Annual Report 2004

TURKISH AIRLINES

Contents

As Turkey's flag-carrier, the mission of Turkish Airlines is to provide air transportation services within the context of the following objectives:

- To strengthen the Company's position as a global airline by expanding its long-distance flight network,

- to position the Company as a technical services provider by transforming its maintenance unit into a leading maintenance base in the region,

- to promote the Company's identity as a service provider in all areas of strategic civil aviation, including handling and flight training,

- to maintain the Company's leading position in domestic air transportation,

- to provide non-stop, high-quality air transportation services by collaborating with a global airline alliance that complements its network to further improve the Company's image abroad and to increase marketing opportunities, and

- to make Istanbul an important hub.

With the addition of the new planes that have already been ordered and its 20 million passenger annual capacity, THY will be aiming to take its place among the leading companies in Europe and the world.

In 2004, the Company achieved the highest level of performance in its history in terms of passenger load, cargo tonnage and cargo revenue.

With the number of passengers increasing 15.1% over 2003 figures, Turkish Airlines (THY) carried 12 million passengers in 2004 despite a mere 5.5% increase in the total number of flights. Because of the faster increase in the number of passengers as compared to the number of flights, THY achieved an all-time record in 2004, surpassing its previous passenger load of 70% to reach 70.2%.

The Company's total cargo load also rose to 134,850 tons for the same period. This figure, corresponding to a 9.8% increase over the previous year, was another record for THY. Income from cargo services increased 12.4%, to total US$ 188.4 million.

Available seat kilometers increased 10.2% while revenue passengers kilometers rose by 15.4%. The number of passengers carried on domestic scheduled flights rose to 5.8 million, an increase of 16.2%; 5.6 million passengers were carried on international flights, a 14.7% rise.

The factors that had an adverse effect on profitability throughout the industry were the sharp rises in fuel prices and the appreciation of the Turkish lira in real terms. Despite these two fundamental problems, the Company was able to earn a before-tax profit of YTL 110 million and an after-tax profit of YTL 107 million, calculated in accordance with International Financial Reporting Standards (IFRS). This achievement was the outcome of customer-focused flight planning, the application of competitive price policies and a proactive approach to opportunities within the sector.

The existing fleet grew in June 2004 with the addition of nine A320s, two A321s and three B737-400 aircraft. This was done to compensate for the capacity loss that occurred during the 2004 high season as a result of; the overhaul of RJ aircraft to assuage flight safety concerns, answer the needs of the increasing numbers of passengers and to service our fleet until the new aircraft arrived. Furthermore, to complement our passenger aircraft with cargo services, an A310-304 cargo aircraft was added to the fleet.

Increased demand in 2004, stemming from economic growth and the lowering of taxes on ticket prices, enhanced the Company's growth-oriented strategy for the coming years.

The Company, which had last ordered new aircraft in 1997, decided to expand its fleet in response to developments in international civil aviation and in light of the high level of profit achieved in 2002-2003.

The acquisition decision made in 2004, an initiative that was in keeping with the

Company's long-term growth plans, was the largest purchasing effort in THY's history. Purchase agreements were signed for fifteen Boeing 737-800s, five Airbus A-330-200s, twelve A-321-200s and nineteen A-320-200s; a total of 51 aircraft.

The THY Maintenance Center not only maintains its own fleet, but also offers services to other domestic and international airline companies. The Company launched a new project that would transform its technical maintenance unit to a global maintenance base. The HABOM (Turkish acronym for International Aviation Maintenance, Repair and Modification Center) Project will be established by THY at the Sabiha Gökçen International Airport in Kurtköy, Istanbul. The Defense Industry Undersecretariat and THY signed an agreement on December 3, 2004 for the transfer to THY of the HABOM Center at the Sabiha Gökçen International Airport.

The inconvenience caused by delays that resulted from the unpredicted loss in capacity due to the overhaul of the RJ aircraft has been kept to a minimum. Thanks to the effective measures taken, THY ranked second in December 2004 in the category "on-time departure" among 25 member airlines of the Association of European Airlines.

This achievement in reducing delays, announced in the December 2004 Consumer Report of the Association of European Airlines, was followed by another second place in the category of "minimum lost baggage." These results have strengthened THY's position as one of the most successful European airlines. What is more important is that these achievements have become a tradition. The importance placed on this along with the Company's skilled personnel will help the Company maximize customer satisfaction in 2005.

Looking at personnel productivity, while the number of employees per aircraft decreased 5.3% in 2004 compared to the previous year, the number of passengers per employee increased by 7.1%.

In the second half of 2004, another effort was launched under the supervision of the Turkish Privatization Administration for the public offering of THY shares. A preliminary call was made on November 17-24, 2004 for shares representing 20% of THY's TL 175 trillion outstanding capital. When the final call was made between December 1-3, 2004 demand was five times the amount offered and a 3% additional offering right was exercised. In effect, 23% of the shares were offered to the public. Together with the 1.83% that had been offered previously, the Company has privatized 24.83% of its shares. Suspended from trading on November 29, 2004, THY shares were again made available for trading on the Istanbul Stock Exchange (ISE) on December 9, 2004.

The Company has a strong position in the increasingly competitive aviation industry, both in terms of the number of passengers it carries and the quality of its services. With the addition of the new planes that have already been ordered and its 20 million passenger annual capacity, THY will be aiming to take its place among the leading companies in Europe and the world. I feel confident that with the continued support of our valued passengers, employees, suppliers, agencies, our trade union and all individuals and enterprises with whom we work, this target will be achieved very soon.

Dr. Candan KARLITEKİN
On behalf of the Board of Directors

Management

Board of Directors (December 31, 2004)

1 > Dr. Candan Karlıtekin
Chairman of the Board

2 > Abdurrahman Gündoğdu
Vice-Chairman of the Board

3 > Prof. Dr. Cemal Şanlı Board Member

4 > Prof. Dr. Oğuz Borat Board Member

5 > Hüseyin Atilla Öksüz Board Member

6 > Hamdi Topçu Board Member

7 > Mehmet Büyükekşi Board Member

Board of Auditors

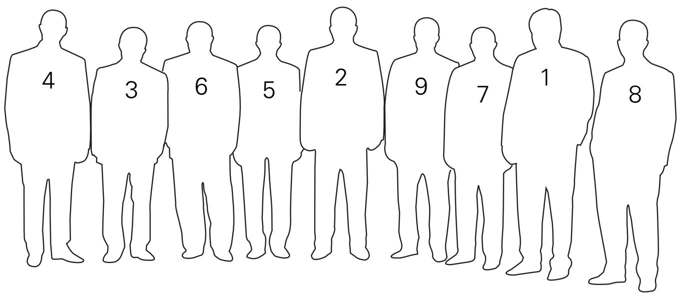
8 > İsmail Gerçek
Member of the Audit Board

9 > Hasan Gül
Member of the Audit Board

10 > Ateş Vuran
Member of the Audit Board

General Manager

> Abdurrahman Gündoğdu



Turkish Airlines was established on May 20, 1933 in Ankara under Law No. 2186 as the State Airlines Administration working as a department of the Ministry of Defense.

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In 1935, it was transferred to the Ministry of Public Works; in 1938, it became the State Airlines General Directorate; as of 1939, it began to operate as a department of the Ministry of Transportation.

In 1955, it was restructured by Law No. 6623 as a private company subject to private law. From then on, it operated under the name of 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 Decree Law No. 233 dealing with Certain State Institutions and Enterprises.

According to the 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 the Official Gazette dated September 25, 1990, No. 20646. The Company's new Articles of Association were approved by the Supreme Planning Council on October 30, 1990 by Decision No. 90/18, whereby the Company was registered with the Trade Registry on November 5, 1990.

Turkish Airlines was redefined as a State Economic Enterprise under 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 November 27, 1994 issue of the Official Gazette numbered 22124. According to Article 20/a of the aforementioned law, the Company's Articles of Association were amended with the approval of the Privatization Administration dated December 5, 1996; 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, of the Privatization Administration. These amendments were put into effect following their approval at the Extraordinary General Shareholders Meeting held on January 17, 2003.

Increased demand in 2004, stemming from economic growth and the lowering of taxes on ticket prices, enhanced the Company's growth-oriented strategy for the coming years.

Traffic Figures Overview

	2000	2001	2002	2003	2004
Number of Landings	117,916	109,028	102,607	100,807	106,493
Kilometers Flown (000)	149,349	143,616	138,059	137,392	147.492
Available Seat Kilometers (millions)	26,001	24,890	24,071	24,040	26,481
Revenue Passenger Kilometers (millions)	17,396	15,679	16,594	16,112	18,594
Passenger Load Factor (%)	66.9	63.0	68.9	67.0	70.2
Available Ton Kilometers (millions)	3,502	3,574	3,285	3,229	3,556
Revenue Ton Kilometers (millions)	1,976	1,968	2,118	2,055	2,333
Overall Load Factor (%)	56.4	55.1	64.5	63.6	65.6
Revenue Passengers (000)	12,031	10,277	10,383	10,420	11,991
Cargo (tons)	125,742	104,778	118,906	117,923	129,984
Mail (tons)	4,595	4,648	5,999	4,899	4,867
Excess Baggage (tons)	2,624	2,524	2,187	2,515	2,783
Total Staff (Year-end Total)	12,480	11,242	10,984	10,239	10,956


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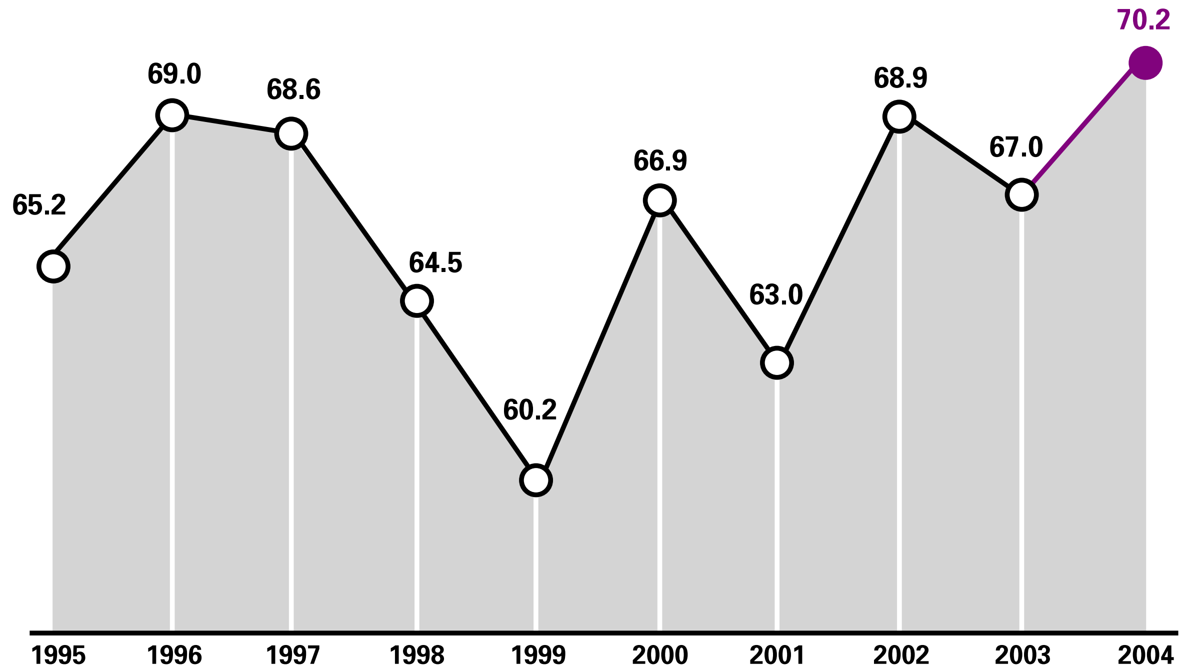
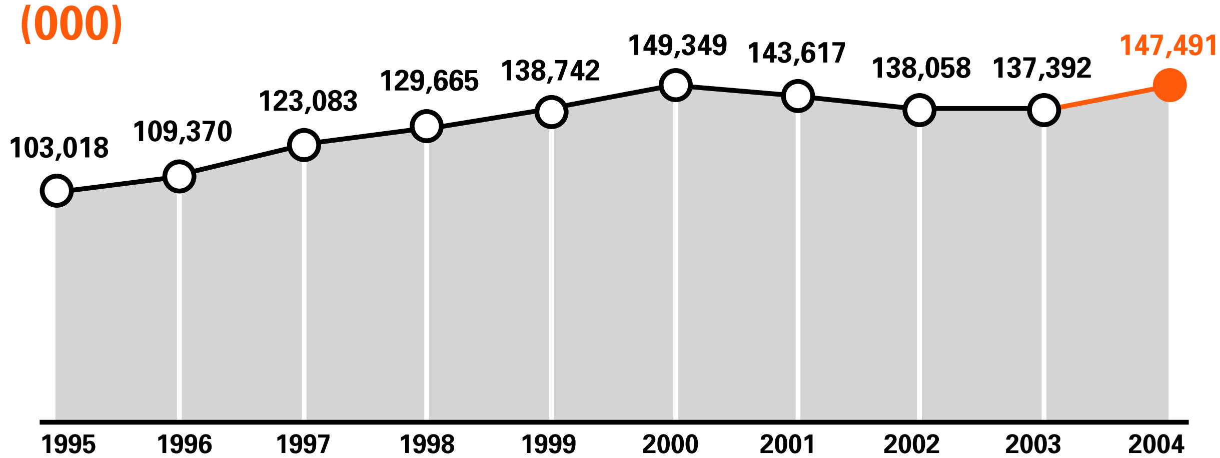
1995-2004 Passenger Load Factor %

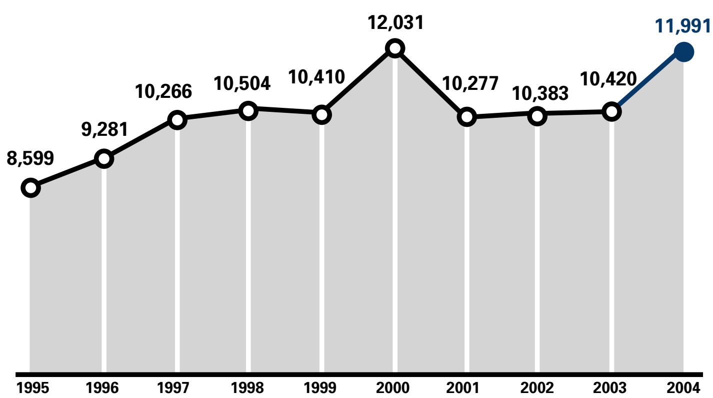


1995-2004 Kms Flown (000)

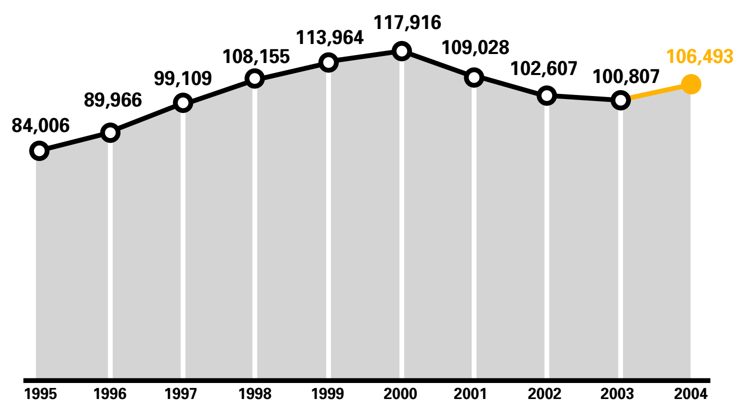


Thanks to the effective measures taken, THY ranked second in the categories of "on-time departure" and "minimum lost baggage" among 25 member airlines of the Association of European Airlines in 2004.

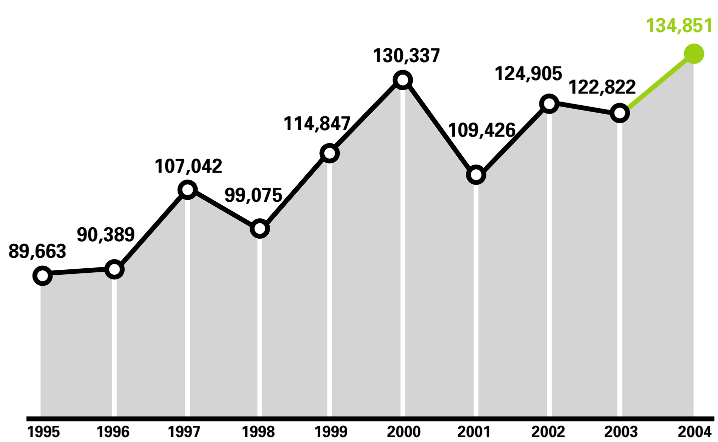
1995-2004 Revenue Passengers (000)



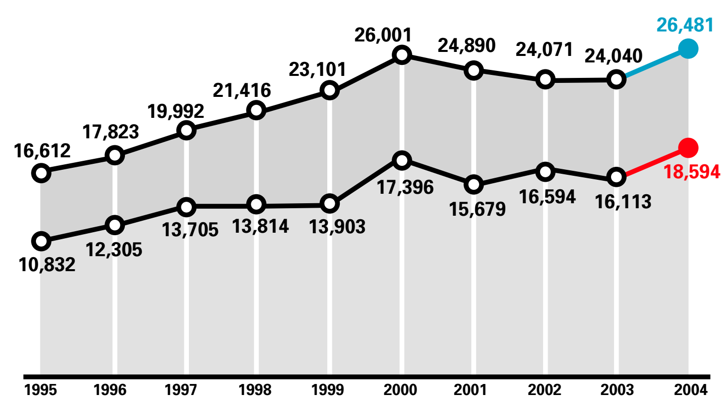
1995-2004 Number of Landings



1995-2004 Cargo and Mail (tons)



1995-2004 Available Seat Kilometers and Revenue Passenger Kilometers



Available Seat (millions) Revenue Passenger Kilometers (millions)

In 2004, fifteen aircraft were added to the fleet: nine A320s, two A321s, three B737-400s for a total of 14 passenger planes and one A310-304 cargo plane. In 2004, a total of 12 million passengers were carried including 5.8 million scheduled domestic and 5.6 million scheduled international passengers.

Flight and Traffic Development

Flight Operations

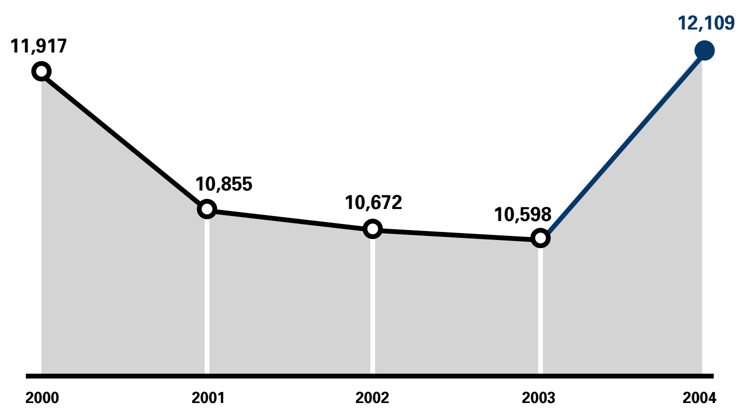
By the end of the year, the number of aircraft in the Turkish Airlines fleet totaled 73, including 72 passenger and 1 cargo planes, corresponding to a total seat capacity of 12,109. In 2004, fifteen aircraft were added to the fleet: nine A320s, two A321s, three B737-400s for a total of 14 passenger planes and one A310-304 cargo plane.

The Fleet by Year-end 2004

Aircraft	Number of Planes	Age of Fleet (year-end)
A340-300	7	8.54
A310-300	5	16.25
B737-400	17	12.44
B737-800	26	5.13
A320	9	7.89
RJ100	6	10.60
A321	2	9.69
A310-304 (Cargo)	1	15.61
Total*	73	8.98

* The three RJ70s in maintenance are not included in the table.

Total Seat Capacity (Year-end)

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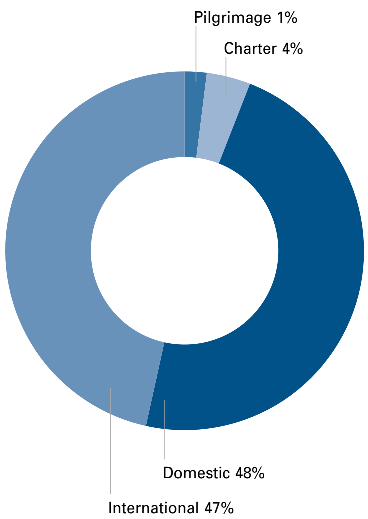
By the end of 2004, Turkish Airlines had flown to 103 destinations and traveled 147 million kilometers.

Changes in Traffic
In 2004, a total of 12 million passengers were carried including 5.8 million scheduled domestic and 5.6 million scheduled international passengers, 229,000 Hadj and Umrah pilgrims and 385,000 charter flight passengers. Total traffic operations capacity (available seat kilometers) increased 10.2% while traffic (revenue passenger kilometers) rose 15.4%. As a result, the passenger load factor increased 70.2% or 3.2 percentage points.

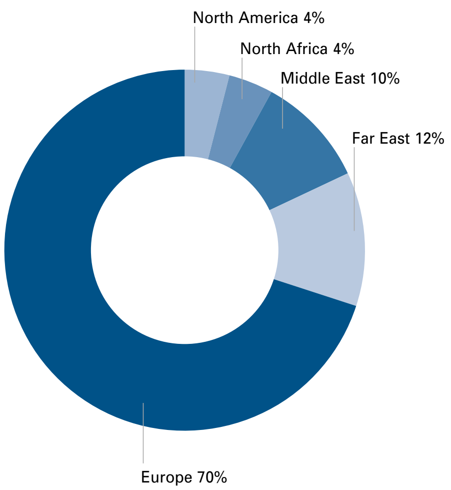
During the year, 135,000 tons of cargo and mail were carried.

By the end of 2004, Turkish Airlines had flown to 103 destinations and traveled 147 million kilometers.

Breakdown of Passengers



Passenger Breakdown on Scheduled International Flights by Regions



Domestic Flights (Total)

	2000	2001	2002	2003	2004
Number of Landings	66,872	58,239	51,542	49,959	51,557
Kilometers Flown (000)	36,979	32,298	28,782	28,087	28,734
Available Seat Kilometers (millions)	5,077	4,333	3,858	3,863	4,253
Revenue Passenger Kilometers (millions)	3,588	2,876	2,732	2,790	3,236
Passenger Load Factor (%)	70.7	66.4	70.8	72.2	76.1
Available Ton Kilometers (millions)	620	778	468	478	515
Revenue Ton Kilometers (millions)	314	292	278	283	325
Overall Load Factor (%)	50.6	37.5	59.4	59.2	63.1
Revenue Passengers (000)	6,491	5,189	4,970	5,031	5,850
Cargo (tons)	36,835	24,627	26,346	26,628	28,800
Mail (tons)	1,901	1,771	1,759	1,289	1,323
Excess Baggage (tons)	918	801	896	1,077	999

International Flights (Total)

	2000	2001	2002	2003	2004
Number of Landings	51,044	50,789	51,065	50,848	54,936
Kilometers Flown (000)	112,370	111,318	109,276	109,305	118,758
Available Seat Kilometers (millions)	20,924	20,557	20,213	20,177	22,228
Revenue Passenger Kilometers (millions)	13,808	12,803	13,862	13,322	15,358
Passenger Load Factor (%)	66.0	62.3	68.6	66.0	69.1
Available Ton Kilometers (millions)	2,882	2,796	2,.817	2,751	3,041
Revenue Ton Kilometers (millions)	1,662	1,676	1,840	1,772	2,008
Overall Load Factor (%)	57.7	59.9	65.3	64.4	66.0
Revenue Passengers (000)	5,540	5,088	5,413	5,389	6,141
Cargo (tons)	88,907	80,151	92,560	91,295	101,184
Mail (tons)	2,694	2,877	4,240	3,610	3,544
Excess Baggage (tons)	1,706	1,723	1,291	1,438	1,784

While scheduled domestic flight capacity in 2004 increasing to 10.1% over the previous year, traffic increased 16.0%, resulting in a 3.9% point increase in the passenger load factor which totaled 75.9%.

