later than one year	42,125,602
Between 1 & 2 years	25,896,927
Between 2 & 5 years	1,482,377
	69,504,906

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- Market price of 202,735 France Telecom securities, which is quoted at the Paris Stock Exchange, included in the financial investments available-for-sale as of 31 December 2003, has decreased from Euro 22.65 at 31 December 2003 to Euro 21.23 at 5 April 2004, hence the total market value of these securities decreased by TL 402,837 Million as of 5 April 2004.
- Market price of 299,250,000 USAŞ securities, which is traded in Istanbul Stock Exchange, and included in the financial investments available for sale as of 31 December 2003, has decreased from TL 19,042 at 31 December 2003 to TL 18,556 at 5 April 2004, hence the total market value of these securities decreased by TL 145,435 Million as of 5 April 2004.
- Termination indemnity ceiling that is TL 1,389,950,000 as at 31 December 2003 has been increased to TL 1,485,430,000 commencing on 1 January 2004.

29. SEGMENTAL INFORMATION

Analysis of Traffic Revenue:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Scheduled Services		
- Passenger	1,954,346,530	2,361,935,355
- Cargo and mail	228,809,269	287,914,038
	2,183,155,799	2,649,849,393
Non-scheduled Services	43,561,568	50,439,029
Other Revenue	273,075,972	250,251,862
Total Revenue	2,499,793,339	2,950,540,284

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

International	31 December 2003 TL 000,000	31 December 2002 TL 000,000
- Europe	937,944,766	1,146,801,522
- Middle East	206,145,496	239,405,423
- South Africa	6,492,412	25,584,702
- North Africa	52,994,314	68,664,237
- North America	136,940,275	177,163,756
- Far East	333,348,256	437,673,503
	1,673,865,519	2,095,293,143
Domestic	509,290,280	554,556,250
Total Scheduled Services' Traffic Revenue	2,183,155,799	2,649,849,393

30. OPERATING EXPENSE

Operating expenses consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Fuel Oil Expenses	345,280,716	374,261,250
Maintenance Expenses	97,288,395	123,604,118
Passenger Service and Catering Expenses	140,409,360	159,938,987
Landing and Navigation Expenses	209,604,829	232,371,071
Handling and Station Expenses	154,453,011	192,088,052
Staff Expenses	494,205,944	516,263,024
Marketing and Selling Expenses	281,316,551	359,114,177
General Operations	49,030,956	58,016,673
General Administrative Expenses	31,421,556	38,204,303
Hull Insurance	27,022,562	31,494,302
Depreciation Expenses	276,145,633	300,326,508
Operating Lease Expenses	68,304,240	76,357,892
Impairment Loss	-	105,351,293
Other Operating Expenses	190,992	218,172
	2,174,674,745	2,567,609,822

31. FINANCIAL INCOME/(EXPENSE) (NET)

Financial income/(expenses) consist of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Interest Income	39,462,868	29,305,612
Income from Investment Accounted from Equity Method	2,735,030	2,028,744
Decrease in Impairment Loss Provision of Available-for-Sale Investments	3,582,482	-
Foreign Exchange Gains	499,796,760	211,114,426
Discount Income	2,942,859	1,978,089
Financial Income	548,519,999	244,426,871
Foreign Exchange Losses	(223,180,002)	(564,828,278)
Interest Expense-3.Parties	(4,623,753)	(321,919)
Capital Lease Interest Expense	(54,063,970)	(98,474,924)
Retirement Pay Interest Cost	(5,180,361)	(4,562,388)
Diminution in Value of Financial Assets	-	(14,788,651)
Discounting Expense	(1,736,041)	(312,571)
Finance Expense	(288,784,127)	(683,288,731)
Finance Income/(Expense) (Net)	259,735,872	(438,861,860)

32. INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Commission Income	924,834	3,082,773
Dividend Income	3,147,053	329,330
Insurance Claims Received	4,178,404	1,292,229
Gain from Sale of Fixed Assets	-	10,365,009
Discounts Received From Spare Parts Suppliers	7,627,275	3,695,226
Prior Years Revenue	1,501,679	6,553,265
Manufacturer's Credit Income	1,763,498	1,261,094
No Charge Materials Income	1,473,232	1,161,173
Reversal of Unnecessary Provision	5,084,101	3,575,258
Cancellation of Type A Handling License	-	8,843,875
Decrease in Provision for Impairment of Fixed Assets	59,459,995	-
Other	4,788,522	3,540,479
	89,948,593	43,699,711

33. LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the following:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Penalty Expenses	5,000	98,663
Provision Expenses	5,534,761	3,283,761
Loss from Sale of Fixed Assets	142,704	-
Other Expenses	4,999,275	4,768,122
	10,681,740	8,150,546

34. TRANSACTIONS WITH RELATED PARTIES

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

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Services given to SUN EXPRESS	1,461,109	2,370,379
Services given to USAŞ	201,141	252,027
	1,662,250	2,622,406
Services taken from SUN EXPRESS	341,668	594,810
Services taken from USAŞ	59,869,094	61,622,213
	60,210,762	62,217,023

Dividend Income from Equity Investments are as follows:

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Uçak Servisi A.Ş.	1,751,261	-
Emek İnşaat ve İşletme A.Ş.	1,584	1,244
	1,752,845	1,244

TERMS AND ABBREVIATIONS

Available Seat-Kilometers	The product of total seats offered on each flight leg and the number of kilometers flown.
Revenue Passenger-Kilometers	The product of total passengers carried on each flight leg multiplied by kilometers flown.
Available Ton-Kilometers	The product of the total revenue load capacity (passengers, baggage, freight and mail) available on aircraft for each flight leg times kilometers flown.
Revenue Ton-Kilometers	The product of the total revenue load (passengers, baggage, freight and mail) carried on each flight leg times kilometers flown.
Passenger Load Factor	Ratio of revenue passenger-kms, expressed as percentage utilization of available seat capacity.
Overall Load Factor	Ratio of revenue ton-kms, expressed as percentage utilization of available load capacity (including passengers).
Revenue Passengers Carried	Total of all passengers having separate flight numbers counted on a point-to-point basis, that have paid 25% or more of the applicable fee.
Block Hours	Total aircraft hours measured from the time the engines are started for take-off to the time the engines are stopped after landing.
Kilometers Flown	The product of revenue operations and kilometers flown.
Average Daily Aircraft Utilization	The product of the number of aircraft of the same type and total revenue hours flown, divided by the number of aircraft days available.

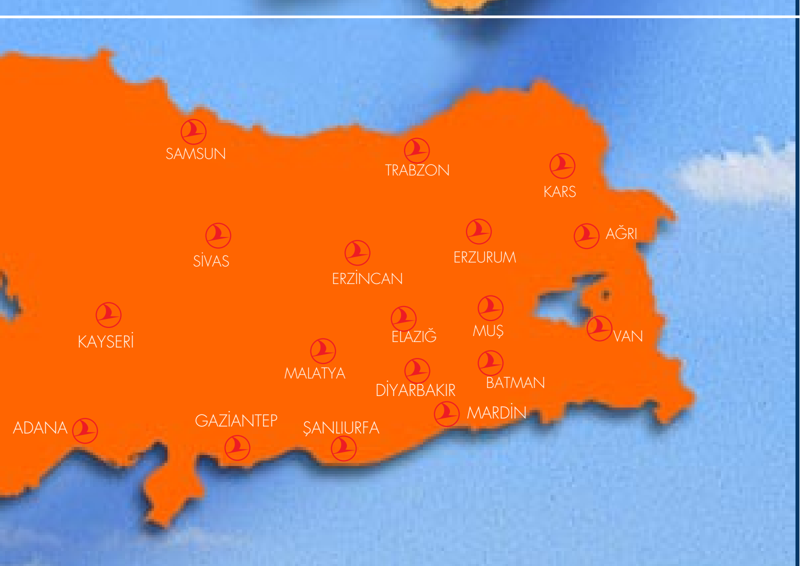
flight destinations

(*) Domestic routes in the United States are flown on American Airlines.

Code-Sharing Flights

ASIA

Almaty
Amman
Ashkhabad
Bahrain
Bangkok
Beirut
Bishkek
Jeddah
Dubai
Hong Kong
Karachi
Kuwait
Osaka
Beijing
Riyadh
Seoul
Singapore
Damascus
Shangai
Tehran
Tashkent
Tel Aviv
Tokyo



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Our Fleet

A340-300
Number of Aircraft: 7

A310-300
Number of Aircraft: 5

B737-400
Number of Aircraft: 14

B737-500
Number of Aircraft: 2

B737-800
Number of Aircraft: 26

RJ100
Number of Aircraft: 8

RJ70
Number of Aircraft: 3