Destination and Schedule Structure
In August 2004, flights started between Ankara and Bursa (Yenişehir).

Largely catering to international transit passengers, the Istanbul-New Delhi route, which was initiated in 2003, significantly contributed to the network. Weekly flights between Istanbul and New Delhi increased from three to five in 2004.

Frequencies increased in 2004 for flights out of Istanbul to Baku, Stuttgart, Cologne, Dubai, Manchester, Copenhagen and Hamburg.

Direct flights from Ankara and Izmir to European destinations, which had been scheduled only during the summer months in previous years, were scheduled throughout the year in 2004. Direct flights took off from Ankara to Amsterdam, Brussels, Vienna, Berlin, Stuttgart, Cologne, Munich, Frankfurt, Hanover and Düsseldorf and from Izmir to Munich, Cologne and Stuttgart.

Domestic and international flights increased during the year; the number of flights from Istanbul to Ankara and Izmir increased so that flights took off every 30 minutes in the morning and evening hours and every hour during the day.

Scheduled Flights
While scheduled domestic flight capacity in 2004 increasing to 10.1% over the previous year, traffic increased 16.0%, resulting in a 3.9% point increase in the passenger load factor which totaled 75.9%. The number of passengers was 5.8 million while 30,000 tons of cargo and mail were transported.

Scheduled international flight capacity increased 8.9% in 2004; traffic also grew 15.4%, resulting in a 3.9% increase in the passenger load factor of 69.2%. On these international flights, 5.6 million passengers were carried along with 92,000 tons of cargo and mail.

Traffic results on scheduled domestic and international flights by region are shown in the table below.

	Available Seat Kilometers 04/03 (Change %)	Revenue Passenger Kilometers 04/03 (Change %)	Passenger Load Factor (%) 2003	2004
Scheduled domestic	10.1	16.0	72.1	75.9
Scheduled international	8.9	15.4	65.3	69.2
Middle East	8.3	11.6	65.3	67.3
Europe	9.4	13.7	65.3	67.9
Far East	15.2	25.7	64.5	70.4
North America	-0.1	8.3	65.8	71.4
North Africa	8.9	18.0	70.4	76.3

The utilization of current cargo capacities for high-revenue cargo and the flexible price policies that were implemented in keeping with changes in market demand collectively contributed to the 12.4% increase in the Company’s cargo revenue.

Charter Flights

Of the 2,386 charter flight landings in 2004, 1,978 were international and 408 domestic. There was a 12.6% decrease in charter flights compared to 2003. The distribution of international charter flights by region was as follows: 92.4% to Europe, 3% to the Middle East, 2.5% to North Africa, 1.1% to the Far East and 1% to North America.

Pilgrimage Flights (Hadj and Umrah)

A total of 139,649 pilgrims were carried on Hadj flights between December 29, 2003 and January 26, 2004; returning between February 4 and March 5, 2004.

A total of 89,506 passengers were carried on Umrah flights.

Cargo

Positive developments in the Turkish economy and the world economy, as well as the increase in international trade benefited the air cargo industry in 2004. Accordingly, Turkish Airlines’ cargo traffic increased 8.7%. The utilization of current cargo capacities for high-revenue cargo and the flexible price policies that were implemented in keeping with changes in market demand collectively contributed to the 12.4% increase in the Company’s cargo revenue.

In February 2004, in an effort to increase cargo capacities at certain domestic destinations while enhancing Turkish Airlines’ capacity to serve neighboring countries and provide customers with immediate service, an intermodal (air-land) transport model was adopted.

With the addition of the A310-300F cargo aircraft on October 30, 2004 yielding a fleet capacity of 38 tons and a cargo volume of 200 m^3, scheduled cargo flights were set up to Maastricht four times a week, Frankfurt three times a week, London (Gatwick) two times a week and Tel-Aviv once a week.

The ISO 9002 Quality Certificate, awarded to Turkish Airlines in 2000 in recognition of high levels of service quality, customer satisfaction and reliability was renewed in February 2004 in line with the revisions to ISO 9001:2000.

Of the 122,041 tons of cargo carried in passenger aircraft in 2004, 30,261 tons were carried on domestic flights and 91,780 on international flights.

In an effort to meet the cargo demand to destinations in North America, Europe and the Far East that Turkish Airlines passenger aircraft could not accommodate, cargo aircraft were leased on an ACMI basis; 8,554 tons of cargo was carried in this way. The A310-300 cargo aircraft that joined the fleet during the year carried 4,577 tons of cargo between October 30 and December 31, 2004 on scheduled flights to Maastricht, Frankfurt, London and Tel Aviv. In 2004, a total of 12,617 tons of cargo was carried by cargo aircraft, bringing in US$ 17,379,381.

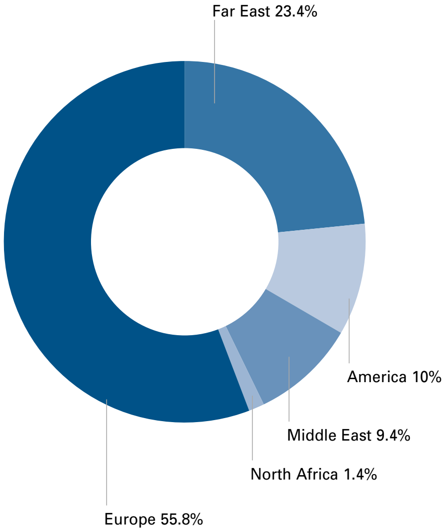
The destinations to which the largest amounts of cargo were carried by passenger and cargo aircraft in 2004 were, in order of magnitude, Maastricht, New York, Frankfurt, London and Tel Aviv.

The total amount of cargo carried in 2004 by both passenger and cargo aircraft was 134,851 tons, corresponding to US$ 188.4 million. Revenue from domestic cargo increased 15.6% over the year before, bringing in US$ 9.9 million. International cargo revenue increased 12.3%, reaching US$ 178.5 million.

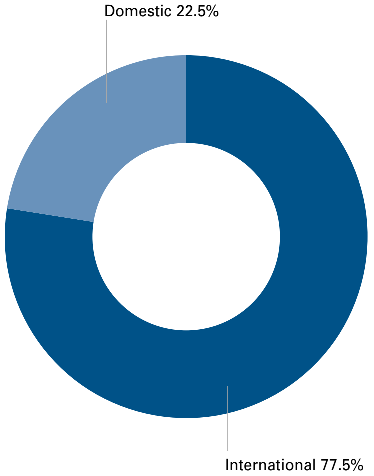
In conformity with the new US Customs regulations, cargo information is now declared to US Customs ten hours before landing, using the standard customs message format. Responses received are automatically processed using the TACTIC system.

Necessary work has been completed to ensure the transmission of cargo information from the TACTIC system to the Turkish customs system.

Breakdown of Cargo by Regions



Breakdown of Cargo by Tons



	2003	2004	04/03 Change (%)
Number of Landings	100,807	106,477	5.6
Passenger Flights	100,594	106,061	5.4
Cargo Flights	213	416	95.3
Cargo+Mail (tons)	122,822	134,851	9.8
Passenger Flights	110,656	122,041	10.3
Cargo Flights	7,267	12,617	73.6
Cargo+Mail Revenue (US$ thousands)	167,352	188,151	12.4
Passenger Flights	155,518	170,772	9.8
Cargo Flights	11,834	17,379	46.9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TURKISH AIRLINES
Bilet Satış
Ticket Sales
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In an effort to foster its objective to "strengthening the Company’s position as a global airline company by expanding its long-distance flight network," the Turkish Airlines schedule has been revamped to provide additional connections between regions and to establish Istanbul as an important international hub.

Commercial Performance

Aircraft Utilization/Increasing Efficiency

To ensure that Turkish Airlines aircraft are used in the most efficient manner possible, the flight schedule was optimized using the latest software technology. Airplane utilization in 2004 thus improved 2% over the previous year and 6% over 2002. With the rise in the rate of utilization, a decrease was observed in aircraft acquisition costs, resulting in enhanced competitiveness in an industry where low-cost transporters provide strong competition.

6-Band Schedule

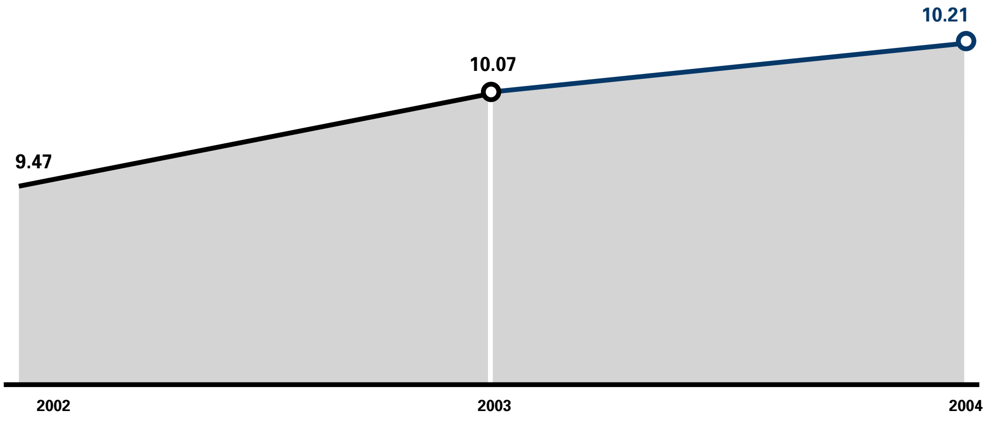
The fare structure of Turkish Airlines was revised starting with the Summer 2004 schedule to accommodate the increase in Business Class and international transit passenger traffic, to expand aircraft utilization rates, to reduce operational loads and increase market share. The revision provided for a change from a 4-band schedule structure to a 6-band structure.

Network Structure

As global competition in the industry continues to grow fiercer with each passing day, Turkish Airlines has been challenged to move beyond being simply a passenger carrier in the Turkish market; it has become a globally recognized network carrier. Within this framework and in an effort to foster its objective to "strengthening the Company’s position as a global airline company by expanding its long-distance flight network," the Turkish Airlines schedule has been revamped to provide additional connections between regions and to establish Istanbul as an important international hub.

Work toward the Company’s mission continued in this context in 2004 and the number of transit passengers increased 20.1% over 2003.

Daily Aircraft Utilization (hour/day)



In March 2004, the THY webpage offered an e-mail address for the Call Center (callcenter@thy.com) permitting passengers to make reservations online.

Revenue Management and Flexible Pricing

Developments in the domestic air transportation industry paralleled the growth in the Turkish economy.
Efforts were directed toward maintaining Turkish Airlines' significant market share amid increased competition from the many private airlines entering the market. In this context, a diversified domestic fare structure was adopted. Particularly at times of high demand,
price discounts were applied, with a view to spreading traffic to other time slots.

A flexible fare structure for international destinations takes into consideration unique market features for each region; this is accompanied by a system of promotional fares that reflect an aggressive stand against competitors. Both of these policies play an important role in the optimum utilization of Turkish Airlines' aircraft.

Proactive intervention with regard to fares in response to market trends has been the object of pricing policies.

In addition, cost studies have been conducted to determine flight needs in response to passengers' needs at special times and during the high season. These studies resulted in a total of 710 additional and transfer flights that carried 70,459 passengers in 2004.

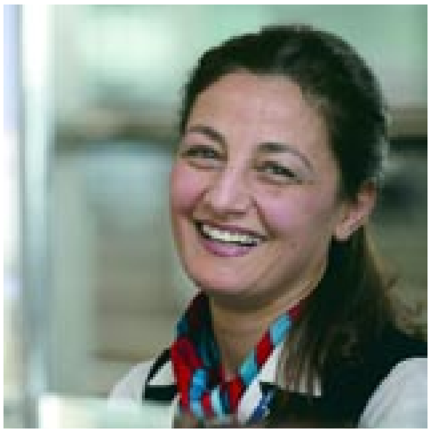
Call Center

In 2004, four million calls were processed by THY's Call Center, the Company's most important marketing and sales channel. In August, 2004, when THY launched its e-ticket system, the Call Center also started processing e-ticket sticker changes. Passengers are now able to check in directly without stopping at a sales office, thus saving time and improving customer satisfaction.

In March 2004, the THY webpage offered an e-mail address for the Call Center (callcenter@thy.com) permitting passengers to make reservations online. The Call Center's Internet sales office processed 1,089 tickets in 2004, forwarding tickets to passengers' addresses.

Another service offered to customers by the online sales office is the capability to reserve and receive tickets by wire transfer. Passengers without credit cards are now able to use online ticketing services.

In February 2004, the call recording capacity of the system was increased to 128, providing for more rapid response to customer problems.



As part of the Peace Eagle Project, THY will be providing support for the maintenance in Turkey of the B737-800 AWACS (Airborne Warning and Control Systems) aircraft to be acquired by the Turkish Air Force. Engineering support was also provided during the implementation of the project.

Technical Services

Two multi-purpose hangars, with capacities of 51,000 m^2 and 80,000 m^2 respectively, are available at the THY Maintenance Center at Atatürk Airport. These hangars can simultaneously accommodate technical assistance to two A340s, two A310s and five B737s or one B737 and three RJ aircraft.

Its hangar capacity and personnel allow Turkish Airlines to provide technical assistance to private aircraft and to engage in sales of technical equipment to domestic and international customers.

The technical services provided by the Company's Maintenance Center have generated US$ 34.7 million in revenue. In addition, US$ 2.4 million was earned from route maintenance services delivered to contracted companies, US$ 1.2 million from the sale of technical equipment invoiced through a clearing house, US$ 5.5 million from warranties, and US$ 2.4 million from other activities; a total revenue of US$ 46.2 million.

In 2004, the THY Maintenance Center:

- Took on the task of painting an aircraft in the Company's A340 fleet (TC-JDL) for the first time.
- Modified five RJ planes, one A340, one B737-800 and 16 B737-400 aircraft with the addition of Enhanced Ground Proximity Warning Systems (EGPWS).
- Made an investment totaling US$ 22.3 million for components and breakdowns.

The expected annual revenue from the Boeing IFM Project that was signed on March 21, 2004 is US$ 40 million. Within the scope of this project, maintenance, engine, APU, component and engineering services will be provided to classical B737s flying in Russia and neighboring countries.

As part of the Peace Eagle Project, THY will be providing support for the maintenance in Turkey of the B737-800 AWACS (Airborne Warning and Control Systems) aircraft to be acquired by the Turkish Air Force. Engineering support was also provided during the implementation of the project.

A cooperation agreement has been signed with Zorlu Holding for the maintenance of Industrial Gas Turbines.

For the first time, a C check was performed on an aircraft that was not part of the Turkish Airlines fleet; a B757 airplane owned by AZAL Air.

Work has been completed on the technical specifications of the new A330-200, A320/A321-200 and B737-800 aircraft planned to join the THY fleet between 2004 and 2008 and on optional SFE (Seller Furnished Equipment) that will be installed on the new planes. The choice of SFE to be installed on the aircraft resulted in more than US$ 30 million in savings for the Company in terms of cost-free credit and spare parts.

Modification, adaptation and correlation work for the Motor Test Cell to test the CFM56-7B engines of B737-800 aircraft has been completed. Six CFM56-7B engines have been tested.

The HABOM Project

The HABOM (International Aviation Maintenance, Repair and Modification Center) Project will be established by THY at the Sabiha Gökçen International Airport at Kurtköy, Istanbul. Construction work under the HABOM Project has been scheduled for the beginning of 2005. The project is expected to be completed and the facilities launched by 2007. A total of US$ 200 million will be invested in the project, construction and equipment work included. The State Planning Organization has allocated US$ 50 million for the project in 2005.

According to THY analyses, THY Technical Services estimate a possible revenue of US$ 470 million in the maintenance market in the targeted region by 2010. The Aviation Maintenance, Repair and Modification Center will comprise aircraft maintenance hangars, aircraft painting hangars, an engine workshop, component workshops and administrative offices. The Maintenance Center will not only handle THY business but will also provide technical services to domestic and international customers. It is planned that the HABOM Project will become a leading maintenance and repair center in the target region. On December 3, 2004, the Defense Industry Undersecretariat and THY signed an agreement for the transfer of the HABOM grounds located at the Sabiha Gökçen International Airport to THY.

The number of THY staff, which was 10,239 by the end of 2003, increased 7% in 2004, to reach 10,956.

Human Resources

The number of THY staff, which was 10,239 by the end of 2003, increased 7% in 2004, to reach 10,956.

The number of passengers per employee increased 7.1% over the year before, thus improving productivity and efficiency.

2000-2004 Changes in Staff Efficiency

Year	Number of Employees per Plane	Number of Passengers per Employee
2000	171	973
2001	163	922
2002	166	958
2003	158	1,022
2004	**150**	**1,095**

Breakdown of Domestic and International Employees

	Domestic	International
2000	11,547	933
2001	10,353	889
2002	10,136	848
2003	9,495	744
2004	**10,194**	**762**

Breakdown of Staff by Title as of December 31, 2004

Administrator	595
Pilot	812
Cabin Attendant	1,781
Data Processing Staff	198
Foreign Offices	762
Engineers, Attorneys, Physicians	257
Specialists, Dispatchers, Trainers	485
Technicians	1,958
Clerks	3,078
Workers	1,030
Total	10,956

Breakdown of Staff by Units as of December 31, 2004

Units Directly Reporting to the General Manager	197
Assistant General Manager (Human Resources)	279
Assistant General Manager (Finance)	580
Assistant General Manager (Commercial)	4,522
Assistant General Manager (Flight Administration)	2,889
Assistant General Manager (Technical)	2,489
Total	10,956


JAL Japan Airlines
JAL 5092 18:00
TOKYO-NARITA
BUSINESS CLASS

Under the Peace Eagle Project, THY will provide Turkish Airforce personnel with flight and technical training, as well as engineering maintenance support for a period of two years.

Training

THY Training Department revenue is derived from courses dealing with: engine and fuselage types, avionics systems, ticket sales and reservation training provided to agencies, cargo sales and hazardous material handling for cargo agencies and behavior and quality training made available to customers. In 2004, revenue from training programs amounted to US$ 647,153.

In addition to these, license examinations were conducted under the authority granted by the Civil Aviation General Directorate.

Efforts to enact a cooperation agreement concerning the AWACS (Airborne Warning and Control Systems) aircraft to be purchased by the Turkish Air Forces under the Peace Eagle Project were finalized during the year. Under the agreement, THY will provide TAF personnel with flight and technical training, as well as engineering maintenance support for a period of two years. The Company's revenue from this service will be US$ 4,100,000.

In addition, an agreement has been signed with TÜRSAB (Turkish Association of Travel Agencies) for sales training courses. Training contracts have been executed with AIR Pulkova and Aerosvet for B737-3/4/500 aircraft.

Turkish Airlines was audited by the RWTUV Independent Supervising Company on December 9-10, 2004 for a renewal of the ISO 9001:2000 Quality Management Systems Certificate. This inspection was successfully concluded and the certificate renewed.

Flight Training Center

The Flight Training Center consists of two divisions: Cockpit Training and Cabin Training. Turkish Airlines owns a B737-400, an RJ and a B737-800 Full Flight Simulator for use in cockpit training. The Cabin Training Division uses an A340 First Class cabin service mockup, a B737 Economy Class cabin service mockup, a B737/A310/A340 mobile emergency evacuation simulator and an A310 wing exit mockup.

A total of 1,035 cockpit personnel have taken part in simulation training at the Flight Training Center; 395 for B737-800 aircraft, 522 for B737-400s and 118 for the RJs. Another 601 cockpit personnel have received training at contracted simulation training organizations; 292 for A340s, 134 for A310s and 175 for A320s.

Cockpit training provided to external organizations in 2004 generated a total revenue of US$ 2.5 million.

Training Programs

	2003		2004		
	Courses	Participants	Courses	Participants	ParticipantsxDays
Commercial	303	3,976	455	5,873	20,646
Technical	110	1,549	91	1,595	20,793
Quality	97	1,839	174	2,835	4,696
Computed-aided training	40	405	12	145	283
Other	236	4,594	83	1,368	1,956
Total	786	12,363	815	11,816	48,374


TÜRK HAVA YOLLARI
TURKISH AIRLINES
İÇ HATLAR
CIP SALONU
DOMESTIC LINES
CIP LOUNGE
TAV

The online check-in system has been extended with the addition of Beirut, Berlin, Brussels, Cologne, Copenhagen, Düsseldorf, Hamburg, Hanover, London, Lyons, Manchester, Munich, Nuremberg, Rome, Seoul, Shanghai, Stuttgart, Tokyo, Vienna and Warsaw airports.

Services

Online Services

The THY website provides information for online ticket sales, online check-in, schedules, Miles&Miles Services, lost baggage tracking, cargo services (reservations, cargo tracking, schedules, domestic fares) and departure-arrival data.

The earliest reservation time for TODs (Ticket-on-Departure), allowing passengers to pick up their tickets at the airport has been extended from 30 to 90 days.

Rome, Copenhagen, Amsterdam, Simferopol, Erzurum, Denizli and Elazığ were added as new TOD points.

The online check-in system has been extended with the addition of Beirut, Berlin, Brussels, Cologne, Copenhagen, Düsseldorf, Hamburg, Hanover, London, Lyons, Manchester, Munich, Nuremberg, Rome, Seoul, Shanghai, Stuttgart, Tokyo, Vienna and Warsaw airports.

In 2004, a total of 32,448 tickets were purchased online, representing a revenue of US$ 7,459,332.

Miles&Miles Frequent Flyer Program

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

With the adjustments in seating classes, Miles&Miles members are now offered the opportunity to make simultaneous limited-capacity or guaranteed-seat reservations in the class they desire. Free ticket and companion ticket reservations, for example, may be made for both economy and business classes.

The number of members in the Miles&Miles program increased 14% in 2004 compared to 2003 and now total 652,000. Two percent of these are Elite Members.

Self Check-In Kiosk

Passengers can now process check-in procedures by themselves with THY's Self Check-in facility, choosing their own seating, taking their own boarding cards and proceeding directly to the gate. "Through Check-in" is also available for passengers and their companions traveling with or without baggage, provided their reservations have been processed together. This convenience allows passengers to make their own seating arrangements and receive boarding cards for all flights, completing check-in all the way to the final destination.

All passengers with valid domestic tickets may use their Miles&Miles cards or credit cards to check-in at the Self Check-in Kiosk.

Electronic Ticketing

Turkish Airlines launched electronic ticketing on domestic flights in August 2004. The system was made available on international flights as well, beginning in March 2005 on Lyons and Strasbourg flights. Since electronic ticketing eliminates problems associated with printed tickets such as loss, theft and misplacing, it is user-friendly to both passengers and airline companies, thus increasing customer satisfaction.

In contrast to printed tickets, necessary for ticket transactions, electronic ticketing allows all ticketing information to be kept in an electronic database, thereby providing easy access to reservation and ticket records without recourse to an actual document during all phases of the trip. This system facilitates operations for both passengers and airline companies and saves time because there is no need to contact a sales office or an agency.

The travel document issued to passengers contains information on their flights and itinerary and is also valid as an invoice. From an airline company's point of view, electronic ticketing not only saves time but also eliminates ticket printing costs.

APIS-Advanced Passport Information System

Work has been completed on the APIS system which allows passport and visa information to be automatically read during check-in and sent as an APIS message to the passenger's destination. This system was first introduced for flights to Seoul.

IBRIS-Interactive Baggage Reconciliation System

This new system was installed for the first time at the Antalya Airport in June 2004. The entire wireless network infrastructure in Istanbul has been revamped to adapt to the new technology. A multi-airport version for baggage tracking has been installed and the transition has also been completed at the Ankara Airport.

Applications developed by THY's Data Processing Center have made online check-in an appealing part of ticket sales. The Ticket-on-Departure (TOD) application has been made available at several sales points in Turkey and abroad.

IT Projects

Projects implemented in 2004 by the EDP Department, the group that provides all the data processing systems for Turkish Airlines, are described in detail in the Commercial Developments, Cargo and Services sections of this Annual Report. One of these projects, the Electronic Ticketing Project, has introduced the latest in ticketing technology at Turkish Airlines.

The Reservation and Departure Control (DCS) projects have resulted in an increase in the number of Turkish Airlines offices connected online. There are now 73 domestic and 166 international online offices. In addition, Turkish Airlines now serves 22 local and 43 international airports and has 525 local and 221 international sales agents connected online.

Applications developed by THY's Data Processing Center have made online check-in an appealing part of ticket sales. The Ticket-on-Departure (TOD) application has been made available at several sales points in Turkey and abroad. The software developed for the Miles&Miles Project has allowed Turkish Airlines to offer passengers a variety of services, directly or over the Internet.

Another project completed has been the FID (Flight Information Display) Project that allows flight personnel to monitor flight and checklist information on LCD displays.

In addition to the development of the data processing systems for THY, the Data Processing Center also handles information systems for Turkish Cypriot Airlines (KTHY). Accordingly, an online Ticket Sales website has been made available to KTHY passengers.

The TRACES Users Conference, bringing together user airlines was held in Turkey in July 2004. It provided an opportunity to determine priorities and share experiences. Software revenue from the TRACES program amounted to US$ 43,300.

To cut accessibility costs and reduce problems arising from SITA, flight plans (CFP) supplied by Jeppesen have been integrated into the UHKM system. In addition, the UHKM Module developed at Turkish Airlines enabled the use of the MSW Telex system in transmitting flight plans to other stations. This operation has generated an annual revenue of approximately US$ 200,000 for the Company.

The software application that was developed during the year allows THY flight personnel, as well as crew from other private airlines in Turkey, to receive their crew cards by filling out and processing an application over the Internet. Flight Crew Documents issued according to ICAO standard were delivered to 2,600 employees working for 12 different airline companies.

Turkish Airlines is also the local distributor for Galileo, an enterprise that provides airline, hotel and car reservations and ticketing services. Led by the EDP Department, the Galileo system is made up of 650,000 airlines, hotel and car reservations with its 179 agencies in Turkey and generated a revenue of US$ 2 million.

1. Declaration of Compliance with Corporate Governance Principles

Turkish Airlines has implemented Corporate Governance Principles adopted by the Turkish Capital Markets Board (CMB) with a view toward promoting Turkey and the Turkish aviation sector on an international platform reliably and transparently. A description of related practices is given below.

2. Shareholder Relations Unit

An Investor Relations Department that reports to the Executive Vice President in charge of Financial Affairs has been established. This department will provide investors with prompt and accurate information, manage relations with capital market auditors, facilitate the flow of information, monitor capital increases and public offerings and organize presentations and meetings for both domestic and international investors. An appointment to this position has not been made yet. Executive Vice President in Charge of Financial Affairs (CFO), Rengin Akıllıoğlu, may be contacted for related issues (Phone +90 212 663 63 55, Fax +90 212 663 40 49).

3. Shareholders' Right to Obtain Information

Until December 2004 only 1.82% of THY's shares were traded publicly; this percentage rose to 24.83% as of December 9, 2004. During the year, 24 shareholders exercised their rights under bonus issue coupons and share certificate renewals. Thirteen individuals and institutions were demanded information about shareholding issues (capital increases) and for disclosures concerning publicly available financial statements. In addition, twelve written applications were received and all queries were answered. Several investors and shareholders also requested information by telephone or email; all inquiries were responded to with equal diligence. At the same time, to ensure that shareholders exercised their rights effectively to obtain information, special page Investor Relations was created on the Turkish Airlines website for this purpose. The page is still under construction.

4. General Meeting

In accordance with Article 6 of the Articles of Association, all shares of the Company are registered shares divided into Class A and Class C. Class C comprises one share owned by the Turkish Privatization Administration. Should the Privatization Administration transfer its authority, the share shall be owned by the enterprise to whom these authorities have been transferred. At present, 75.17% of Class A shares belong to the Privatization Administration, and 24.83% have been offered to the public.

A general meeting was held in 2004 to review accounts and operations in 2003. Shareholders representing the TL 171,789,124,552,000-portion of the increased capital of TL 175 trillion attended this general meeting.

Several media organizations were present and news stories were published. Invitation to the meeting was publicly announced through the Trade Registry Gazette and a newspaper with nationwide circulation.

Article 29 of the Articles of Association stipulates that shareholders holding publiclytraded shares are not required to be notified of the date of the meeting by registered mail.

No specific registration deadline was determined to ensure participation of shareholders holding registered shares. Other related terms are set forth in Article 7 of the Articles of Association, as shown below:

Share transfers are subject to the provisions of the Turkish Commercial Code, capital markets and civil aviation legislation. The transfer of registered shares must be recorded in the share ledger for the transfer to be recognized by the Company. Before such a record is made in the share ledger, holders of registered shares must document their identities and nationalities and, if applicable, their foreign references as specified in Article 6, preparing this in the form determined by the Board of Directors.

If a share transfer has not been recorded in the share ledger, the shareholder recognized by the Company shall be the individual whose name appears in the ledger.

The entry of share transfers into the share ledger is undertaken by a decision of the Board of Directors. The Board of Directors may refuse to record the transfer of a share in the share ledger in cases violating the Articles of Association or the law or without specifying a reason.

As set forth in Article 6 above, share transfers violating share restrictions applicable to foreigners may not be recorded in the share ledger. The Board of Directors is obliged to refuse the recording of such share transfers in the ledger. Share transfers that are not recorded in the share ledger by the Board of Directors shall not be recognized by the Company and the concerned party shall not assume the position of shareholder. The approval of a share transfer by the Board of Directors and the resolution to record the transfer in the share ledger requires the vote of the Board Member representing Class C shares.

The Class C share may be transferred to another Turkish state enterprise that is equipped with the powers granted to the Privatization Administration under Law No. 4046. In the event such a transfer takes place, the transfer shall immediately be recorded in the share ledger without recourse to a Board resolution.

The Board of Directors is obligated to restrict the transfer of shares to foreign parties to comply with the limitations set forth in the civil aviation legislation and/or other pertinent regulations and the Company's Articles of Association and to refrain from jeopardizing the traffic and cabotage rights of the Company.

Proposals in connection with Article 362 of the Turkish Commercial Code regarding profit and loss accounts, financial statements, annual reports and the distribution of the net profit shall be made available to shareholders at Company headquarters at least 15 days before the ordinary general meeting, along with the report to be submitted by the auditors.

It is the custom at general shareholders meetings to answer shareholders' questions verbally and prepare written responses to more comprehensive queries. Because no questions requiring a written answer were presented, only verbal explanations were provided.

The powers of the general shareholders meeting have been set forth in Article 27 of the Articles of Association. Accordingly, the General Meeting is the decision-making body authorized by the Turkish Commercial Code and other pertinent legislation. Outside of this article, there are no provisions in the Articles of Association that make it imperative for important decisions to be taken at the General Meeting.

However, since the majority of the Company's shares are owned by the Privatization Administration and since Law No. 4046 authorizes that agency to make decisions on important matters such as spin-offs and the sale or leasing of material assets, there has been no need to separately include this provision in the Articles of Association.

On the other hand, according to Article 14 of the Articles of Association, the validity of the decisions to be taken by the Board of Directors on the following matters is dependent upon the presence and affirmative vote of the Board Member representing Class C shares at the meeting during which the decision was taken.

- Decisions that would clearly and adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Decisions that would clearly and adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Proposals made to the General Meeting for an amendment to the Articles of Association;
- Capital increases;
- Approval of the transfer of registered shares and the recording of this in the share ledger;
- All transactions and decisions concerning direct or indirect commitments on behalf of the Company for more than 5% of the total assets appearing in the last year's financial statement submitted by the Company to the Capital Markets Board per contract (this provision shall be automatically annulled when state-owned shares fall below 20% of the Company's capital);
- The merger of the Company with other companies, its termination or liquidation;
- With the exception of those destinations exclusively affected by market conditions or those that cannot cover operational costs with other resources, decisions concerning the termination of a destination or a significant reduction in the number of flights.

The privileges of Class C shares may only be restricted by the Supreme Privatization Board or a state agency that has taken over its duties.

The minutes of the General Meeting are at all times available to shareholders and are sent upon request. In 2005, the minutes for the General Meetings of the last two years will be made available on the Investor Relations webpage.

5. Voting Rights and Minority Rights

1- Voting Rights are regulated in Article 31 of the Articles of Association:
"The provisions of Paragraph 6/d of these Articles of Association remaining reserved, each shareholder or shareholder's representative present at ordinary and extraordinary General Meetings shall have one vote for each share."

2- According to Article 14, Paragraph 5 of the Articles of Association;
the validity of Board decisions on the following matters is dependent upon the presence and affirmative vote of the Board Member representing Class C shares at the meeting during which the decision was taken:

- Decisions that would clearly and adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Proposals made to the General Meeting for an amendment to the Articles of Association;
- Capital increases;
- Approval of the transfer of registered shares and the recording of this in the share ledger;
- All transactions and decisions concerning direct or indirect commitments on behalf of the Company for more than 5% of the total assets appearing in the last year's financial statement submitted by the Company to the Capital Markets Board per each contract (this provision shall be automatically annulled when state-owned shares fall below 20% of the Company's capital);
- The merger of the Company with other companies, its termination or liquidation,
- With the exception of those destinations exclusively affected by market conditions or those that cannot cover operational costs with other resources, decisions concerning the termination of a destination or a significant reduction in the number of flights.

Privileges of the Class C share may only be restricted by the Supreme Privatization Board or a state agency that has taken over this Board's duties.

3- According to Article 10 of the Articles of Association;
the Board of Directors shall be comprised of seven members elected by the General Meeting. Six Board Members shall be selected from among candidates receiving the highest number of votes in the election carried out by Class A shareholders, and one member shall be the candidate nominated by the Class C shareholder.

Candidates to the Board of Directors from Class A shareholders shall be determined in line with the following principles:

a) In the event the percentage of the Company's publicly-traded shares is 15% or less, the right to nominate a candidate for one of the six positions representing Class A shares shall belong to the shareholders holding publicly-traded Class A shares.

b) In the event the percentage of the Company's publicly-traded shares is 35% or more, the right to nominate two of the candidates for the six positions on the Board representing Class A shares shall belong to the shareholders holding publicly-traded Class A shares.

c) Shareholders holding publicly-traded Class A shares may nominate a candidate to the Board of Directors provided they have represented at least 2% of the total increased capital by being present at the General Meeting in which Board of Directors elections had been held. Only publicly-traded Class A shares shall be considered in calculating this 2%. Shareholders holding publicly-traded Class A shares shall determine their candidates for Board Membership at a meeting they shall hold among themselves. The right to nominate a candidate at this meeting shall belong to the holders of publicly-traded Class A shares that are not owned by the state. In the event the holders of publicly-traded Class A shares do not represent 2% of the capital at the General Meeting, these shareholders' rights to nominate candidates for Board Membership shall be exercised by those shareholders holding Class A shares that are not publicly traded, in accordance with the Turkish Commercial Code and Capital Market regulations.

d) In the event of a vacancy on the Board of Directors due to the death, resignation, dismissal of one of its members or otherwise, the vacant position shall be filled by means of an election to be held by the Board of Directors in accordance with Article 315 of the Turkish Commercial Code. In the event of a vacancy on the Board of Directors due to one of the reasons stated above, the shareholders holding shares that grant the right to nominate a candidate to replace the member who has left shall have the right to nominate a candidate for the vacant position and the Board of Directors shall elect this candidate to fill the vacant position on the Board of Directors. If the holders of publicly-traded Class A shares have not nominated a candidate for the vacant position on the Board of Directors, the right to nominate a candidate shall be transferred to Class C Shareholders. If a Class C share has been converted into a Class A share, the right to nominate shall belong to the shareholders holding Class A shares that are not publicly traded. In such an election carried out to fill the vacant position of the candidate nominated by shareholders holding publicly-traded Class A shares, the percentages of 15%, 35% and 2% mentioned in paragraphs a, b and c above shall not be taken into consideration. The election for the successor of the Board Member shall be submitted to the General Meeting for approval. The Board Member approved by the General Meeting shall serve for the remaining term of the Board Member who has vacated the position.

e) In the event it is announced that a Board Member representing a particular legal entity has terminated relations with that entity, or in the event that a particular legal entity has transferred its shares to a third party, that entity shall be considered to have resigned from its position as a Board Member and thereafter, the provisions of paragraph d of this article on nominating a candidate for a vacant position on the Board shall prevail.

f) In the event these Articles of Association are later amended or new share classes are created, paragraphs a and b above defining the right of shareholders holding publiclytraded Class A shares to determine two board members shall not be annulled or modified, unless such modification has been approved by shareholders representing 65% of the capital.

4- No cross-shareholding exists with any Company.

5- The representation of minority shares in management is carried out in accordance with Article 10 of the Articles of Association, as stated above.

6- The Articles of Association does not provide for cumulative voting.

6. Dividend Policies; Timing of Distributions

Issues related to the determination of the Company's profit and its distribution have been formulated in Article 36 of the Articles of Association, as explained below.

After the deduction of amounts such as the general overhead of the Company or various depreciation costs that must be paid or set aside by the Company and taxes that must be paid out by the Company, from the income determined at the end of the year, the balance, and if applicable the net profit on the annual financial statement, shall be deducted from the total amount of losses from previous years and distributed in the following way:

a) 5% statutory reserves shall be set aside (as defined here, reserves are the statutory reserves set aside each year by the Company as 5% of net profit shall continue to be set aside until it amounts to 20% of the Company's capital). The provisions of Article 466 of the Turkish Commercial Code are reserved. If statutory reserves should, for any reason, fall below 20% of the Company's capital, statutory reserves shall continue to be set aside until this proportion is reached.

b) From the balance, a first dividend in the amount to be determined by the Capital Markets Board shall be set aside.

c) The General Meeting shall be authorized to distribute as dividends or set aside as extraordinary reserves the balance remaining after the amounts mentioned in paragraphs a and b are deducted.

d) After a dividend equal to 5% of outstanding capital has been deducted from the portion of the profit that has been set aside for distribution to shareholders and others who shall participate in the profit, one tenth of the remaining amount shall be set aside as a second reserve, as stipulated in Paragraph 3, Part 2, Article 466 of the Turkish Commercial Code.

e) Unless statutory reserves and the first dividend specified in the Articles of Association have been set aside, no decision may be made to set aside further reserves or to forward the profit to the following year. Unless the first dividend is paid out in cash and/or in the form of shares, no decision may be made for the participation of holders of preferred shares in dividends or for the distribution of dividends to holders of founders' shares or ordinary bonus shares, to Board Members, employees and workers, or to foundations established for various purposes, or to such persons and/or organizations.

The timing and terms and conditions applicable to dividends shall be decided by the General Meeting in accordance with the Communiqués of the Capital Markets Board.

7. Transfer of Shares

1- Article 6 of the Articles of Association:
Shareholding Structure:
Shares held by foreign shareholders may not exceed 40% of the Company's total outstanding capital. The calculation of shares held by foreign shareholders shall also include the foreign proportion of Class A shares that are not publicly traded.

The term "foreign shareholder" shall mean:
- real and legal persons that are of foreign nationality;
- Turkish companies in which foreign parties own a more than 49% interest;
- Turkish companies with a majority of administrative and representative bodies comprised of non-Turks and according to their articles of association, where the majority of votes belong to non-Turkish partners;
- Turkish companies that are under the actual control of any one of the above.

To ensure the compliance of the above limitations concerning foreign shareholders with the provisions of the Articles of Association, the Company shall keep a separate record of foreign shareholders when recording shareholders and share transfers in its share ledger.

All share purchases and sales involving 1% or more of the Company's outstanding capital must be immediately reported to the Company. In addition, shareholders who have reached or exceeded the maximum foreign shareholding limits set forth in the Articles of Association are required to notify the Company as soon as they become aware of this. The purpose of this notification is to monitor foreign shareholding and important share transactions and to provide an opportunity for the Board of Directors to exercise its rights. A notification that has not been recorded in the share ledger shall not create a shareholder's right; only share ledger records shall constitute valid shareholding.

In cases where it has been learned, through notifications or otherwise, that total shares belonging to foreign parties have exceeded 40% of the Company's outstanding capital, the Board of Directors shall, at the latest within seven days, be required to notify the shareholders concerned that they must sell the shares exceeding the foreign shareholding limit, starting with the most recent share transfers, and to inform them that in the event of a failure to do so, the Company shall have the right to implement one of the measures set forth below. Foreign shareholders who are notified that their surplus shares must be sold shall, within the timeframe specified in the notification, to sell the shares over and above the foreign shareholding limit, in accordance with the Articles of Association, to a person who is not a foreign shareholder. If said shares are not sold despite notification, the Board of Directors is required to take the following measures regarding the shares that have exceeded the limit, within three days:

(i) Redeem the shares exceeding the foreign shareholding limit that are held by the foreign shareholder on the basis of the nominal price of the share and by reducing capital. The Company will issue notification that it will first redeem the shares over and above the foreign shareholding limit. If such notification cannot be made, the Company shall make a public announcement in two newspapers circulating in the area in which the Company's headquarters are located. Expenses related to the redemption shall be set off against the redemption fee and collected from the shareholder responsible for the redemption.

(ii) When the total share of foreign shareholders exceeds the limit set forth in the Articles of Association, the Board of Directors may increase the capital to reduce the proportion of shares that exceed the foreign shareholding limit. In this case, new shares may be issued by restricting the preemptive rights of current shareholders, in accordance with Capital Markets Board regulations.

If the foreign shareholding limit is exceeded as set forth in this article, the authority to determine the method to be used to reduce shareholding percentages to the required level shall belong to the Board of Directors.

Grounds for the Article:
Grounds for the regulations in this article have been set down in the last paragraph of Article 7 of the Articles of Association. In the paragraph that follows, an additional explanation can be found concerning the regulations to which the Company is subject as an airline company.

a) According to Articles 31 and 49 of the Turkish Civil Aviation Law No. 2920, an airline company that cannot be qualified as Turkish cannot obtain an operating license. Even if such a company already holds an operating license, such license shall be cancelled if the company loses its qualification as being Turkish due to the shares of the airline being transferred, sold or because the majority of the Board of Directors is foreign, etc.

b) Flying from one country to another or having international air traffic rights require, according to bilateral air traffic treaties that must be signed by countries before they exercise these rights, that the majority ownership of the airlines be designated by the Turkish State and its control belongs to Turks (natural or legal persons), the Turkish nationality criterion is the sine qua non condition of being granted air traffic rights as set forth by bilateral air traffic agreements signed by the Company and other nations.

For this reason and since an airline company located in Turkey must have the majority of its shares or its effective control in the hands of Turkish citizens or companies in order to be granted traffic rights, and further since the loss of an airline company's Turkish identity (or its failure to prove that it has not lost its identity or in the event other bilateral-agreement countries cannot be brought to conclude that this is not the case) would mean that the airline company in question would lose its traffic rights, the nationality criterion is of major importance for an airline company.

For this reason, in order to secure Turkish Airlines' airline operations license and international air traffic rights, Article 6 of the Articles of Association contains a clause on foreign shareholding. For the same reason, a restriction based on the criterion of nationality has been placed on foreign shareholding as a means of protecting the company's traffic rights.

2- Article 7 of the Articles of Association
Share Transfer:
Share transfers are subject to the Turkish Commercial Code, to capital markets legislation and to civil aviation regulations.

In order for transfers of registered shares to be recognized by the Company, these must have been recorded in the share ledger. Before such a record is made in the share ledger, holders of registered shares must document their identities and nationalities and, if applicable, their foreign references as specified in Article 6, in the form specified by the Board of Directors.

If a share transfer is not recorded in the share ledger, the shareholder recognized by the Company shall be the individual whose name is indicated in the ledger.

The recording of share transfers in the share ledger shall be undertaken by a decision of the Board of Directors. The Board of Directors may refuse to record the transfer of a share in the share ledger due to the violation of the Articles of Association or the law or without specifying any reason.

As set forth in Article 6 above, share transfers that violate the share restrictions applicable to foreigners may not be recorded in the share ledger. The Board of Directors is obligated to refuse the recording of such share transfers in the ledger. Share transfers that are not recorded in the share ledger by the Board of Directors shall not be recognized by the Company and the party concerned shall not assume the status of a shareholder of the Company. The approval of a share transfer by the Board of Directors and the resolution to record the transfer in the share ledger requires the affirmative vote of the Board Member representing the Class C share.

Class C shares may be transferred to another Turkish State enterprise that enjoys the powers granted to the Privatization Administration by Law No. 4046. In the event such a transfer takes place, the transfer shall immediately be recorded in the share ledger without recourse to a Board decision.

The Board of Directors is obligated to restrict the transfer of shares to foreign parties in order to comply with the limitations stipulated in the civil aviation legislation and/or other applicable regulations and the Company's Articles of Association and to refrain from jeopardizing the traffic and cabotage rights of the Company.

8. Disclosure Policies

In addition to those required by law, the Company uses methods such as press releases and media to disclose non-confidential information to the public.

9. Material Disclosures

In accordance with the CMB's Communiqué on Material Disclosures to the Public Series VIII, No. 39, in addition to the disclosure of its financial statements and explanations on the financial statements during 2004 the Company has made 44 Material Disclosures. The CMB and the Istanbul Stock Exchange (ISE) have not requested any additional information on those disclosures. The Company has made every effort to make these material disclosures comprehensible, accurate, interpretable, complete and promptly available to investors and other related organizations. Since the Company has not failed to make a material disclosure on time, no sanction has been imposed by the CMB and the ISE. On the other hand, since the Company's shares are not traded on foreign stock exchanges, there have been no material disclosures made to such exchanges.

10. The Company's Website and its Contents

The Company's website at www.thy.com.tr contains a link to the Investor Relations page. An English version of the Investor Relations page is currently under development. The Investor Relations page contains information on the Company's shareholding structure, minutes of the General Meetings of the last two years, a sample Proxy Statement, Annual Reports, Financial Statements, the Board of Directors and Material Disclosures.

11. Announcement of Individuals Who Are Ultimate Controlling Shareholders

There are no individuals who are ultimate controlling shareholders.

12. Announcement of Persons Who Have Access to Inside Information

The Company's Board of Directors, Auditors, Assistant General Managers, Secretary-General, Investor Relations Manager, Press Consultant, Accounting Director, Finance Director, Investment Management Director, Promotion and Public Relations Director, as well as all personnel employed at these units and all other natural and legal persons who have access to information about the Company by virtue of their profession or activities have been prohibited from using this information for their own benefit or for the benefit of third parties.

13. Disclosures to Stakeholders

In addition to information required to be disclosed to the public by law and the material disclosures made in accordance with the CMB's Communiqué on Material Disclosures to the Public, Series VIII, No. 39, the Company has promptly made available information which could be of interest to stakeholders and the public, using appropriate means of communication.

14. Human Resources Policies

The Company has Human Resources Regulations in place that were drawn up by the Board of Directors and all procedures and communications concerning functional subdivisions and personnel are carried out in compliance with Labor Law No. 4857. On the other hand, Company personnel are members of a trade union and therefore the Company employs personnel under a Collective Work Agreement. All personnel issues and matters concerning the Collective Work Agreement are discussed in detail with trade union representatives as set forth in Article 34 of Law No. 2821 on Labor Unions. All employees receive training.

No complaints have been made by employees regarding discrimination.

15. Relations with Customers and Suppliers

Since the Company is an IATA member, ticket sales are subject to certain rules and regulations. In addition, forms for complaints and suggestions are made available to customers on board and at all airports and these are evaluated in an effort to improve customer satisfaction. Other efforts geared toward customer satisfaction include the practice of allowing an uncommitted and unfined 24-hour option for changes or cancellations on reservations made over phone, assistance provided to passengers with special needs or with disabilities, meeting basic passenger needs at times when flights are grounded during delays, taking the necessary measures to facilitate check-in. Customer satisfaction principles adopted by the Company in direct passenger relations form the basis of the agreements signed with agencies. Only agencies that comply with these principles are allowed to work with Turkish Airlines. Agencies that do not comply with the rules are issued the necessary warnings and the business relationship is terminated in the event of repeated violations.

The Company engages in the purchase of goods and services in accordance with the Purchasing/Sale Regulations that have been drawn up with the resolution of the Company's Board of Directors and revised regularly since 1952 as well as based on the relevant articles of Law No. 4734 on Public. The Company works with several suppliers, both domestic and international. Announcements for tenders for special purchases are announced in at least two newspapers published coutrywide within the timeframes set forth by law, and also announced on the websites www.kik.gov.tr and www.thy.com.tr.

16. Social Responsibility

The Company continued to operate by its service quality and social responsibility philosophy, keeping its leading position both in the country and abroad. No lawsuits have been filed against the Company accusing on environmental damage.

17. Structure of the Board of Directors, its Formation and Independent Members

The Board of Directors is comprised of seven members elected by the General Assembly. Six Board Members are required to be elected from among the candidates receiving the highest number of votes in the election held by Class A shareholders. The other member is nominated by the Class C shareholder. At least five Board Members, including the Board Member representing the Class C share, must be Turkish citizens. The term of office of Board members is two years. The General Assembly may terminate the membership of a Board Member before the end of his/her term. Board Members whose term has expired may be reelected.

Current Board Members:
Candan KARLITEKİN
Chairman
Abdurrahman GÜNDOĞDU
Vice-Chairman and General Manager
Hamdi TOPÇU
Member
Atilla ÖKSÜZ
Member
Prof. Dr. Cemal ŞANLI
Member
Prof. Dr. Oğuz BORAT
Member
Mehmet BÜYÜKEKŞİ
Member

18. Qualifications of Board Members

The criteria for Board membership are specified in Article 11 of the Company's Articles of Association. In addition, Article 4/I of Law No. 4046 stipulates that in organizations to be privatized, Board Members shall be graduates of four-year higher education programs. Care is taken to comply with the provisions of Articles 3.1.1, 3.1.2 and 3.1.5 of Section IV of the Corporate Governance Principles concerning the appointment of Board Members. Qualifications of the Company's Board Members are in keeping with these articles. Article 11 and Provisional Article 1/c of the Articles of Association are quoted below.

Article 11
Persons to be elected on the Board shall not have been placed under legal restraint; a Company where they owned an interest or worked as a manager shall not have been declared bankrupt or insolvent; they shall be a shareholder of the Company and shall not have been convicted of an infamous crime or any other crime specified in the Civil Aviation Law. If a member who is not a shareholder is elected, that individual may only assume duties after having become a shareholder.

The General Meeting may grant permission in the cases defined in Articles 334 and 335 of the Turkish Commercial Code.

Board Members representing Class C shares and at least five members must be Turkish citizens.

Provisional Article 1/c
Except for the provisions of Paragraph d below concerning elections to be held among candidates nominated by Class A shareholders, according to Law No. 4046, the Chairman of the Board of Directors, Board Members, Auditors and the General Manager shall be appointed upon the proposal of the Privatization Administration or the approval of the authorized Minister. This is on the provision that they can satisfy the conditions set forth in the Law and as long as the state's interest in the Company does not fall below 50%.

19. Mission, Vision and Strategic Targets

The Board of Directors shall approve the strategic targets set down by the management and continuously and effectively monitor these targets, the activities of the Company and past performance. In doing this, the Board shall make an effort to ensure compliance with international standards and wherever necessary, take action before problems arise. The mission of the Company as it appears in Article 3 of the Articles of Association is indicated below:

a) To strengthen the Company's position as a global airline company by expanding its longdistance flight network,

b) To position the Company as a technical services provider by transforming its maintenance unit into a leading maintenance base in the region,

c) To promote the Company's identity as a service provider in all areas of strategic civil aviation, including handling and flight training,

d) To maintain the Company's leading position in domestic air transportation,

e) To provide non-stop, high-quality air transportation services by collaborating with a global airline alliance that complements its network in order to further improve the Company's image abroad and to increase marketing opportunities, and

f) To make Istanbul an important hub.

20. Risk Management and Internal Control

The Company has in place an internal control mechanism that is implemented by the relevant units. Matters such as whether or not employees or agencies have correctly priced the tickets they have sold, whether the accounting records of foreign offices have been kept in compliance with the Company's regulations, whether tax obligations have been fulfilled correctly and promptly are all matters dealt with in this scope. The Company makes every effort to ensure that all records are accurate according to Company regulations and directives. The Company is, in addition, subject to annual inspections by the Prime Ministry's Supreme Inspection Board.

The Company is furthermore being audited by three auditors elected by the General Assembly:
İsmail GERÇEK
Auditor
Dr. Hasan GÜL
Auditor
Prof. Dr. Ateş VURAN
Auditor

Two auditors shall be elected from among Class A shareholders and one auditor shall be the candidate nominated by the Class C shareholder. The term of office of auditors is one year. An auditor whose term has expired may be reelected.

Class A auditors shall be determined in the following manner:

a) In the event the proportion of publicly traded shares is 35% or above, the rights granted to Class A shareholders to elect two auditors shall belong to shareholders holding publicly-traded Class A shares.

b) Shareholders holding publicly traded Class A shares may nominate a candidate for Board of Auditors membership, provided they represent at least 2% of the total increased capital by attending the General Meeting in which Board of Directors elections were held. Only publicly traded Class A shares shall be considered in the calculation of this 2%. Shareholders holding publicly traded Class A shares shall determine their candidates for Board of Auditors membership at a meeting they shall hold among themselves. The right to nominate a candidate at this meeting shall belong to the holders of Class A shares that are publicly traded but not owned by the state. In the event holders of publicly traded Class A shares do not represent 2% at the General Meeting, these shareholders' rights to nominate candidates for Board of Auditors membership shall be exercised by those shareholders holding Class A shares that are not publicly traded, in accordance with the Turkish Commercial Code and Capital Markets Board Regulations.

c) In the event of a vacancy on the Board of Auditors due to the death, resignation or dismissal of one of its members or otherwise, the vacant position shall be filled by means of an election to be held by the Board of Auditors in accordance with Article 351 of the Turkish Commercial Code. If the holders of publicly traded Class A shares have not nominated a candidate for the vacant position on the Board of Auditors, the right to nominate a candidate shall belong to the Class C Shareholder. If the Class C share has been converted into a Class A share, then the right to nominate shall belong to the shareholders holding Class A shares that are not publicly traded. In such an election carried out to fill the position vacated by the candidate nominated by shareholders holding publicly traded Class A shares, the percentages of 15%, 35% and 2% mentioned in paragraphs a, b and c shall not be taken into consideration.

d) In the event these Articles of Association are later amended or new share classes are created, paragraphs a and b above defining the right of shareholders holding publicly traded Class A shares to determine two auditors shall not be annulled or modified, unless such modification has been approved by shareholders representing 65% of the capital. The duties of the Auditors are to examine the Company's general transactions and budget and to assume the responsibilities stipulated in the Turkish Commercial Code. Auditors are authorized and have the responsibility to submit proposals to the Board of Directors to ensure that the Company is managed efficiently and its interests are protected, call for a general meeting in the event of vital and urgent matters, determine the agenda of such meeting and draw up the report specified in Article 354 of the Turkish Commercial Code. Auditors are responsible for fulfilling the duties assigned to them by law and the Articles of Association in a satisfactory manner.

21. Responsibilities of Board Members and Managers

Article 15 of the Articles of Association defines the power and responsibilities of the Board of Directors and Article 19 defines the power and responsibilities of the General Manager.

Article 15: The Board of Directors represents and manages the Company. The Board of Directors is responsible for all tasks that are not assigned to the General Meeting by law and the Articles of Association and is granted all authority these duties necessitate.

As per Article 319 of the Turkish Commercial Code, the Board of Directors may assign all or part of its management and representation powers to one or more of its members, to a general manager, assistant general manager, a manager or managers who are not members of the Board, or may form executive committees from among Board Members or non-members to exercise its powers and fulfill its duties.

Authority in matters for which Class C is granted special privileges however, may not be assigned by the Board of Directors.

All financial and other information needed for the Board of Directors to fulfill its duties as well as Board proposals and attachments shall be promptly submitted.

Article 19: The duties and powers of the General Manager shall be determined by the Board of Directors. The General Manager is required to be diligent in fulfilling his/her duties and shall be held responsible for any behavior to the contrary.

22. Activities of the Board of Directors

The activities of the Company's Board of Directors have been specified in Article 14 of the Articles of Association.

The Board of Directors shall meet whenever necessary and at least once a month. The meeting venue will be at Company headquarters; other venues may be chosen by a Board decision.

Matters to be discussed at Board meetings shall be specified in an agenda that will be communicated to Board Members prior to the meeting. Invitations to Board meetings shall be made at least three days before the actual meeting.

The quorum for Board meetings is five members. Board decisions shall be taken with the affirmative vote of at least four members. A member who has failed to attend four consecutive Board meetings without a valid excuse or has not participated in six meetings over the course of a year shall be considered to have resigned.

Unless one of the members has asked for a meeting, Board decisions may also be taken upon the proposal of one of the members regarding a specific issue and with the written approval of all members. The validity of Board decisions is subject to their having been put in writing and signed. Lack of the quorum for a decision on any issue shall be taken to mean that the proposal in question has been rejected.

The validity of the decisions to be taken by the Board of Directors on the following matters requires the presence and affirmative vote of the Board Member representing Class C shares at the meeting during which the decision was taken.

- Decisions that would clearly and adversely affect the Company's mission, as set out in Article 3.1 of the Articles of Association;
- Proposals made to the General Meeting for an amendment to the Articles of Association;
- Capital increases;
- Approval of the transfer of registered shares and the recording of this in the share ledger;
- All transactions and decisions concerning direct or indirect commitments on behalf of the Company for more than 5% of the total assets appearing in the last year's financial statement submitted by the Company to the Capital Markets Board per each contract (this provision shall be automatically annulled when state-owned shares fall below 20% of the Company's capital);
- The merger of the Company with other companies, its termination or liquidation;
- With the exception of those destinations exclusively affected by market conditions or those that cannot cover operational costs with other resources, decisions concerning the termination of a destination or a significant reduction in the number of flights.

The privileges of the Class C share may only be restricted by the Supreme Privatization Board or a state agency that has taken over its duties.

In 2004, the Board held 44 meetings and made 278 decisions. The validity of Board decisions is subject to their having been written up and signed. The organization and communication of Board activities, the determination of the number of Board meetings, the following up of proposals made to the Board and the drawing up of agendas are all duties of the General Secretariat.

23. Prohibition to Deal and Compete with the Company

During the reporting period, Board Members were prohibited from dealing and competing with the Company in accordance with Articles 334 and 335 of the Turkish Commercial Code. In addition to these prohibitions, there are also rules set out in Section 11 of THY's Human Resources Regulations No. 07-001 prohibiting Company personnel from providing services to other organizations.

24. Rules of Ethics

The Company is committed to the following Rules of Ethics:

- To act in accordance with obligations specified in national and international regulations and with all agreements to which the Company is a party.
- To be diligent and to act responsibly while representing the Company vis-à-vis third parties.
- To fulfill duties in the best manner within the framework of the powers and responsibilities specified in the job description.
- To honor principles of confidentiality regarding sensitive information.
- To make every effort to put to good use the Company's assets and resources.
- To make every effort to protect shareholders' rights and interests.
- To record and safeguard all information, documentation and files in an orderly and complete manner.
- To act appropriately toward Company customers - passengers, first and foremost - but all customers in general. In addition to adherence to these rules, to refrain from impolite and ineffectual behavior and to remind others of this responsibility when necessary.
- To report mistakes made during the performance of duties to the appropriate offices, to take measures to prevent repetition of these errors.
- To work in accordance with the objectives and strategies of the relevant department and to make all efforts to help the Company reach its targets and achieve its vision.
- To refuse any material benefit during the course of activities and to refrain from prioritizing any person or organization.
- To create a fair and safe work environment.
- To act in accordance with the rules of domestic and international competition.
- To support persons who are in charge of inspection, to provide the necessary means and assistance in their work.
- To be honest and trustworthy and meticulous in preserving moral values.

25. Board Committees

The Board of Directors' Financial Audit Committee is comprised of Mr. Hamdi TOPÇU and Mr. Atilla ÖKSÜZ, and the Corporate Governance Committee of Mr. Mehmet BÜYÜKEKŞİ and Mr. Cemal SANLI.

26. Salary Paid to Board Members

Board Member salary is determined at the General Assembly. Board Members cannot receive any type of loans from the Company.

FINANCIAL REVIEW

Profit / Loss (YTL)
According to IFRS, at December 31, 2004 prices

	01.01.2004 31.12.2004 (As restated)	01.01.2003 31.12.2003	01.01.2002 31.12.2002	01.01.2001 31.12.2001	01.01.2000 31.12.2000
Operating Revenues	2,793,385,946	2,845,770,616	3,358,901,998	3,496,726,146	3,500,017,805
Operating Expenses	(2,650,837,500)	(2,475,654,844)	(2,922,973,059)	(3,608,982,541)	(3,827,919,613)
Main Operating Profit	142,548,446	370,115,772	435,928,938	(112,256,395)	(327,901,808)
Income from Other Operations	59,213,081	102,397,690	49,747,854	252,307,050	126,514,914
Loss from Other Operations	(15,867,495)	(12,160,118)	(9,278,601)	(50,412,456)	(34,341,777)
Operating Income	185,894,032	460,353,344	476,398,191	89,638,199	(235,728,670)
Financial Income (Loss) / (Net)	37,192,438	295,683,927	(499,601,373)	(2,580,022,595)	(824,567,457)
Monetary Gain (Loss) / (Net)	(113,210,018)	(429,034,781)	545,448,139	2,206,529,843	913,444,977
Profit / (Loss) Before Taxation	109,876,452	327,002,490	522,244,957	(283,854,553)	(146,851,150)
Taxation Charge	(2,818,011)	(83,543,920)	(126,633,476)	63,532,545	3,288,152
Net Profit / (Loss)	107,058,441	243,458,570	395,611,481	(220,322,008)	(143,562,999)
Minority Shares	-	-	-	-	6,823,335
Net Profit / (Loss)	107,058,441	243,458,570	395,611,481	(220,322,008)	(136,739,664)

Profit / Loss (YTL)
According to the Uniform Accounting System

	01.01.2004 31.12.2004 (As restated)	01.01.2003 31.12.2003	01.01.2002 31.12.2002	01.01.2001 31.12.2001	01.01.2000 31.12.2000
Operating Revenues	2,643,173,007	2,390,842,395	2,171,619,433	1,665,236,226	959,662,893
Operating Expenses	(2,572,894,320)	(2,208,871,203)	(2,152,412,536)	(1,837,236,504)	(1,087,205,111)
Main Operating Profit	70,278,688	181,971,192	19,206,896	(172,000,278)	(127,542,218)
Income from Other Operations	251,292,273	260,294,470	196,467,307	159,125,631	35,728,573
Loss from Other Operations	(219,860,772)	(223,934,191)	(131,755,070)	(31,845,838)	(8,719,398)
Financial Expenses	(6,183,398)	(2,223,214)	(249,208)	(21,417,159)	(11,957,025)
Ordinary Profit (Loss)	95,526,791	216,108,257	83,669,926	(66,137,644)	(112,490,068)
Extraordinary Revenue	22,614,842	45,769,987	24,093,063	111,054,387	61,312,556
Extraordinary Expenses	(6,122,586)	(9,368,673)	(7,961,281)	(24,973,439)	(12,856,882)
Monetary Gain / (Loss)	(51,705,511)	-	-	-	-
Taxation Charge	-	(78,990,691)	(32,398,092)	-	-
Net Profit (Loss)	60,313,536	173,518,880	67,403,616	19,943,304	(64,034,394)
Year-End Exchange Rate (1 US$)	1.3421	1.3958	1.6345	1.4396	0.6718
Average Exchange Rate (1 US$)	1.4223	1.4953	1.5046	1.2228	0.6059

Note: Financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) have been prepared in accordance with the regulations of the Capital Market Law. These statements constitute the basis for the financial results to be publicly announced at the Istanbul Stock Exchange.

Financial statements prepared in accordance with the Uniform Accounting System have been prepared in accordance with the regulations of the Turkish Commercial Code and the Tax Procedure Law, taking as their basis the organization's statutory books.

CAPITAL REVIEW

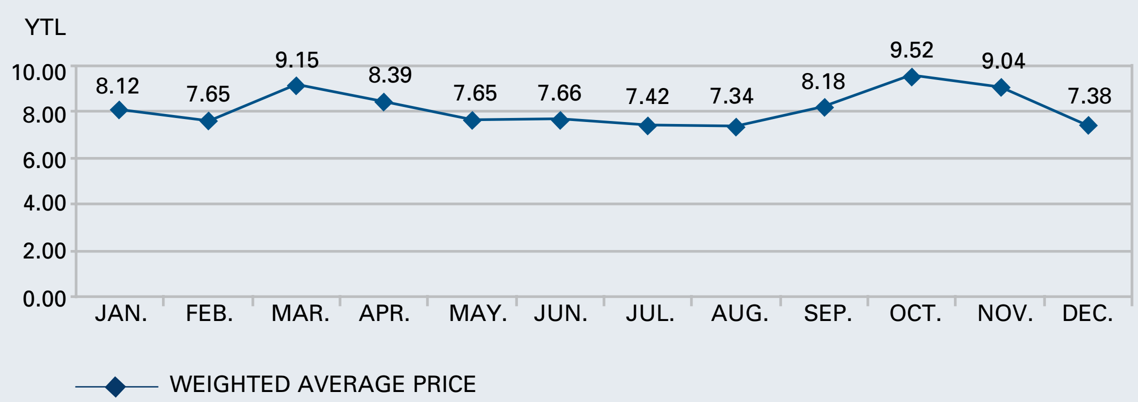
In accordance with the Capital Markets Board's decision of October 26, 1990, No. 815, the Company adopted the "registered capital" system with a maximum capital of YTL 700 million. Public Housing and Public Participation Administration of Turkey acquired an interest in the Company as per the Supreme Planning Board's decision of July 17, 1989, No. 89/12. The Company was later made subject to Law No. 4046 on the Organization of Privatization Efforts and the Amendment of Certain Decree Laws, put into effect through publication in the Official Gazette dated November 27, 1994, No. 22124, and placed under the control of the Republic of Turkey Prime Ministry Privatization Administration (TPA).

The Company offered to the public 23% of its shares held by the TPA, making a preliminary call between November 17 – 24, 2004 and a final call between December 1 – 3, 2004. In this second public offering, the TPA's share in the Company fell from 98.17% to 75.17%.

As of December 31, 2004, the Company's registered capital was YTL 500 million. On the same date, its issued and paid-in capital was YTL 175 million, made up of 174,999,999,999 Class A shares and one Class C share, each having a nominal value of YTL 0.001.

	Group	%	December 31, 2004	%	December 31, 2003
Republic of Turkey Prime Ministry Privatization Administration	A, C	75.17	131,538,948	98.17	171,788,948
Others	A	24.83	43,461,052	1.83	3,211,052
Share Capital (historic)			175,000,000		175,000,000
Restatement Effect			1,739,005,871		1,739,005,871
Indexed Capital		**100.00**	**1,914,005,871**	**100.00**	**1,914,005,871**

Change in the Company's share price in 2004:



AFFILIATES AND SUBSIDIARIES

Name of the Company	Place of Incorporation and Operation	Propartion of Ownership Interest	Propartion of Voting Power Held	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Air transport
Emek İnşaat ve İşletme A.Ş.	Turkey	0.3%	%30	Construction
Sita Inc.	Holland	Less than 0.1%	Equal to shares	Information and telecommunication services
Uçak Servisi A.Ş. (USAŞ)	Turkey	6.5%	6.5%	Catering
France Telecom	France	Less than 0.1%	Equal to shares	Telecommunications

DIVIDENDS FROM AFFILIATES & SUBSIDIARIES YTL	2004	2003
Uçak Servisi A.Ş. (USAŞ)	185,134	1,757,880
Emek İnşaat ve İşletme A.Ş.	6,137	1,537
Güneş Ekspres Havacılık A.Ş.	3,966,833	-

GÜNEŞ EKSPRES HAVACILIK A.Ş.

An airline company operating in the charter segment for tourists. The other major shareholder of the Company is Condor Flugdienst GmbH who owns a 50% interest.

UÇAK SERVİSİ A.Ş. (USAŞ)

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 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 share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1.25% of shares was transferred on 2 January 2003 and 1.25% of shares were transferred on 2 January 2004 and it will be completed to 15% by transferring the ownership of each 1.25% share in the years 2005 and 2006. Consequently, 712,5 million shares corresponding to first 12.5% of share of USAŞ's share capital, which was transferred to the Company, was recorded to "financial assets" and "deferred income" accounts at market value of YTL 16,853,544. "Deferred income" amount is 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 Market in 2003.

USAŞ distributed 1,852,500,000 of free shares to the Company based on the decision of General Assembly held on 8 December 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement.

FOREIGN CURRENCY INFLOW

The Company has received the gold plaque every year since 1994 in the "Best Exporters Awards" of the Istanbul Chamber of Commerce, a competition organized to encourage exporters. The winners for 2004 are expected to be announced in 2005.

Istanbul Chamber of Commerce Awards take into account the amount of foreign currency brought into Turkey and converted into Turkish Lira during the relevant year.

In 2004, the Company brought US$ 1.2 billion into Turkey and converted this into TL.

The amounts of foreign currency the Company brought into Turkey and converted into TL are as follows:

FC REVENUE YEAR	FC INFLOW (US$ Millions)	RANKING	AWARD
1994	676	1.	GOLD PLAQUE
1995	707	1.	GOLD PLAQUE
1996	816	1.	GOLD PLAQUE
1997	820	1.	GOLD PLAQUE
1998	806	1.	GOLD PLAQUE
1999	975	1.	GOLD PLAQUE
2000	938	1.	GOLD PLAQUE
2001	901	1.	GOLD PLAQUE
2002	858	2.	GOLD PLAQUE
2003	1,018	2.	GOLD PLAQUE

IFRS-COMPLIANT FINANCIAL RATIOS

	2004	2003
LIQUIDITY RATIOS		
CURRENT RATIO (CURRENT ASSETS / SHORT-TERM DEBT)	0.93	1.20
ACID-TEST RATIO ((CURRENT ASSETS - STOCK – PREPAID TAXES - OTHER ASSETS) / SHORT-TERM DEBT)	0.72	1.06
CASH RATIO (LIQUID ASSETS / SHORT-TERM DEBT)	0.50	0.90
FINANCIAL STRUCTURE RATIOS		
SHAREHOLDERS' EQUITY / TOTAL ASSETS RATIO	0.38	0.30
SHAREHOLDERS' EQUITY / TOTAL DEBT RATIO (SHAREHOLDERS' EQUITY / (SHORT-TERM DEBT+LONG-TERM DEBT))	0.60	0.43
LEVERAGE RATIOS		
LEVERAGE RATIO (TOTAL DEBT / TOTAL ASSETS)	0.62	0.70
LONG-TERM DEBT / SHAREHOLDERS' EQUITY	1.00	1.51
INTEREST PAYMENT CAPACITY ((FIN. EXP., M. GAIN AND PRE-TAX PROFIT) / INTEREST EXPENSES)	3.82	6.07
DEBT COVERAGE RATIO (EBITDAR / (INTEREST EXPENSES + FINANCIAL LEASING PRINCIPAL REPAYMENT))	1.85	2.10
TURNOVER RATES (DAILY)		
AVERAGE COLLECTION PERIOD OF RECEIVABLES = ((SHORT-TERM RECEIVABLES * 360) / OPERATING REVENUE)	21	17
AVERAGE PAYMENT PERIOD OF COMMERCIAL DEBTS = ((COMMERCIAL DEBT * 360) / OPERATING EXPENSES)	28	31
PROFIT RATIOS		
NET PROFIT MARGIN (NET PROFIT / OPERATING REVENUE)	3.83%	8.56%
ASSET PROFITABILITY RATIO (NET PROFIT / TOTAL ASSETS)	3.63%	7.26%
SHAREHOLDERS' EQUITY PROFITABILITY RATIO (NET PROFIT / SHAREHOLDERS' EQUITY)	9.64%	24.27%
INCREASE / (DECREASE) IN OPERATING REVENUE	(1.84)%	(15.28)%
INCREASE / (DECREASE) IN OPERATING INCOME	(59.62)%	(3.37)%
EBITDAR MARGIN ((OPERATING INCOME FROM MAIN ACTIVITIES + OPERATIONS NOT REQUIRING OUTLAYS + RENT EXPENSE) / OPERATING REVENUE)	19.94%	27.93%

BALANCE SHEET AND INCOME STATEMENT ACCORDING TO TREND RATIOS (IFRS)

Balance Sheets
as at 31 December 2004 and 2003

BALANCE SHEET ITEMS	Dec. 31, 2004	Dec. 31, 2003
ASSETS		
Cash and Cash Equivalents	49%	100%
Accounts Receivable (Net)	118%	100%
Due From Related Parties (Short-Term)	602%	100%
Inventories	124%	100%
Prepaid Tax	100%	-
Other Receivables and Current Assets	61%	100%
Total Current Assets	**69%**	**100%**
Due From Related Parties (Long-Term)	-	100%
Investments at Equity	206%	100%
Financial Assets Available-for-sale	149%	100%
Fixed Assets (Net)	81%	100%
Advances Given for Aircraft	4319%	100%
Other Long-Term Receivables and Assets	76%	100%
Total Non-Current Assets	**96%**	**100%**
Total Assets	**88%**	**100%**

BALANCE SHEET ITEMS	Dec. 31, 2004	Dec. 31, 2003
LIABILITIES		
Bank Borrowings	100%	-
Short-Term Portion of Finance Lease Obligations	73%	100%
Accounts Payable	97%	100%
Due to Related Parties	106%	100%
Other Short-Term Payables	67%	100%
Deposits and Advances Received	61%	100%
Passenger Flight Liabilities	145%	100%
Other Accrued Liabilities	78%	100%
Provision for Corporate Tax	-	100%
Total Current Liabilities	**87%**	**100%**
Long-Term Portion of Finance Lease Obligations	70%	100%
Manufacturers' Credit (Net)	49%	100%
Long-Term Deferred Tax Liabilities	94%	100%
Retirement Pay Liability	114%	100%
Other Long-Term Payables	58%	100%
Total Non-Current Liabilities	**73%**	**100%**
SHAREHOLDERS' EQUITY		
Share Capital	100%	100%
Reserves	100%	100%
Share Premium	100%	100%
Accumulated Losses	89%	100%
Total Shareholders' Equity	**107%**	**100%**
Total Shareholders' Equity and Liabilities	**88%**	**100%**

INCOME STATEMENT ITEMS	01.01.2004 31.12.2004	01.01.2003 31.12.2003
Operating Revenues	98%	100%
Operating Expenses	107%	100%
Main Operating Profit	39%	100%
Income From Other Operations	58%	100%
Loss From Other Operations	130%	100%
Operating Income	40%	100%
Financial Income (Net)	13%	100%
Monetary Loss (Net)	26%	100%
Profit Before Taxation	34%	100%
Taxation Charge	3%	100%
Net Profit	44%	100%
Basic Earnings Per Share (YTL in full)	43%	100%

TURKISH AIRLINES INC.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 31 DECEMBER 2004

Translated into English from the Original Turkish Report

Deloitte.

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INDEPENDENT AUDITORS' 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 2004, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 31 December 2004. 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 audit 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 provides 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 2004 the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

4. In accordance with a written opinion dated 2 May 2005, received from Turkish Republic Ministry of Finance, the Company has reached to a conclusion that the Company can utilize tentative clause of Article 33 of the Corporate Tax Law which states that "the companies' profits arising from operations of their foreign offices or permanent representative offices between the effective date of this law which is 31 July 2004 and 31 December 2004 are exempt from corporate tax provided that these profits have been transferred to Turkey until 30 June 2005". Hence, the Company in its corporate tax declaration dated 2 May 2005, deducted the profits of YTL 81,776,853 arising from sales of its foreign offices from its taxable profit for the year ended 31 December 2004. Accordingly, corporate tax amount of the Company which was declared to the public on financial statements for the year ended 31 December 2004 dated 1 April 2005 prepared in accordance with IFRS was changed and the Company's management decided to restate the financial statements for the year ended 31 December 2004. As a result of the deduction explained above the Company's previously reported corporate tax provision of YTL 23,424,559 decreased to zero and unused tax losses became YTL 16,296,468. Furthermore, investment incentives of YTL 36,212,727 which was used as a deduction in the calculation of the taxable profit in previously reported financial statements were transferred to future period to be used as a deduction from future profits. As a result of unused tax losses and investment incentives, deferred tax liability and deferred tax charge also decreased by YTL 8,593,151 compared to previously reported amounts. Consequently, net profit for the year ended 31 December 2004 increased by YTL 32,017,710 to YTL 107,058,441 due to changes explained above.

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

Selçuk Ürkmez, Partner
Istanbul, 1 April 2005
(13 May 2005 as to explanatory paragraph 4 above)

Balance Sheets
as at 31 December 2004 and 2003 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

	Note	31 December 2004 (As restated)	31 December 2003
ASSETS			
Cash and cash equivalents	5	365,637,483	751,131,264
Accounts receivable (net)	6	158,585,050	134,491,305
Due from related parties (short-term)	7	812,921	134,972
Inventories	8	64,513,843	52,159,312
Prepaid Tax	21	51,305,913	-
Other receivables and current assets	9	36,461,857	60,143,614
Total current assets		**677,317,067**	**998,060,467**
Due from related parties (long-term)	7	-	59,598,705
Investments at equity	10	16,706,000	8,090,626
Financial assets available-for-sale	10	25,930,073	17,415,840
Fixed assets (net)	11	1,817,940,184	2,244,748,556
Advances given for aircraft	12	396,911,822	9,189,154
Other long-term receivables and assets	13	13,347,328	17,593,961
Total non-current assets		**2,270,835,407**	**2,356,636,842**
Total assets		**2,948,152,474**	**3,354,697,309**

The accompanying notes form an integral part of these financial statements

Balance Sheets
as at 31 December 2004 and 2003 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

	Note	31 December 2004 (As restated)	31 December 2003
LIABILITIES			
Bank borrowings	14	281,244	-
Short-term portion of finance lease obligations	15	202,712,254	277,446,906
Accounts payable		197,986,014	204,868,911
Due to related parties	16	6,508,221	6,113,740
Other short-term payables	17	38,011,021	56,726,828
Deposits and advances received	18	38,871,227	63,572,464
Passenger flight liabilities	19	185,163,044	127,712,929
Other accrued liabilities	20	58,505,296	75,239,242
Provision for corporate tax	21	-	21,928,409
Total current liabilities		**728,038,321**	**833,609,429**
Long-term portion of finance lease obligations	15	957,728,732	1,367,717,701
Manufacturers' credit (net)	22	2,391,220	4,838,733
Long-term deferred tax liabilities	21	46,484,742	49,710,306
Retirement pay liability	23	99,777,377	89,528,586
Other long-term payables	17	3,618,326	6,237,239
Total non-current liabilities		**1,110,000,397**	**1,518,032,565**
SHAREHOLDERS' EQUITY			
Share capital	24	1,914,005,871	1,914,005,871
Reserves		141,160,920	141,160,920
Share premium		895,492	895,492
Accumulated losses		(945,948,527)	(1,053,006,968)
Total shareholders' equity		**1,110,113,756**	**1,003,055,315**
Total liabilities and shareholders' equity		**2,948,152,474**	**3,354,697,309**

The accompanying notes form an integral part of these financial statements

Statements of Income for the Years Ended 31 December 2004 and 2003 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

	Note	31 December 2004 (As restated)	31 December 2003
Operating revenues	29,34	2,793,385,946	2,845,770,616
Operating expenses	30,34	(2,650,837,500)	(2,475,654,844)
MAIN OPERATING PROFIT		**142,548,446**	**370,115,772**
Income from other operations	32,34	59,213,081	102,397,690
Loss from other operations	33	(15,867,495)	(12,160,118)
OPERATING INCOME		**185,894,032**	**460,353,344**
Financial income (net)		37,192,438	295,683,927
Monetary loss (net)		(113,210,018)	(429,034,781)
PROFIT BEFORE TAXATION		**109,876,452**	**327,002,490**
Taxation charge	21	(2,818,011)	(83,543,920)
NET PROFIT		**107,058,441**	**243,458,570**
BASIC EARNINGS PER SHARE (YTL in full)	**3.16**	**0.0006**	**0.0014**

The accompanying notes form an integral part of these financial statements

Statements of Changes in Shareholders' Equity for the Years Ended 31 December 2004 and 2003 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

	Share Capital	Reserves	Share Premium	Accumulated Losses	Total
Balances at 31 December 2002	1,914,005,871	141,160,920	895,492	(1,296,465,538)	759,596,745
Profit for the year	-	-	-	243,458,570	243,458,570
Balances at 31 December 2003	**1,914,005,871**	**141,160,920**	**895,492**	**(1,053,006,968)**	**1,003,055,315**
Profit for the year (As restated)	-	-	-	107,058,441	107,058,441
Balances at 31 December 2004	**1,914,005,871**	**141,160,920**	**895,492**	**(945,948,527)**	**1,110,113,756**

The accompanying notes form an integral part of these financial statements

Statements of Cash Flows for the Years Ended 31 December 2004 and 2003 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit prior to taxation	109,876,452	327,002,490
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	300,451,836	314,364,838
Provision for retirement pay liability	16,585,532	11,417,305
Interest income	(42,256,159)	(44,924,622)
(Gain) / loss on fixed asset sales	(44,922)	162,455
Monetary gain on deferred taxes liabilities	(6,043,575)	(7,820,234)
Impairment loss	(22,249,212)	(67,689,398)
Income from financial investment accounted per equity method	(12,846,679)	(3,113,565)
Interest expense	46,672,237	66,810,242
Movement in manufacturers' credit	(2,447,513)	(4,295,927)
Foreign exchange loss on finance leases (net of monetary gain)	30,920,326	88,844,373
Provision for diminution in value of financial assets available-for-sale	(7,006,906)	(4,078,264)
Amortizaton of deferred income from USAŞ share transfer	(1,499,120)	(3,118,618)
Decrease in provision for doubtful receivable	(5,269,940)	(5,934,305)
Operating profit before working capital changes	**404,842,357**	**667,626,770**
(Increase) / Decrease in trade receivables	(18,823,805)	29,781,548
(Increase) / Decrease in due from related parties	(677,949)	(9,505,109)
(Increase) / Decrease in inventories	(12,354,531)	16,248,934
(Increase) / Decrease in other receivables and short-term assets	23,681,757	8,590,882
(Increase) / Decrease in other long-term receivables and assets	63,845,338	4,918,392
Increase / (Decrease) in trade payables	(6,882,897)	4,842,143
Increase / (Decrease) in due to related parties	394,481	(852,552)
Increase / (Decrease) in other short and long-term payables	(38,068,666)	(15,869,846)
Increase / (Decrease) in deposits and advances received	(24,701,237)	(5,353,171)
Increase / (Decrease) in passenger flight liabilities	57,450,115	18,991,311
Cash generated from operations	**448,704,963**	**719,419,302**
Retirement benefits paid	(6,336,741)	(21,406,261)
Interest paid	(48,679,413)	(75,899,455)
Income taxes paid	(73,234,322)	(56,926,817)
Net cash provided by operating activities	**320,454,487**	**565,186,769**
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets held for trading	-	4,993,923
Cash inflow from sale of financial assets	-	6,242,754
Increase in financial assets	(8,207)	-
Dividend received from financial investment accounted per equity method	4,231,305	-
Cash proceeds from sale of fixed assets	6,392,004	23,723,413
Interest received	42,256,159	44,924,622
Acquisition of fixed assets	(118,563,959)	(71,656,714)
Advances given for aircraft	(387,722,668)	20,588,149
Net cash (used in) / provided by investing activities	**(453,415,366)**	**28,816,147**
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment of finance leases	(252,814,146)	(302,387,862)
Changes in bank borrowings	281,244	(963,710)
NET CASH USED IN FINANCING ACTIVITIES	**(252,532,902)**	**(303,351,572)**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(385,493,781)**	**290,651,344**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**751,131,264**	**460,479,920**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**365,637,483**	**751,131,264**

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

1. THE COMPANY'S ORGANIZATION AND OPERATIONS

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

As of 31 December 2004, the shareholders and their respective shareholdings in the Company were as follows:

Republic of Turkey Prime Ministry Privatization Administration	75.17%
Others	24.83%
Total	**100.00%**

The total number of employees working for the Company as of 31 December 2004 is 10,956 (31 December 2003: 10,239). The average number of employees working for the Company in 2004 and 2003 is 10,341 and 10,683, 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 International Accounting Standards "IAS"). The bases 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 promulgated by Turkish Commercial Code (the "TCC"), Capital Market Board of Turkey ("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 Turkish Lira, for the purpose of fair presentation in accordance with IFRS.

On 15 November 2003, Capital Market Board ("CMB") published Communiqué No: 25 of Series XI, "Communiqué on Accounting Standards in Capital Markets". 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 in accordance with IFRS starting from the year ended 31 December 2003. Furthermore, on 23 December 2004, CMB published Communiqué No: 27 of Series XI, "Communiqué on Changes Made in Communiqué on Accounting Standards in Capital Markets" which adds temporary clause No: 1 to Communiqué No: 25 of Series XI. In accordance with this article, preparing and publishing the financial statements and reports in accordance with International Financial Reporting Standards is in compliance with the financial statements preparation and publishing regulations anticipated in Communiqué No: 25 of Series XI.

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".

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

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

The basis of the financial statements used in the preparation of the accompanying financial statements are set out below and in Note 3.

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, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 69.7% for the three years ended 31 December 2004 based on the wholesale price index announced by the Turkish State Institute of Statistics.

Although the three year cumulative inflation rate was below the rate indicated in the preceding paragraph, since majority of the people keep their savings in foreign currencies, the prices of services and goods are set in terms of foreign currencies, interest rates and wages are expressed in terms of the inflation indexes, and the market prices are determined taking into account the losses due to the credit sales including the short-term transactions, the economy shows the characteristics of a hyperinflationary environment and therefore the accompanying financial statements were inflation adjusted.

The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price indices ("WPI") announced by the State Institute of Statistics (with the index beginning in 1994 at 100). Such indices and the conversion factors used to restate the accompanying financial statements as at 31 December 2004 are given below:

	Index	Conversion Factor
31 December 2001	4,951.7	1.6972
31 December 2002	6,478.8	1.2971
31 December 2003	7,382.1	1.1384
31 December 2004	8,403.8	1.0000

The comparison of the periodical change of the value of TL against the US Dollar with the Turkish countrywide WPI is set out below:

Years	2004	2003	2002	2001	2000
Currency devaluation US Dollar	(3.8)%	(14.6)%	13.5%	114.3%	24.4%
WPI inflation	13.8%	13.9%	30.8%	88.6%	32.7%

As at 31 December 2004, the exchange rate announced by the Turkish Central Bank (which is a market rate) was YTL 1,3421 = US Dollar 1 (31 December 2003: YTL 1,3958=US Dollar 1).

The main procedures for the application of IAS 29 are as follows:

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying the relevant conversion factors. 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

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

- Fixed assets, 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 relevant conversion factors 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.

New Turkish Lira:

A new law number 5083 on the Monetary Unit of the Republic of Turkey was enacted with the effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish Republic, The Turkish Lira ("TL"), to form a new currency the New Turkish Lira ("YTL"). Thus, YTL 1 = TL 1,000,000. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). As per the CMB decision MSD-10/832-43399 dated 1 December 2004, the financial statements to be publicly announced in 2005 should be prepared in YTL monetary unit including comparatives. Accordingly, the accompanying financial statements are presented in YTL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Revenue Recognition and Commission Expenses

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

The Company develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets of YTL 32,413,052 (approximately) were recognized as operating revenue as of 31 December 2004.

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

3.2. Inventory Valuation

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

3.3. Financial Investments

The Company designates its investments portfolio in accordance with IAS 39 ("Financial Instruments Recognition and Measurement") as follows:

Securities 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 recognized in net profit or loss for the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 investments are those that the ownership rate is less than or equivalent to 20% and are not held for trading. Subsequent to acquisition, available-for-sale investments which are traded at stock markets are valued at market rate. Otherwise, they are accounted for in accordance with IAS 29. Gains or losses on available-for-sale investments are recognized 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 control are carried at equity.

3.4. Tangible Fixed and Intangible Assets

Tangible fixed and intangible assets are reflected at cost restated for the effects of inflation.

Depreciation is provided on a straight-line basis for all categories of tangible fixed and intangible assets, except for rotables and repairables, which are depreciated on a group basis. The useful lives and residual values used for the depreciable assets are as follows:

	Useful Life	Residual Value
- Land	-	-
- Buildings	25-50	-
- Aircraft	15	30%
- Engines	15	30%
- Rotable Assets	5-8-10	-
- Repairables	2-3	-
- Simulator	10	-
- Machinery and Equipment	3-5-7-10	-
- Furniture and Fixtures	3-4-5	-
- Motor Vehicles	4-5-7	-
- Other Equipment	5	-

Impairment on Assets:

According to IAS 29, the Company restates its fixed assets by using WPI. However, in international markets, purchasing and second hand trading of aircraft and similar assets are realized in US Dollars. As a result of inflation rate being higher than devaluation of TL against US Dollar in recent years, net book values of aircraft, spare engines and simulators adjusted for the effect of inflation exceed net book values of these assets based on their US Dollar acquisition costs. The Company's management is in the opinion that the situation explained above causes a fictitious value increase. Therefore, the Company decreases the adjusted net book value of its aircraft, spare engines and simulators to net book value of these assets based on US Dollar acquisition costs. An examination is then made of whether net book values based on US Dollar acquisition costs may exceed their recoverable amount. Recoverable amount is determined as, higher of the present value of cash flows expected from the use of assets and their net selling price. Net selling price is determined based on the International Aircraft Price Guide. In the accompanying financial statements, the difference between adjusted net book values of these assets and net book values based on US Dollar acquisition costs is netted off against monetary gain. The difference between net book values of these assets based on US Dollar acquisition costs and recoverable amount is recognized as impairment loss under operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Manufacturers' Credits

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

3.6. 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.

3.7. 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.

3.8. Taxation and deferred taxes

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

Provision is made in the financial statements for the Company's estimated liability to Turkish corporation tax on its results for the period. The charge for current tax is based on the results for the period 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 that if it is probable that future 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 are offset as they relate to income taxes levied by the same taxation authority. Deferred tax assets and liabilities are also offset.

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9. 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 amount included in employee retirement expense is disclosed in the financial result as interest expense.

3.10. Related Parties

The shareholders, key management personnel and board members of the Company, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties in the accompanying financial statements.

3.11. Foreign Currency Transactions

Transactions in foreign currencies are translated into New Turkish Lira at the rates of exchange ruling at the transaction dates. Monetary 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 closing and average TL to US Dollar exchange rates for the periods are as follows:

	Closing Rate	Average Rate
31 December 2001	1,4396	1,2228
31 December 2002	1,6345	1,5046
31 December 2003	1,3958	1,4953
31 December 2004	1,3421	1,4223

3.12. Leases

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

3.13. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company's principal financial assets are cash and cash equivalents, accounts receivable, due from related parties and available-for-sale 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.

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

Financial assets, except for Sun Express, Uçak Servisi 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.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include accounts and other payables, due to related parties and finance lease obligations.

Financial expenses 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 disclosed 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 New 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 Dollar and New 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 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. Fair values of these investments fluctuate based on 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.

3.14. Offsetting

Financial assets and liabilities are offset and the net amount recognized 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.

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15. Use of estimates

The preparation of financial statements in conformity with International Financial Reporting 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.

3.16. 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 31 December 2004 and 2003 and the basic earnings per share calculation is as follows:

	2004	2003
Number of shares outstanding at January 1, (in full)	175,000,000,000	175,000,000,000
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 period (in full)	175,000,000,000	175,000,000,000
Net profit for the year (as restated for 2004)	107,058,441	243,458,570
Basic earnings per share	0.0006	0.0014

In accordance with Communiqué No: 25 of Series XI part 15th clause number 399, losses arising from the first time application of inflation accounting and recorded in "accumulated losses" account should be considered as a deduction in determining the distributable profit in with respect to CMB regulations. However, these accumulated losses can be reduced by the profit for the year and previous years profits and remaining accumulated losses can then be reduced by in order of extraordinary reserves, legal reserves and shareholders' equity inflation adjustment differences.

In accordance with CMB's decision dated 22 February 2005 and numbered 7/242, full amount of the minimum profit to be distributed which is calculated from net distributable profit determined based on CMB regulations, can be distributed fully if net distributable profit based on statutory record is higher than this amount. Otherwise maximum amount to be distributed is the amount which is based on statutory records. Furthermore, no profit is distributed if a company is in loss position either in financial statements in accordance with CMB regulations or financial statements based on statutory records. Because the Company's accumulated losses as of 31 December 2004 based on financial statements in accordance with IFRS is YTL 1,053,006,968, the Company does not have a distributable profit as of 31 December 2004.

4. SEGMENTAL REPORTING

4.1. 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 activity of the Company's equity investment is also related to the airline business.

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

4. SEGMENTAL REPORTING (cont'd)

4.2. 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 flight destination's geographical area.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2004	31 December 2003
Cash	162,030	198,856
Cheques received	116,877	62,731
Banks	363,838,243	742,287,677
Other liquid assets	1,520,333	8,582,000
	365,637,483	**751,131,264**

Foreign currency bank balances are YTL 247,555,286 at 31 December 2004 (2003: YTL 738,692,290).

Time Deposits:

Amount	(Currency)	Opening Date	Interest rate %	Maturity	31 December 2004
115,431,254	YTL	25.10.2004-31.12.2004	15.79-19.43%	03.01.2005-24.01.2005	115,431,254
22,500,000	US$	31.12.2004	1.67%	03.01.2005	30,197,250
89,790,000	Euro	31.12.2004	1.14-%1.52%	03.01.2005	164,028,372
					309,656,876

Amount	(Currency)	Opening Date	Interest rate %	Maturity	31 December 2003
2,732,166	YTL	31.12.2003	19.78%	02.01.2004	2,732,166
205,300,000	US$	18.08.2003-31.12.2003	2.41%-3.83%	02.01.2004-23.02.2004	326,226,186
181,500,000	Euro	25.08.2003-31.12.2003	2.81%-3.69%	02.01.2004-23.02.2004	360,566,823
					689,525,175

6. ACCOUNTS RECEIVABLE (Net)

Accounts receivable consists of the following:

	31 December 2004	31 December 2003
Trade receivables	175,591,911	156,809,685
Discount on receivables	(341,303)	(382,882)
Provision for doubtful receivables	(16,665,558)	(21,935,498)
	158,585,050	**134,491,305**

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

7. DUE FROM RELATED PARTIES

Short-term due from related parties consists of the following:

	31 December 2004	31 December 2003
Güneş Ekspress Havacılık A.Ş. (Sun Express)	812,763	119,459
Uçak Servisi A.Ş. (USAŞ)	158	15,513
Due from related parties - short-term	**812,921**	**134,972**

Long-term due from related parties consists of the following:

	31 December 2004	31 December 2003
Republic of Turkey Prime Ministry Privatization Administration (*)	-	16,230,156
Turban Turizm A.Ş. (*)	-	43,368,549
Due from related parties - long-term	**-**	**59,598,705**

(*) Interest at a rate of 40.16% was applied to the receivables from Republic of Turkey Prime Ministry Privatization Administration and Turban as to be valid for one year commencing from December 2002 based on the letter sent by the Republic of Turkey Prime Ministry Privatization Administration to THY on 17 February 2003. Interest rate had been changed to 23.35% after December 2003 based on the letter sent on 31 May 2004. The receivables from Republic of Turkey Prime Ministry Privatization Administration and Turban together with accrued interest has been paid to THY on 16 July and 27 July 2004, respectively.

8. INVENTORIES

Inventories consist of the following:

	31 December 2004	31 December 2003
Spare parts, flight equipment	54,483,543	41,856,618
Other inventories	10,030,300	10,302,694
	64,513,843	**52,159,312**

9. OTHER RECEIVABLES AND CURRENT ASSETS

Other receivables and current assets consist of the following:

	31 December 2004	31 December 2003
VAT deductable	152,793	126,251
Tax to be refunded	2,682,798	3,126,528
Maintenance service income accrual	6,172,005	14,111,878
Prepaid operating lease expenses	3,982,248	3,486,204
Prepaid sales commissions	10,414,392	10,264,570
Deposits given related to the outstanding litigations	-	2,165,290
Prepaid rent expenses	440,142	448,245
Other prepaid expenses	8,780,536	4,306,600
Receivables from personnel	574,197	613,781
Business advances given	345,966	153,193
Restriction on transfer of funds from banks (*)	845,502	18,979,307
Receivable from SITA deposit certificates	150,243	172,907
Special expense deduction receivable from tax offices	9,049	6,665
Interline passenger income accrual	182,580	312,149
Other receivables	1,729,406	1,870,046
	36,461,857	**60,143,614**

(*) As of 31 December 2004, the balance of this account is related to bank balance in Egypt. The restriction on transfer of funds from banks as of 31 December 2003 was related to funds held at banks in Iran, Libya, Egypt, Algeria and India and as of 31 December 2004 they are classified as cash and cash equivalents as they can be transferred to Turkey or used for payment of expenses in related sales bureaus within a period of less than 3 months.

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

10. FINANCIAL ASSETS

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

	31 December 2004	31 December 2003
Güneş Ekspres Havacılık A.Ş. (Sun Express)	**16,706,000**	**8,090,626**

Financial assets available-for-sale are as follows:

	31 December 2004	31 December 2003
France Telecom	20,214,336	20,214,336
Diminution in value of France Telecom shares	(11,192,456)	(11,091,310)
Uçak Servisi A.Ş. (USAŞ)	8,213,707	6,714,587
Appreciation / (diminution) in value of USAŞ shares	6,880,463	(227,590)
Sita Inc.	1,785,738	1,785,738
Emek İnşaat ve İşletme A.Ş.	26,859	20,079
Other financial assets	1,426	-
	25,930,073	**17,415,840**

Tender for the catering service was won by Uçak Servisi A.Ş. (USAŞ) and service agreement was signed on 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 share capital to the Company. According to the agreement, ownership of first 10% of shares was transferred on 21 June 2002, 1.25% of shares was transferred on 2 January 2003 and 1.25% of shares were transferred on 2 January 2004 and it will be completed to 15% by transferring the ownership of each 1.25% share in the years 2005 and 2006. Consequently, 712,5 million shares corresponding to first 12.5% of share of USAŞ's share capital, which was transferred to the Company, was recorded to "financial assets" and "deferred income" accounts at market value of YTL 16,853,544. "Deferred income" amount is 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 Market in 2003.

USAŞ distributed 1,852,500,000 of free shares to the Company based on the decision of General Assembly held on 8 December 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement.

Details of the Company's long-term financial assets at 31 December 2004 are as follows:

Name of the Company	Place of Incorporation And Operation	Proportion of Ownership Interest	Proportion of Voting Power Held	Principal Activity
Güneş Ekspres 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%	Less than 0.1%	Information & telecommunication services
Uçak Servisi A.Ş. (USAŞ)	Turkey	6.5%	6.5%	Catering
France Telecom	France	Less than 0.1%	Less than 0.1%	Telecommunication

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

11. FIXED ASSETS

	Land, Land Improvements & Building	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Softwares	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction In Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets & Simulators	Total Leased Assets	Total
Cost											
Opening Balance											
1 January 2004	164,624,773	251,807,868	289,040,357	569,477,822	260,872,763	54,734	1,535,878,317	4,065,083,790	63,659,866	4,128,743,656	5,664,621,973
Transfers from											
leased assets*	-	51,683,818	6,672,125	693,369,166	-	-	751,725,109	(705,861,841)	(45,863,268)	(751,725,109)	-
Additions	141,805	5,561,829	8,021,900	10,470,162	94,036,737	38,738,550	156,970,983	-	-	-	156,970,983
Disposals	(372,575)	(15,926,812)	(8,178,858)	(1,861,642)	(70,518,752)	(38,407,024)	(135,265,663)	-	-	-	(135,265,663)
Closing balance											
31 December 2004	164,394,003	293,126,703	295,555,524	1,271,455,508	284,390,748	386,260	2,309,308,746	3,359,221,949	17,796,598	3,377,018,547	5,686,327,293
Accumulated Depreciation											
Opening Balance											
1 January 2004	43,037,148	202,520,056	255,993,641	356,440,423	129,661,927	-	987,653,195	1,177,343,037	47,672,568	1,225,015,605	2,212,668,800
Transfers from											
leased assets *	-	39,702,697	6,672,125	395,030,051	-	-	441,404,873	(397,606,665)	(43,798,208)	(441,404,873)	-
Depreciation for the year	2,734,571	16,565,058	13,590,171	28,628,168	80,721,856	-	142,239,824	156,821,204	1,390,808	158,212,012	300,451,836
Disposal	(134,748)	(6,124,416)	(8,078,258)	(1,658,426)	(70,518,752)	-	(86,514,600)	-	-	-	(86,514,600)
Closing Balance											
31 December 2004	45,636,971	252,663,395	268,177,679	778,440,216	139,865,031	-	1,484,783,292	936,557,576	5,265,168	941,822,744	2,426,606,036
Accumulated											
impairment	-	7,934,076	-	290,085,424	-	-	298,019,500	1,139,159,001	4,602,572	1,143,761,573	1,441,781,073
31 December 2004											
net book value	**118,757,032**	**32,529,232**	**27,377,845**	**202,929,868**	**144,525,717**	**386,260**	**526,505,954**	**1,283,505,372**	**7,928,858**	**1,291,434,230**	**1,817,940,184**
31 December 2003											
net book value	**121,587,624**	**42,017,810**	**33,046,716**	**109,949,264**	**131,210,837**	**54,734**	**437,866,985**	**1,795,237,779**	**11,643,792**	**1,806,881,571**	**2,244,748,556**

(*) Finance leased assets which their legal title has passed to the Company due to their repayment of finance lease liabilities were classified to owned assets from leased assets.

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

12. ADVANCES GIVEN FOR AIRCRAFT

	31 December 2004	31 December 2003
Pre payments for aircraft purchases	395,670,511	7,552,462
Deposits given for operational leases	1,241,311	1,636,692
Total advances given for aircraft	**396,911,822**	**9,189,154**

13. OTHER LONG-TERM RECEIVABLES AND ASSETS

Other long-term receivables and assets consist of the following:

	31 December 2004	31 December 2003
Prepaid aircraft financing expense	2,688,118	3,616,448
Prepaid eximbank USA guarantee and exposure fee	7,001,219	9,217,476
Due from personnel	1,127,433	1,480,510
Receivables from SITA deposit certificate	702,736	735,376
Deposits given	1,733,075	2,440,609
Other receivables	94,747	103,542
	13,347,328	**17,593,961**

14. BANK BORROWINGS

Bank borrowings of YTL 281,244 (31 December 2003: -) consist of overnight interest free borrowings for the purposes of settlement of tax and social security premium payments.

15. FINANCE LEASE OBLIGATIONS

The future lease rental payments under financial leases are:

	31 December 2004	31 December 2003
Not later than one year	245,668,658	324,718,834
Between 1 - 2 years	229,820,665	271,760,624
Between 2 - 5 years	548,685,702	691,500,260
Over 5 years	280,926,023	523,764,029
	1,305,101,048	1,811,743,747
Less: Future interest expense	(144,660,062)	(166,579,140)
Principal value of future rentals shown in the balance sheets	**1,160,440,986**	**1,645,164,607**
Represented by :		
Current liabilities	202,712,254	277,446,906
Long-term liabilities	957,728,732	1,367,717,701
	1,160,440,986	**1,645,164,607**
Interest range:		
Floating rate obligations	872,924,584	1,219,729,193
Fixed rate obligations	287,516,402	425,435,414
	1,160,440,986	**1,645,164,607**

As of 31 December 2004, the US Dollar denominated lease obligations' interest rates are between 5.96% and 7.68%, for the fixed rate obligations; and a margin ranging between LIBOR and LIBOR plus 3.00% for the floating rate obligations.

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

16. DUE TO RELATED PARTIES

Due to related parties consist of the following:

	31 December 2004	31 December 2003
Sun Express	211,054	275,108
Uçak Servisi A.Ş. (USAŞ)	6,297,167	5,838,632
	6,508,221	**6,113,740**

17. OTHER SHORT-TERM AND LONG-TERM PAYABLES

Other short-term payables consist of the following:

	31 December 2004	31 December 2003
Taxes and funds payable	19,340,449	20,561,294
Social security premiums payable	12,188,329	11,871,671
Payable to personnel	253,428	2,284,739
State Airport Administration ("DHMİ") protocol payable	1,822,211	18,191,523
Discount on DHMİ protocol payable	(36,401)	(1,477,174)
Deferred income from USAŞ share transfer (Note 10)	3,618,326	3,118,619
Deferred income	34,199	224,001
Other liabilities	790,480	1,952,155
	38,011,021	**56,726,828**

Other long-term payables consist of the following:

Deferred income from USAŞ share transfer (Note 10)	3,618,326	6,237,239
	3,618,326	**6,237,239**

18. DEPOSITS AND ADVANCES RECEIVED

Deposits and advances received consist of the following:

	31 December 2004	31 December 2003
Deposits and guarantees received	11,712,675	17,889,102
Advances received for mileage credit sales	23,101,559	28,992,050
Deposit received from Turkish Republic Religious Affairs	2,350,512	14,390,431
Other advances received	1,706,481	2,300,881
	38,871,227	**63,572,464**

19. PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities consist of the following:

	31 December 2004	31 December 2003
Flight liability - advanced ticket sales	133,091,186	93,753,909
Flight liability resulting from sales of mileage	52,071,858	33,959,020
	185,163,044	**127,712,929**

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

20. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	31 December 2004	31 December 2003
Sales incentive premium accrual	7,734,390	4,865,424
Fuel oil privilege expense accrual	730,598	10,925,904
Rejected passengers expense accrual	-	826,291
DHMİ expense accrual	1,608,554	41,391
Accrued salaries	15,619,949	24,026,853
Accrued maintenance costs	15,944,575	13,199,416
Accrued frequent flyer liability	6,993,168	13,030,025
Provision for legal claims	9,245,739	5,810,493
Rent accrual for RJ aircraft that will be returned	-	1,141,316
Other liabilities	628,323	1,372,129
	58,505,296	**75,239,242**

21. TAXATION

Corporate tax payable is as follows:

	31 December 2004	31 December 2003
Corporate tax payable	-	89,923,188
Prepaid taxes and funds	(51,305,913)	(67,994,779)
	(51,305,913)	**21,928,409**

Tax expense is as follows:

	2004	2003
Current year tax expense	-	89,923,188
Deferred tax expense / (benefit)	2,818,011	(6,379,268)
Tax expense	**2,818,011**	**83,543,920**

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 period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rates are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% fund.
- 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 2005: 30%

In Turkey, prepaid taxes are calculated and accrued on a quarterly basis. The prepaid corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003. In 2004, the prepaid corporate income tax rate was applied 33%. Starting from 2005, prepaid corporate income tax rate will be 30%.

21. TAXATION (cont'd)

Tax 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 until 15 April following the close of the accounting period to which they relate. The tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax:

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax which was calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not, 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. Carried forward investment incentives to be deducted from corporate tax liability in the following periods are revalued with the applicable WPI.

Inflation adjusted legal tax calculation:

For 31 December 2003 and the periods before, fixed assets and accumulated depreciations were revalued and revaluation differences were booked as revaluation fund under shareholders' equity. With the Law no.5024, published in Official Gazette no.25332 dated 30 December 2003, tax bases were started to be determined on the basis of inflation accounting. According to that Law, the adjusted balance sheet for 31 December 2003 will be the opening balance sheet, and therefore, 31 December 2003 balance sheet must be restated in accordance with inflation accounting. The restatement differences booked as accumulated gains (losses) in the opening balance sheet are not subject to any tax charge. For the following years, if the yearly inflation rate exceeds 10% and 3-year cumulative inflation rate exceeds 100%, the financial statements will be restated and tax base will be adjusted accordingly. According to the Law, if the above conditions are met in any of interim tax periods in a year, inflation accounting will be applied for the whole year. As of 30 June 2004, the above two conditions were met and therefore, the tax amount in the year 2004 has been computed in accordance with inflation accounting, effective from 30 June 2004.

Deferred tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences 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 such as fixed assets, retirement pay provision and provision for doubtful receivables. The deferred tax rate is 30%.

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

21. TAXATION (cont'd)

Temporary differences: deferred tax assets / (liabilities)

	31 December 2004 (As restated)	31 December 2003
Allowance for unrecoverable bank accounts	276	1,382,998
Prepaid expenses	290,395	-
Provision for doubtful receivables	416,692	426,786
Restatement of inventory	8,716,457	5,662,276
Changes in other short-term assets	60,960	-
Short-term lease obligation	47,867,011	62,280,682
Provision for advance ticket sales	(17,973,936)	(18,370,029)
Accrued liabilities	13,125,543	11,635,613
Fixed assets	(425,380,016)	(551,764,767)
Long-term lease obligation	287,318,620	410,315,308
Retirement pay liability	29,933,213	26,858,576
Adjustments to long-term assets	(620,529)	(2,265,738)
Manufacturers' credit	717,366	1,451,619
Deferred income	1,851,799	2,806,765
Discount on receivables	102,072	114,865
Discount on payables	(19,996)	(443,152)
(Appreciation) / Diminution in value of financial assets	(1,483,820)	1,267,612
Interest accrual on bank accounts	-	(1,069,720)
Unused investment incentives	3,704,211	-
Unused tax losses	4,888,940	-
Deferred tax liability	**(46,484,742)**	**(49,710,306)**

Movement in deferred tax liability per balance sheet is as follows:

	2004 (As restated)	2003
Deferred tax charge / (benefit) related to the origination and reversal of temporary differences	2,818,011	(1,280,215)
Deferred tax benefit resulting from change in effective tax rate	-	(5,099,053)
Net deferred tax charge / (benefit)	2,818,011	(6,379,268)
Monetary gain on deferred tax liabilities	(6,043,575)	(7,820,234)
Change in net deferred tax	**(3,225,564)**	**(14,199,502)**

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

	2004 (As restated)	2003
Profit Before Taxation	109,876,452	327,002,490
Expected Tax (2004 : 33%, 2003 : 30%)	36,259,229	98,100,747
Reconciling Items:		
Non-deductible expenses	693,161	5,939,150
Tax exempt Income	(29,679,346)	(1,066,715)
Non-deductible monetary losses	9,645,907	6,248,310
Deferred tax benefit resulting from change in deferred tax calculation from restatement of fixed assets	-	(19,392,026)
Tax benefit due to using tax rate of 30% for calculation of deferred tax	(5,507,789)	-
Deferred tax benefit resulting from change in effective tax rate	-	(5,099,053)
Investment incentives used	(3,704,211)	(1,186,493)
Unused tax losses	(4,888,940)	-
Actual tax charge	**(2,818,011)**	**83,543,920**

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

22. MANUFACTURER'S CREDIT (Net)

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

	31 December 2004	31 December 2003
Gross manufacturer's credit	16,956,092	20,075,702
Accumulated amortization (-)	(14,564,872)	(15,236,969)
	2,391,220	**4,838,733**

23. RETIREMENT PAY LIABILITY

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 YTL 1,575 as at 31 December 2004 (31 December 2003: YTL 1,390). 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:

	2004	2003
Current service cost	11,702,155	5,519,969
Interest cost	4,883,377	5,897,336
	16,585,532	**11,417,305**

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

	2004	2003
Provision at 1 January	89,528,586	99,517,542
Charge for the year	16,585,532	11,417,305
Payments during the year	(6,336,741)	(21,406,261)
Provision at 31 December	**99,777,377**	**89,528,586**

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5.45% per annum after considering the effect of increase in eligible pay and its limit.

24. SHARE CAPITAL

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

	Class	%	31 December 2004	%	31 December 2003
Republic of Turkey Prime Ministry Privatization Administration (*)	A, C	75.17	131,538,948	98.17	171,788,948
Others	A	24.83	43,461,052	1.83	3,211,052
Share capital (historic)			175,000,000		175,000,000
Restatement effect			1,739,005,871		1,739,005,871
Restated			**1,914,005,871**		**1,914,005,871**

(*) 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 Republic of Turkey Prime Ministry Privatization Administration according to THY's articles of association which was approved by decision of the Turkish Republic High Planning Board on 30 October 1990.

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

24. SHARE CAPITAL (cont'd)

23% of the Company's shares which were owned by Republic of Turkey Prime Ministry Privatization Administration were offered to the public during December 2004. As a result of this secondary public offering ownership rate of Republic of Turkey Prime Ministry Privatization Administration has decreased to 75.17% from 98.17%.

As at 31 December 2004, the Company's issued and paid-in share capital consists of 174,999,999,999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to name. The Class C share, which belongs to the Republic of Turkey Prime Ministry Privatization Administration, is a unique share with a par value of YKr 0.1 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) As explained in Article 3.1 of the Main Agreement, taking decisions that will negatively effect the Company's mission
b) To suggest a change in the Main Agreement at General Assembly
c) To increase the share capital
d) Registration of the transfer of the shares issued to name in the 'Register of the Company'
e) To make decisions or taking actions which will put the Company under direct or indirect commitment for more than 5% of total assets for each agreement in the latest annual financial statements prepared for Turkish Capital Market Board (this statement will be valid until the Company's shares held by Turkish State are below 20%)
f) To make decisions about to merging with another companies and liquidation.
g) To make decisions to close flight routes or significantly decrease number of flights except routes that cannot recover even its operational expenses under market conditions.

Main Agreement Temporary Article 1: The Company's chairman of the Board of Directors, members of the Board of Directors, auditors and general manager who meet the conditions mentioned in law numbered 4046, are to be selected from candidates suggested by A group shareholders, then assigned by a nomination of the Republic of Turkey Prime Ministry Privatization Administration and the approval of the Prime Minister or authorized minister, until the Company's shares held by Turkish State are below 50%. The article 315 of Turkish Commercial Code is applied for the members representing non-public membership.

The Shareholder's Equity accounts of the Company as of 31 December 2004 and 2003, based on the Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards" issued 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 recognized in "Shareholders' Equity Inflation Adjustment Differences" account.

	31 December 2004 (As restated)	31 December 2003
Share capital	175,000,000	175,000,000
Share premium	181,185	181,185
Legal reserves	417,011	417,011
Extraordinary reserves	7,806,889	7,806,889
Other reserves	9	9
Shareholders' equity inflation adjustment differences (*)	1,872,657,189	1,872,657,189
Net profit for the year (according to IFRS)	107,058,441	243,458,570
Accumulated losses (according to IFRS)	(1,053,006,968)	(1,296,465,538)
	1,110,113,756	**1,003,055,315**

(*) Shareholders' Equity Inflation Adjustment Differences:		
Share Capital	1,739,005,871	1,739,005,871
Share Premium	714,307	714,307
Legal Reserves	60,597,395	60,597,395
Extraordinary Reserves	67,026,275	67,026,275
Other Reserves	5,313,341	5,313,341
	1,872,657,189	**1,872,657,189**

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

25. FOREIGN CURRENCY POSITION

Foreign currency risk occurs from the change of the value of financial instruments due to change in exchange rates. The Company has a foreign currency risk because of the foreign currency denominated debt. As of 31 December 2004, the Company does not have derivative financial instruments to hedge its foreign currency risks. As of 31 December 2004, US Dollars, Euro and Sterling are the main currencies that make the foreign currency position of the Company. The foreign currency position of the Company as of 31 December 2004 in terms of YTL is as follows:

	US Dollar	Euro	Sterling	Other	Total
Foreign currency based assets					
Cash and cash equivalents	40,353,808	178,302,052	2,317,807	28,309,351	249,283,018
Accounts receivables (Net)	35,521,212	32,904,743	5,421,928	38,641,943	112,489,826
Due from related parties	477,642	311,411	-	-	789,053
Other receivables and current assets	18,473,390	1,964,284	433,532	1,995,243	22,866,449
Advances given for the aircrafts	396,911,822	-	-	-	396,911,822
Other receivables and long-term assets	11,874,823	531,427	77,424	831,445	13,315,119
	503,612,697	**214,013,917**	**8,250,691**	**69,777,982**	**795,655,287**
Foreign currency based liabilities					
Short-term finance lease obligations	202,712,254	-	-	-	202,712,254
Accounts payable	80,958,851	48,701,272	4,784,959	21,697,322	156,142,404
Due to related parties	215,959	1,268	-	-	217,227
Other short and long-term payables	551,479	505,911	99,649	75,949	1,232,988
Deposits and advances received	27,527,730	8,394,359	687,023	1,864,239	38,473,351
Other accrued liabilities	17,057,945	2,797,675	2,708,864	1,629,380	24,193,864
Long-term finance lease obligations	957,728,732	-	-	-	957,728,732
Manufacturer's credit (net)	2,391,220	-	-	-	2,391,220
	1,289,144,170	**60,400,485**	**8,280,495**	**25,266,890**	**1,383,092,040**
Net foreign currency position (*)	**(785,531,473)**	**153,613,432**	**(29,804)**	**44,511,092**	**(587,436,753)**

(*) Although, The Company is shown as in an open position based on its monetary assets and liabilities, as explained in Note 3.4, the Company values its aircraft and spare engines based on their US Dollar acquisition costs or US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's tangible assets which are carried from US Dollar denominated values should also be considered during the evaluation of the Company's sensitivity of its assets and liabilities against the changes in foreign exchange rates. As of 31 December 2004, the net book values of aircraft and spare engines, which are carried from US Dollar acquisition costs or US Dollar selling prices is YTL 1,504,373,218.

26. CONTINGENT LIABILITIES

a) Guarantees Given:

	31 December 2004	31 December 2003
Guarantee letters given	34,044,958	38,725,321

b) Purchase Commitments:

The Company has signed agreements to purchase 51 aircraft which will be obtained between years 2005-2008. Total value of these aircraft is approximately US Dollar 4.1 Billion according to the list prices before any discounts to be applied by aircraft producer firms. THY paid a deposit of US Dollar 280 million as of 31 December 2004 related to these new purchases.

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

26. CONTINGENT LIABILITIES (cont'd)

Furthermore, the Company paid a deposit of US Dollar 15 million related to the purchase of one VIP aircraft that will be delivered in 2005.

c) Letter of Comfort:

	31 December 2004	31 December 2003
Letters of comfort given to Sun Express	US$ 2,900,000	US$ 2,900,000
	Euro 2,556,459	Euro 2,556,459

d) Land and buildings built on State Airports Administration (DHMİ) 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 (DHMİ). 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 DHMİ for its use. The Company pays rent to DHMİ for the land. The rent agreements made with DHMİ 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 YTL 97,904,134 as of 31 December 2004 and THY amortizes these buildings based on their useful lives of 50 years. It is possible for THY to amortize related buildings in a period less than 50 years in case, DHMİ does not renew the rent agreement.

The conflict between DHMİ and THY about the rent demand of DHMİ for the buildings and facilities of THY on lands leased from DHMİ came to a conclusion in October 2004. In accordance with the agreement between THY and DHMİ, THY paid the invoice amount of YTL 515,272 for the "indoor area rent" of 2000, 2001, 2002 and 2003 and THY agreed to pay 50% rent for the currently leased land which have a clause of "indoor are rent will paid" in their assignment and for the buildings that will be constructed on land that will be leased from DHMİ in future.

e) The Company discounted its retirement pay provision to YTL 99,777,377 (note 23) according to IAS 19. The Company's total undiscounted liability for retirement pay would be approximately YTL 158 million as of 31 December 2004, if all employees had been dismissed as at that date.

27. OPERATING LEASE COMMITMENTS

Commitments for future operating leases are as follows:

	31 December 2004	31 December 2003
Not later than one year	74,824,262	47,955,884
Between 1 and 2 years	65,908,778	29,481,123
Between 2 and 5 years	53,303,431	1,687,541
	194,036,471	**79,124,548**

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 2004, has decreased from Euro 24,36 at 31 December 2004 to Euro 22,87 at 30 March 2005. Hence, the total market value of these securities decreased by YTL 722,920 compared to balance sheet date.

- Market price of 2,223 millions USAŞ securities, which is traded on Istanbul Stock Exchange Market, and included in the financial investments as available-for-sale as of 31 December 2004, has decreased from YTL 6,79 at 31 December 2004 to YTL 5,20 on 30 March 2005. Hence, the total market value of these securities decreased by YTL 3,534,570 compared to balance sheet date.

- Retirement pay ceiling has been increased to 1,648.9 as of 1 January 2005 .

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

29. OPERATING REVENUES

Operating Revenues are as follows

	2004	2003
Scheduled services		
Passenger	2,200,855,649	2,224,832,685
Cargo and mail	254,127,479	260,477,010
	2,454,983,128	2,485,309,695
Non-scheduled services	46,078,926	49,590,591
Other revenues	292,323,892	310,870,330
Total revenues	**2,793,385,946**	**2,845,770,616**

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

	2004	2003
- Europe	1,033,565,325	1,067,758,527
- Middle East	237,256,813	234,676,517
- North Africa	65,525,149	60,328,852
- North America	142,697,554	155,893,131
- South Africa	-	7,390,977
- Far East	417,601,989	379,484,439
	1,896,646,830	1,905,532,443
Domestic	558,336,298	579,777,252
Total scheduled services' flight revenue	**2,454,983,128**	**2,485,309,695**

30. OPERATING EXPENSE

Operating expenses consist of the following:

	2004	2003
Fuel expenses	513,784,355	393,068,379
Maintenance expenses	152,044,598	110,753,338
Passenger service and catering expenses	160,554,128	159,842,346
Landing and navigation expenses	240,215,847	238,614,630
Handling and station expenses	180,775,212	175,829,671
Staff expenses	591,486,507	562,605,209
Marketing and selling expenses	315,547,494	320,251,423
General operations	46,679,934	47,309,269
General administrative expenses	31,911,387	35,987,799
Insurance expenses	30,752,863	30,762,548
Depreciation expenses	300,451,836	314,364,838
Aircraft and seat rent expense	27,792,751	8,507,687
Operating lease expense	58,840,588	77,757,707
	2,650,837,500	**2,475,654,844**

Notes to the Financial Statements as at 31 December 2004 (IFRS)

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

31. FINANCIAL INCOME (NET)

Financial income / (expense) consist of the following:

	2004	2003
Interest income	42,256,159	44,924,622
Income from investment accounted for equity method	12,846,679	3,113,565
Foreign exchange gains	250,059,990	568,969,810
Increase in value of available-for-sale financial assets	7,006,906	4,078,306
Discount income	580,595	3,350,158
Financial income	312,750,329	624,436,461
Foreign exchange losses	(222,638,553)	(254,068,639)
Interest expenses-third parties	(4,324,789)	(5,263,691)
Finance lease interest expense	(42,347,448)	(61,546,551)
Retirement pay interest cost	(4,883,377)	(5,897,336)
Discount expense	(1,363,724)	(1,976,317)
Financial expense	(275,557,891)	(328,752,534)
Financial income (net)	**37,192,438**	**295,683,927**

32. INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

	2004	2003
Commission income	315,923	1,052,833
Dividend income	299,757	3,582,613
Insurance claims received	4,188,704	4,756,705
Gain from sale of fixed assets	605,066	-
Discounts received from spare parts suppliers	8,556,212	8,682,908
Reversal of unnecessary provision	13,757,874	5,787,753
Manufacturer's credit income	1,695,609	2,007,570
Compensations received	1,293,645	-
Decrease in provision for impairment of tangible fixed assets	22,249,212	67,689,398
Free of cost materials income	1,511,262	1,677,130
Other income	4,739,817	7,160,780
	59,213,081	**102,397,690**

33. LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the following:

	2004	2003
Provision expenses	8,198,401	6,300,785
Loss from sale of fixed assets	560,144	162,455
Rent expense of RJ aircraft to be returned	4,507,796	-
Other expenses	2,601,154	5,696,878
	15,867,495	**12,160,118**

(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

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.

Transactions with related parties are as follows:

	2004	2003
Services given to Sun Express	1,912,675	1,663,330
Services given to USAŞ	256,824	228,979
	2,169,499	**1,892,309**

	2004	2003
Services taken from Sun Express	2,603,397	388,956
Services taken from USAŞ	66,785,003	68,155,117
	69,388,400	**68,544,073**

Dividend income from equity investments are as follows:

	2004	2003
Sun Express	4,231,305	-
Uçak Servisi A.Ş. (USAŞ)	192,844	1,993,640
Emek İnşaat and İşletme A.Ş.	6,560	1,803
	4,430,709	**1,995,443**

TURKISH AIRLINES INC.

FINANCIAL STATEMENTS PREPARED
ACCORDING TO UNIFORM ACCOUNTING SYSTEM
AS AT 31 DECEMBER 2004

TURKISH AIRLINES INC.

DETAILED BALANCE SHEETS
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

ASSETS

I. CURRENT ASSETS	**31.12.2004 (YTL)**	**31.12.2003 (YTL)**
A. Liquid Assets		
1 - Cash	162,030	174,680
2 - Cheques Received	116,877	55,104
3 - Banks	361,753,411	669,632,528
4 - Cheques Given and Payment Orders (-)	(1,270,376)	(2,346,308)
5 - Other Liquid Assets	1,520,333	7,538,635
TOTAL (A)	**362,282,275**	**675,054,639**
B. Marketable Securities		
1 - Share Certificates	8,390,637	8,013,886
2 - Private Sector Bonds and Notes	-	-
3 - Public Sector Bonds and Notes	-	-
4 - Other Marketable Securities	-	-
5 - Allowances for Market. Securities (-)	-	-
TOTAL (B)	**8,390,637**	**8,013,886**
C. Trade Receivables		
1 - Trade Receivables	158,997,136	119,844,956
2 - Notes Receivables	-	-
3 - Discount on Notes Receivables (-)	-	-
4 - Deposits and Guaranties Given	-	-
5 - Unearned Interest Income of Finance Leases (-)	-	-
6 - Other Trade Receivables	-	-
7 - Doubtful Receivables	15,072,251	13,969,476
8 - Provision for Doubtful Receivables (-)	(15,072,251)	(13,969,476)
TOTAL (C)	**158,997,136**	**119,844,956**
D. Other Receivables		
1 - Due from Shareholders	-	10,000,000
2 - Due from Affiliates	-	-
3 - Due from Subsidiaries	-	-
4 - Due from Personnel	247,834	218,159
5 - Other Receivables	52,528,941	32,074,234
6 - Discount on Other Notes Receivables (-)	-	-
7 - Other Doubtful Receivables	-	9,918
8 - Provision for Other Doubtful Receivables (-)	-	(9,918)
TOTAL (D)	**52,776,775**	**42,292,393**
E. Inventories		
1 - Raw Materials and Supplies	160,447,733	102,265,176
2 - Work in Progress	-	-
3 - Finished Goods	-	-
4 - Trade Goods	-	-
5 - Other Inventories	250,308	328,062
6 - Provision for Inventories (-)		
7 - Advances Given for Purchases	430,180	187,859
TOTAL (E)	**161,128,221**	**102,781,097**
F. Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts		
1 - Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts	-	-
2 - Monetary Gain/(Loss) for Uncompleted Contracts	-	-
3 - Deposits Given to Subcontractors	-	-
TOTAL (F)	**-**	**-**
G. Prepaid Expenses and Income Accruals		
1 - Prepaid Expenses for Future Months	24,585,299	19,053,425
2 - Income Accruals	12,836,816	29,387,654
TOTAL (G)	**37,422,115**	**48,441,079**
H. Other Current Assets		
1 - Deferred VAT	68,009	68,009
2 - Deductable VAT	84,784	42,893
3 - Other VAT	-	-
4 - Prepaid Taxes and Funds	-	-
5 - Job Advances	345,966	134,568
6 - Advances to Personnel	326,363	321,001
7 - Inventory Shortages	-	-
8 - Other Current Assets	696	10,354
9 - Provision for Other Current Assets (-)	-	-
TOTAL (H)	**825,818**	**576,825**
TOTAL CURRENT ASSETS	**781,822,977**	**997,004,875**

DETAILED BALANCE SHEETS
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

II. LONG-TERM ASSETS	**31.12.2004 (YTL)**	**31.12.2003 (YTL)**
A. Trade Receivables		
1 - Trade Receivables	-	-
2 - Notes Receivables	-	-
3 - Discount on Notes Receivables (-)	-	-
4 - Unearned Interest Income of Finance Leases (-)	-	-
5 - Deposits and Guaranties Given	113,588,502.00	3,581,600.00
6 - Provision for Doubtful Receivables (-)	-	-
TOTAL (A)	**113,588,502.00**	**3,581,600.00**
B. Other Receivables		
1 - Due from Shareholders	-	-
2 - Due from Affiliates	-	-
3 - Due from Subsidiaries	-	-
4 - Due from Personnel	1,127,433.00	1,300,516.00
5 - Other Receivables	702,736.00	645,972.00
6 - Discount on Other Notes Receivables (-)	-	-
7 - Provision for Other Doubtful Receivables (-)	-	-
TOTAL (B)	**1,830,169**	**1,946,488**
C. Financial Assets		
1 - Long-Term Securities	26,859	17,637
2 - Allowance for Impairment in Securities (-)	-	-
3 - Affiliates	7,986,144	5,698,336
4 - Capital Commitments for Affiliates (-)	-	-
5 - Allowance for Impairment in Value of Affiliates' Shares (-)	-	-
6 - Subsidiaries	8,906,297	7,824,017
7 - Capital Commitments for Subsidiaries (-)		(6,000)
8 - Allowance for Impairment in Value of Subsidiaries' Shares (-)	-	-
9 - Other Financial Assets	1,508,249	1,568,636
10 - Decrease in Value of Other Finan. Assets (-)	-	-
TOTAL (C)	**18,427,549**	**15,102,626**
D. Tangible Fixed Assets		
1 - Lands	420,372	369,265
2 - Land Improvements	-	-
3 - Buildings	156,592,502	140,295,575
4 - Plant, Machinery and Equipment	400,189,902	353,889,419
5 - Motor Vehicles	385,031,865	382,677,593
6 - Furnitures and Fixtures	13,570,634	8,405,123
7 - Other Tangible Fixed Assets	1,630,942	528,158
8 - Accumulated Depreciation (-)	(708,138,037)	(657,572,800)
9 - Construction in Progress	360,095	7,305,327
10 - Advances Given	355,664,563	73,288,479
TOTAL (D)	**605,322,838**	**309,186,139**
E. Intangible Assets		
1 - Rights	32,749,883	29,531,301
2 - Goodwill	-	-
3 - Establishment and Formation Expenses	-	-
4 - Research and Development Expenses	-	-
5 - Extraordinary Costs	2,554,784	16,872,535
6 - Other Intangible Fixed Assets	-	-
7 - Accumulated Amortization (-)	(30,007,234)	(40,342,694)
8 - Advances to Suppliers	-	-
TOTAL (E)	**5,297,433**	**6,061,142**
F. Assets Subject to Amortization		
1 - Exploration/Research Expenses	-	-
2 - Preparation and Development Expenses	-	-
3 - Other Amortizable Assets	16,327,479	14,206,194
4 - Accumulated Amortization (-)	(15,476,690)	(12,721,821)
5 - Advances to Suppliers	-	-
TOTAL (F)	**850,789**	**1,484,373**
G. Prepaid Expenses and Accrued Income		
1 - Prepaid Expenses for Future Months	13,657,325	16,080,596
2 - Income Accruals	-	-
TOTAL (G)	**13,657,325**	**16,080,596**
H. Other Fixed Assets		
1 - Deductible VAT in Future Years	-	-
2 - Other VAT	-	-
3 Inventories needed for Future Years	-	-
4 - Inventory and Tangible Fixed Assets to be Disposed	90,955	90,953
5 Prepaid Taxes and Funds	-	-
6 - Other Fixed Assets	-	-
7 - Allowance for Impairment in Value of Inventories (-)	-	-
8 Accumulated Amortization	-	-
TOTAL (H)	**90,955**	**90,953**
TOTAL LONG-TERM ASSETS	**759,065,560**	**353,533,917**
TOTAL ASSETS	**1,540,888,537**	**1,350,538,792**

DETAILED BALANCE SHEETS
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

LIABILITIES

I. SHORT-TERM LIABILITIES	**31.12.2004 (YTL)**	**31.12.2003 (YTL)**
A. Financial Liabilities		
1 - Bank Borrowings	-	-
2 - Financial Lease Obligations	-	-
3 - Deferred Finance Lease Costs	-	-
4 - Current Portion of Long-Term Credits and Accrued Interest	-	-
5 - Current Portion of Bonds and Accrued Interest	-	-
6 - Bonds and Notes Issued	-	-
7 - Other Securities Issued	-	-
8 Value Difference of Securities Issued (-)	-	-
9 Other Financial Liabilities	-	-
TOTAL (A)	**-**	**-**
B. Trade Payables		
1 - Trade Payables	180,247,808	171,550,347
2 - Notes Payables	-	-
3 - Discount on Notes Payables (-)	-	-
4 - Deposits and Guaranties Received	3,155,859	6,834,122
5 - Other Trade Payables	109,646	314,280
TOTAL (B)	**183,513,313**	**178,698,749**
C. Other Liabilities		
1 - Due to Shareholders	-	-
2 - Due to Affiliates	-	-
3 - Due to Subsidiaries	-	-
4 - Due to Personnel	253,428	2,006,970
5 - Other Liabilities	2,826,749	16,343,682
6 - Discount on Other Notes Payables (-)	-	-
TOTAL (C)	**3,080,177**	**18,350,652**
D. Advances Received		
1 - Advances from Customers	-	-
2 - Other Advances Received	34,452,907	38,285,893
TOTAL (D)	**34,452,907**	**38,285,893**
E. Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts		
1 - Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	-	-
2 - Monetary Gain/Loss on Uncompleted Contracts	-	-
TOPLAM (E)	**-**	**-**
F. Taxes Payable and Other Liabilities		
1 - Taxes and Funds Payable	19,340,449	35,522,053
2 - Social Security Withholdings Payable	12,188,329	10,428,361
3 - Overdue, Deffered or Restructured Taxes and Other Fiscal Liabilities	-	-
4 - Other Liabilities	54,512	1,340,294
TOTAL (F)	**31,583,290**	**47,290,708**
G. Provisions for Liabilities and Expenses		
1 - Provisions for Income Taxes and Other Legal Liabilities on Profit	-	78,990,691
2 - Prepaid Income Taxes and Other Legal Liabilities on Profit (-)	-	(77,188,778)
3 - Provisions for Retirement Pay	19,019,709	14,982,271
4 Provisions for Costs	-	-
5 - Provisions for Other Debts and Expenses	357,289	663,857
TOTAL (G)	**19,376,998**	**17,448,041**
H. Income and Expense Accruals for Future Months		
1 - Income Relating to Future Months	247,215,111	182,170,666
2 - Expense Accruals	91,255,893	102,173,593
TOTAL (H)	**338,471,004**	**284,344,259**
I. Other Short-Term Liabilities		
1 - VAT Payable	10,954	78
2 - Other VAT	-	-
3 Current Account of Head Office and Branches	-	-
4 - Inventory Overages	-	-
5 - Other Short-Term Liabilities	-	-
TOTAL (I)	**10,954**	**78**
TOTAL SHORT-TERM LIABILITIES	**610,488,643**	**584,418,380**

DETAILED BALANCE SHEETS

(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

II. LONG-TERM LIABILITIES	31.12.2004 (YTL)	31.12.2003 (YTL)
A. Financial Liabilities		
1 - Bank Borrowings	-	-
2 Finance Lease Obligations	-	-
3 Deferred Financial Lease Costs	-	-
4 - Bonds Issued	-	-
5 - Other Securities Issued	-	-
6 - Value Difference of Securities Issued (-)	-	-
7 - Other Financial Liabilities	-	-
TOTAL (A)	**-**	**-**
B. Trade Payables		
1 - Trade Payables	-	-
2 - Notes Payables	-	-
3 - Discount on Notes Payables (-)	-	-
4 - Deposits and Guaranties Received	8,556,816	8,880,094
5 - Other Trade Payables	-	-
TOTAL (B)	**8,556,816**	**8,880,094**
C. Other Liabilities		
1 - Due to Shareholders	-	-
2 - Due to Affiliates	-	-
3 - Due to Subsidiaries	-	-
4 - Other Payables	-	-
5 - Discount on Other Notes Payable (-)	-	-
6 - Debts to The Public Sector, Deffered or Payable by Installments	1,713	10,648
TOTAL (C)	**1,713**	**10,648**
D. Advances Received		
1 - Advances from Customers	-	-
2 - Other Advances Received	-	-
TOTAL (D)	**-**	**-**
E. Provisions for Debts and Expenses		
1 - Provisions for Retirement Pay	139,279,427	117,317,888
2 - Provisions for Other Debts and Expenses	4,451,111	3,136,744
TOTAL (E)	**143,730,538**	**120,454,632**
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 - Share Liability to Company	-	-
3 - Other Long-Term Liabilities	-	-
TOTAL (G)	**-**	**-**
TOTAL LONG-TERM LIABILITIES	**152,289,067**	**129,345,374**

DETAILED BALANCE SHEETS

(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

III. SHAREHOLDERS' EQUITY	31.12.2004 (YTL)	31.12.2003 (YTL)
A. Paid-in-Capital		
1 - Capital	500,000,000	500,000,000
2 - Un-paid Capital (-)	(325,000,000)	(325,000,000)
3 - Monetary Gain on Shareholders' Equity	1,739,005,870	1,506,308,781
4 - Monetary Loss on Shareholders' Equity (-)	-	-
TOTAL (A)	**1,914,005,870**	**1,681,308,781**
B. Capital Reserves		
1 - Share Premium	895,493	786,622
2 - Share Premium of Cancelled Shares	-	-
3 - Revaluation Surplus on Tangible Fixed Assets	-	-
4 - Revaluation Surplus on Investments	-	-
5 - Other Capital Reserves	-	-
TOTAL (B)	**895,493**	**786,622**
C. Profit Reserves		
1 - Legal Reserves	61,014,410	53,596,525
2 - Statutory Reserves	-	-
3 - Extraordinary Reserves	74,833,164	65,735,251
4 - Other Reserves	5,313,350	4,667,374
5 - Special Funds	61,110,601	59,925,659
TOTAL (C)	**202,271,525**	**183,924,809**
D. Retained Earnings		
1 - Retained Earnings	-	-
TOTAL (D)	**-**	**-**
E. Accumulated Deficits (-)		
1 - Accumulated Deficits (-)	(1,399,375,597)	(1,229,245,174)
TOTAL (E)	**(1,399,375,597)**	**(1,229,245,174)**
F. Net Profit (Loss) for The Period		
1 - Net Profit for The Period	60,313,536	-
2 - Net Loss for The Period	-	-
TOTAL (F)	**60,313,536**	**-**
TOTAL SHAREHOLDERS' EQUITY	**778,110,827**	**636,775,038**
TOTAL LIABILITIES	**1,540,888,537**	**1,350,538,792**

DETAILED STATEMENTS OF INCOME
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

	01.01.2004-31.12.2004 (YTL)	01.01.2003-31.12.2003 (*) (YTL)
A. Gross Sales		
1 - Domestic Sales	1,152,853,505	1,061,594,102
2 - Export Sales	1,497,800,140	1,334,474,583
3 - Other Sales	189,540,931	131,539,947
TOTAL (A)	**2,840,194,576**	**2,527,608,632**
B. Sales Deductions (-)		
1 - Sales Returns (-)	(119,197,433)	(89,211,188)
2 - Sales Discounts (-)	-	-
3 - Other Discounts (-)	(77,824,136)	(47,555,049)
TOTAL (B)	**(197,021,569)**	**(136,766,237)**
C. Net Sales (A - B)	**2,643,173,007**	**2,390,842,395**
D. Cost of Sales (-)		
1 - Cost of Goods Sold (Product) (-)	-	-
2 - Cost of Goods Sold (Trade) (-)	-	-
3 - Cost of Services Rendered (-)	(2,013,223,316)	(1,698,973,520)
4 - Cost of Sales (Other) (-)	-	-
TOTAL (D)	**(2,013,223,316)**	**(1,698,973,520)**
GROSS PROFIT OR LOSS	**629,949,691**	**691,868,875**
E. Operating Expenses (-)		
1 - Research and Development Expenses (-)	-	-
2 - Market., Selling and Distribution Expenses (-)	(416,166,183)	(377,650,505)
3 - General Administration Expenses (-)	(143,504,820)	(132,247,178)
TOTAL (E)	**(559,671,003)**	**(509,897,683)**
OPERATING PROFIT OR LOSS	**70,278,688**	**181,971,192**
F. Income and Profit from Other Operations		
1 - Dividend Income from Affiliates	4,248,447	3,123,427
2 - Dividend Income from Subsidiaries	-	-
3 - Interest Income	43,447,989	35,671,845
4 - Commission Income	306,620	903,573
5 - Provisions Reversed	83,714	100,414
6 - Profit on Sale of Marketable Securities	-	-
7 - Foreign Exchange Income	199,975,447	219,821,171
8 - Discount Income	-	-
9 Monetary Gain	-	-
10 - Other Income	3,230,056	674,040
TOTAL (F)	**251,292,273**	**260,294,470**
G. Expenses and Losses from Other Operations (-)		
1 - Commission Expenses (-)	-	-
2 - Provisions (-)	(1,504,288)	(2,355,807)
3 - Loss on Sale of Marketable Securities (-)	-	(246,076)
4 - Foreign Exchange Loss (-)	(216,017,089)	(219,667,192)
5 - Discount Expense (-)	-	-
6 Monetary Loss (-)	(51,705,511)	-
7 - Other Expenses (-)	(2,339,395)	(1,665,116)
TOTAL (G)	**(271,566,283)**	**(223,934,191)**
H. Financial Expenses (-)		
1 - Financial Expenses (Short-Term) (-)	(6,183,398)	(2,212,772)
2 - Financial Expenses (Long-Term) (-)	-	(10,442)
TOTAL (H)	**(6,183,398)**	**(2,223,214)**
ORDINARY PROFIT OR LOSS	**43,821,280**	**216,108,257**
I. Extraordinary Income		
1 - Prior Period's Income	-	8,686,407
2 - Other Extraordinary Income	22,614,842	37,083,580
TOTAL (I)	**22,614,842**	**45,769,987**
J. Extraordinary Expenses (-)		
1 - Idle Capacity Expenses and Losses (-)	(4,526,532)	(1,103,086)
2 - Prior Period's Expenses (-)	(1,075,316)	(7,434,022)
3 - Other Extraordinary Expenses and Losses (-)	(520,738)	(831,565)
TOTAL (J)	**(6,122,586)**	**(9,368,673)**
PROFIT OR LOSS FOR THE PERIOD	**60,313,536**	**252,509,571**
L. Provisions for Taxes and Other Stat. Obligations (-)	-	78,990,691
NET PROFIT/LOSS FOR THE YEAR	**60,313,536**	**173,518,880**

(*) 2003 figures are not inflation adjusted.

NOTES TO THE BALANCE SHEET AS OF 31 DECEMBER 2004
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

1- Registered capital is YTL 500,000,000.

2- No advances or loans have been extended to senior managers such as the Chairman and members of the Board of Directors, General Manager, the General Coordinator, Assistant General Managers and the Secretary-General.

3- Total insurance for assets amounts to YTL 438,809,167 (2003: YTL 523,631,423).

4- As of 31 December 2004, letters of guarantee received by the Company against receivables amount to YTL 494,252,837 (2003: YTL 94,752,373).

5- Guarantees provided against debts amount to YTL 34,044,958 (2003: YTL 43,112,178).

6- Commitments not listed among liabilities amount to YTL 1,441,434,880, Euro 2.6 million and (at list prices before discount for advances paid for aircraft) US$ 4.1 billion (2003: YTL 1,590,035,012).

7- Foreign currencies in cash and at banks:

Currency	Amount	Exchange Rate	YTL Equivalent
US $	29,962,344	1.3421	YTL 40,212,462
Euro	97,392,186	1.8268	YTL 177,916,045
Sterling	897,720	2.5765	YTL 2,312,975
Other			YTL 28,069,726

(2003: YTL equivalent of foreign currency in cash and at banks was YTL 476,904,813).

8- Receivables from foreign entities (including advances):

Currency	Amount	Exchange Rate	YTL Equivalent
US Ş	359,736,335	1.3421	YTL 482,802,135
Euro	18,069,453	1.8268	YTL 33,009,.276
Sterling	2,024,698	2.5765	YTL 5,216,633
Other			YTL 37,363,386

(2003: YTL equivalent in foreign currency was YTL 68,447,458)

NOTES TO THE BALANCE SHEET AS OF 31 DECEMBER 2004
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

9- Payables to foreign entities (including advances):

Currency	Amount	Exchange Rate	YTL Equivalent
US $	40,029,252	1.3421	YTL 53,723,259
Euro	29,602,448	1.8268	YTL 54,077,753
Sterling	1,686,906	2.5765	YTL 4,346,313
Other			YTL 21,767,243

(2003: YTL equivalent of payables in foreign currencies was YTL 126,497,287)

10- There are no debentures or financial bonds in circulation.

11- The total investment allowance available in the reporting period and in future periods amounts to YTL 36,159,632 (2003: YTL 9,877,153).

12- There are no debentures issued.

13- The Company's registered capital is YTL 500,000,000. The distribution of issued share capital is as follows:

Registered/Bearers'	Series	Group	Share Value (Ykr, Full)	Nominal Value (YTL)
Registered	11	A	0.1	174,999,999.999
Registered	11	C	0.1	0.001
				175,000,000

14- No securities were issued during the reporting period.

15- Shareholders owning at least 10% interest:

	31 December 2004		31 December 2003	
Name	**Share**	**Value (YTL)**	**Share**	**Value (YTL)**
Republic of Turkey Prime Ministry Privatization Administration	75.17%	131,538,947	98.17%	171,788,948
Other Shareholders	24.83%	43,461,053	1.83%	3,211,052
Restatement Effect		1,739,005,869		-
Total	**100.00%**	**1,914,005,869**	**100.00%**	**175,000,000**

NOTES TO THE BALANCE SHEET AS OF 31 DECEMBER 2004
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

16- Subsidiaries in which the Company owns more than 10% interest:

Name	Share (%)	Share (YTL) 2004	Net Profit (YTL) 2004	Share (YTL) 2003	Net Profit (YTL) 2003
Subsidiary:					
Güneş Ekspres Havacılık A.Ş.	50%	8,906,297	24,123,656	18,000	8,042,879

17- As in previous periods, inventories are valued by using the "Weighted Moving Average Cost" method in the reporting period.

18- Changes in tangible fixed assets in the reporting period:

a) Cost of tangible fixed assets purchased, manufactured or constructed:	YTL 38,655,699
b) Cost of tangible fixed assets sold or discarded:	YTL 5,478,038
c) Increase in value due to restatement during the reporting period:	
- In asset costs (+):	YTL 42,102,913
- In accumulated depreciation (-):	YTL 15,300,056

Changes in tangible fixed assets as of 2003:

a) Cost of tangible fixed assets purchased, manufactured or constructed:	YTL 9,137,004
b) Cost of tangible fixed assets sold or discarded:	YTL 6,277,381
c) Increase in value due to restatement during the reporting period:	
- In asset costs (+) :	YTL 68,957,993
- In accumulated depreciation (-) :	YTL 28,179,031

19- Amounts due to and due from shareholders, subsidiaries and affiliates:

	2004				2003			
	Receivables (YTL)		Debts (YTL)		Receivables (YTL)		Debts (YTL)	
	Commercial	Non-commercial	Commercial	Non-commercial	Commercial	Non-commercial	Commercial	Non-commercial
Shareholders:								
Republic of Turkey Prime Ministry Privatization Administration	-	-	-	-	-	14,256,960	-	-
Subsidiaries:								
Güneş Ekspres Havacılık A.Ş.	812,763	-	211,054	-	104,936	-	241,661	-
Affiliates:								
Uçak Servisi A.Ş. (USAŞ)	158	-	6,297,167	-	13,627	-	5,128,795	-
Total	**812,921**	**-**	**6,508,221**	**-**	**118,563**	**14,256,960**	**5,370,456**	**-**

NOTES TO THE BALANCE SHEET AS OF 31 DECEMBER 2004
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

20- Average number of employees during the year (by category):

	2004	2003
In-scope	6,822	7,226
Out-of-scope	329	425
Contract-based	34	20
Total Permanent Staff	7,185	7,671
Total Temporary Staff	3,156	3,012
Total Employees	**10,341**	**10,683**

21- 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 2004, has decreased from Euro 24.36 on 31 December 2004 to Euro 22.33 on 28 April 2005. Hence, the total market value of these securities decreased by YTL 1,049,252 compared to balance sheet date.

- Market price of 2.223 million USAŞ securities, which is traded at the Istanbul Stock Exchange and included in the financial investments as available-for-sale as of 31 December 2004, has decreased from YTL 6.79 on 31 December 2004 to YTL 4.32 on 28 April 2005. Hence , the total market value of these securities decreased by YTL 5,490,810 compared to balance sheet date.

- Retirement pay ceiling has been increased to YTL 1,648.90 on 1 January 2005 (2003: YTL 1,485.40).

- According to Provisional Article 33 of the Corporate Tax Law, earnings of the Company from its offices abroad are exempt from Corporate Tax. A tax ruling dated May 2, 2005 has been received from the Ministry of Finance General Directorate of Revenues in connection with this exemption.

22- Contingent events:

The Company's total undiscounted liability for retirement pay would be approximately YTL 158 million as of 31 December 2004, if all employees had been dismissed as at that date (2003: YTL 132,300,158).

23- There have been no changes in the accounting estimates that would have a significant effect on the Company's gross profit margins.

24- As of 31 December 2004, none of the Company's bank accounts contained blocked deposits (2003: YTL 730,365).

25- The Company's shareholders, affiliates and subsidiaries did not issue any securities included in the group of securities and affiliated securities.

NOTES TO THE BALANCE SHEET AS OF 31 DECEMBER 2004
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

26- The amount of free-of-charge shares obtained due to internally-financed capital increases by affiliates and subsidiaries:

USAŞ distributed 1,852,000,000 of free shares to the Company based on the decision of General Assembly held on 8 December 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement. Because the attached financial statements were prepared in accordance with inflation accounting principles, these free-of-charge shares have not been included in the valuation of subsidiaries.

27- There is no interest payable on banking loans and issued securities related to short- and long-term banking loans (bonus shares included), that has not accrued in terms of type of loan security.

28- A letter of comfort given to Güneş Ekspres Havacılık A.Ş. amount to US$ 2,900,000 and Euro 2,556,459.

29- Other reportable matters significantly affecting the financial statements:

- While the attached income statement for 2003 does not contain the inflation adjustment introduced by Law No. 5024. However, this adjustment has been made in the balance sheet. Financial statements for 2004 have been adjusted for inflation in accordance with the same law.

- Article 15 of Communiqué No. 17 issued under the Tax Procedure Law on 11 April 2005 states that provisions that are not required to be set aside according to the Tax Procedure Law (such as provisions for severance pay) must be taken into account in inflation adjustment, regardless of whether or not the source is a monetary or non-monetary asset. The severance pay item in the Company's accounts and provisions for internal insurance risks are provisions that are not required to be set aside as per the Tax Procedure Law and their source is retained earnings. Therefore, these provisions on the balance sheet have been taken into account in adjusting the losses from previous years. The restatement difference has not been included in 2004 records but have been indicated as a deduction item under "Other Deductions" in the corporate tax return.

NOTES TO THE INCOME STATEMENT FOR THE YEAR 2004
(ACCORDING TO UNIFORM ACCOUNTING SYSTEM)

1- Total depreciation expenses, amortization and depletion for the period is as follows (YTL):

	2004	2003
Depreciation expenses	45,613,851	33,678,225
Amortization and depletion	1,868,911	3,140,209

2- Provision expenses (YTL):

	2004	2003
Provision expenses for severance pay	25,998,978	13,760,611
Provision expenses for internal insurance risks	1,314,367	1,000,558
Provision expenses for doubtful receivables	1,504,288	2,355,807
Total	**28,817,633**	**17,116,976**

3- Financial expenses (YTL):

	2004	2003
To cost of fixed assets	161,595	4,360
Expensed directly	6,183,398	2,223,214

4- Financial expenses for the reporting period do not involve any portion related to shareholders, affiliates or subsidiaries.

5- Total revenue from services rendered to affiliates and subsidiaries during the reporting period was YTL 2,025,677 (2003: YTL 1,615,827). Total expenses for services received was YTL 63,657,760 (2003: YTL 58,873,785).

6- Revenue from dividends given by affiliates and subsidiaries during the reporting period was YTL 4,430,709, revenue from penalties was YTL 838, and rent income was YTL 11,910 (2003: Interest income, YTL 4,016,000). During the same period, YTL 2,583,024 was paid out as rent to shareholders, affiliates and subsidiaries.

7- The total amount paid out as fees and similar benefits to the Chairman of Board of Directors and board members and to senior executives such as the general manager, the general coordinator, and assistant general managers was YTL 831,751 (2003: YTL 710,524).

8- While Law No. 5024 allows financial statements to be adjusted to eliminate the effect of inflation, the revised text of Article 315 of the Tax Procedure Law stipulates that financial assets shall be subject to depreciation at rates to be determined and announced by the Ministry of Finance. In keeping with this, the Ministry of Finance has exercised this authority , by means of Tax Procedure Law General Circular No. 333, published in the Official Gazette of 28 April 2004, determining and announcing the methods and principles of depreciation and the rates to be applied to the financial assets after the passing of Law No. 5024.

For financial assets included in the accounts before 1 January 2004, depreciation will continue to be recorded as set forth in the relevant provisions that were applicable before Law No. 5024 became effective. The values on which the depreciation of these assets is to be based will, however, be the values calculated after inflation adjustment as on 31 December 2003.

NOTES TO THE INCOME STATEMENT FOR THE YEAR 2004

9- Cost of inventory is calculated according to the weighted moving average method.

10- Reasons why an actual stock count could not be fully or partially performed:
A stock count has been performed.

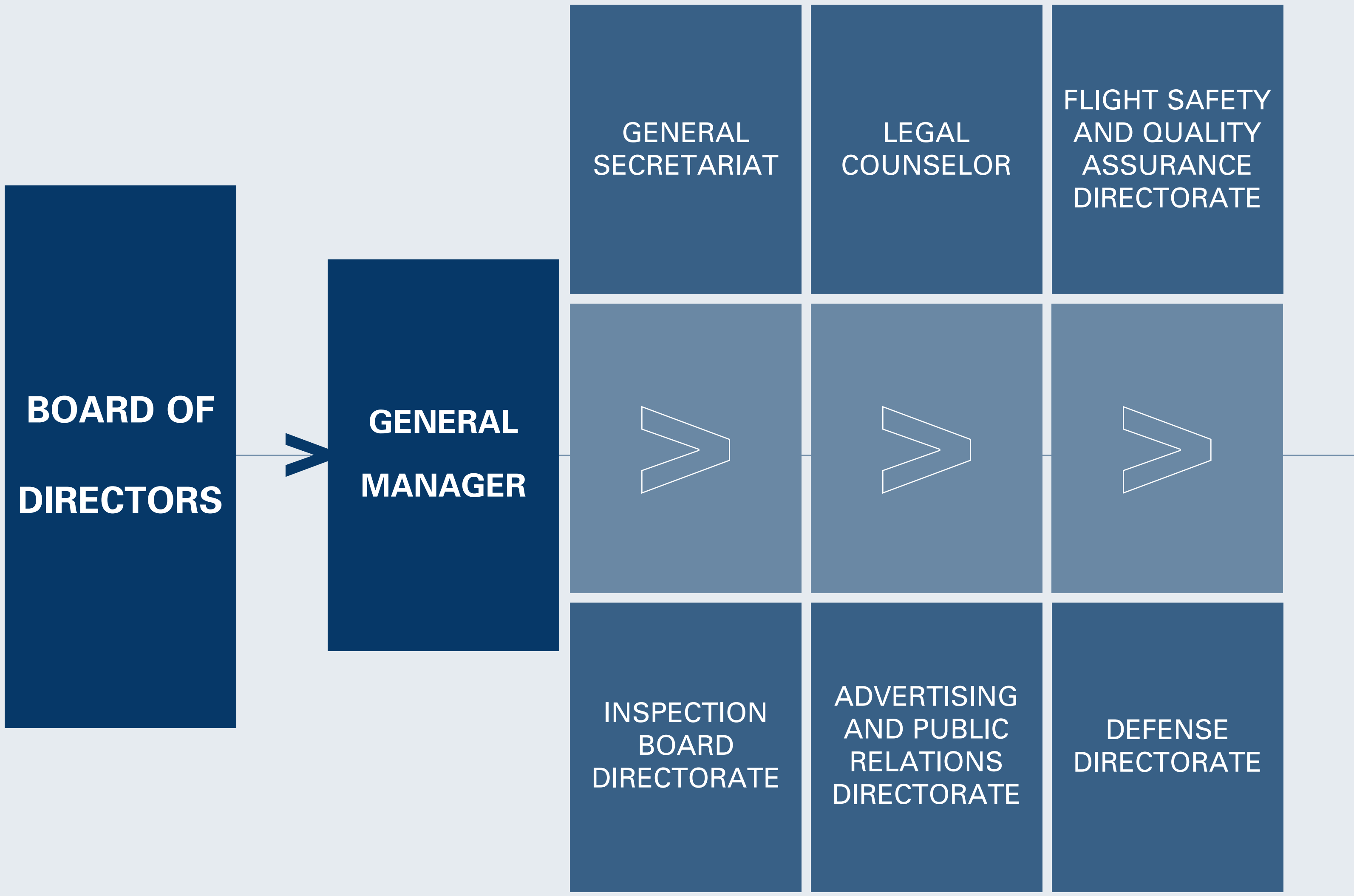
11- No sale of scrap or waste materials exceeding 20% of gross sales has taken place.

12- No balances exist in the income and revenue accounts of previous periods. Expenses and losses from previous periods are shown in detail below:

Expenses and Losses from Previous Periods	**2004**
Inadmissible passenger fare paid out to the State Airports Administration with the approval of the General Manager	752,918
Landing,navigation and handling expenses for the previous period	88,073
OAG Worldwide Ltd. October - November 2003 OAG Flight Guide TK scheduling data printing fee	68,503
Other technical expenses for previous periods	64,503
Legal consultancy and court fees received from the Beaumont and Son company for the London office 2003 rental contract	45,874
Correction record for the refund amount belonging to MNG Air dated May 16, 2003	26,211
Catering expenses for previous periods	11,336
Foreign office costs for previous periods	7,760
Expenses originating from the partial cancellation of the 2003 refund invoice belonging to MNG Air, incurred as a result of the Company's objection	6,708
Cancellation record regarding the objection by Swiss Int. Airlines	3,430
Total	**1,075,316**

13- Pre-tax earnings per share for the reporting period was YTL 0,00034 (2003 : YTL 0,00992).

Organizational Chart



ASSISTANT GENERAL MANAGER-HUMAN RESOURCES	PERSONNEL DIRECTORATE	TRAINING DIRECTORATE	SOCIAL AND ADMINISTRATIVE AFFAIRS DIRECTORATE	GENERAL PROCUREMENT DIRECTORATE		
ASSISTANT GENERAL MANAGER-FINANCIAL	FINANCE DIRECTORATE	ACCOUNTING DIRECTORATE	STRATEGY DEVELOPMENT DIRECTORATE	ELECTRONIC DATA PROCESSING DIRECTORATE		
ASSISTANT GENERAL MANAGER-COMMERCIAL	PRODUCTION PLANNING AND REVENUE MANAGEMENT DIRECTORATE	MARKETING AND SALES DIRECTORATE	GROUND OPERATIONS DIRECTORATE	CARGO DIRECTORATE	CATERING DIRECTORATE	FOREIGN RELATIONS DIRECTORATE
ASSISTANT GENERAL MANAGER-FLIGHT OPERATIONS	OPERATIONAL COORDINATION DIRECTORATE	FLIGHT OPERATIONS DIRECTORATE	CABIN SERVICES DIRECTORATE	FLIGHT TRAINING AND STANDARDS DIRECTORATE		
ASSISTANT GENERAL MANAGER-TECHNIC	AIRCRAFT MAINTENANCE DIRECTORATE	OVERHAUL SHOPS DIRECTORATE	ENGINEERING DIRECTORATE	TECHNICAL SUPPORT DIRECTORATE	PRODUCTION PLANNING AND CONTROL DIRECTORATE	

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

ASIA

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

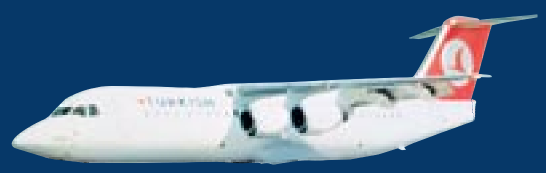
Our Fleet

A340-300
Number of Aircraft: 7

A310-300
Number of Aircraft: 6 (1 Cargo plane)

B737-400
Number of Aircraft: 17

B737-800
Number of Aircraft: 26



RJ100
Number of Aircraft: 6

RJ70
Number of Aircraft: 3

A320
Number of Aircraft: 9

A321
Number of Aircraft: 2

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