

INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have reviewed the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 30 September 2004, and the related statements of income, shareholders' equity and cash flows for the nine-month period then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 30 September 2004. These financial statements are the responsibility of the Company’s management.
2. We conducted our review in accordance with International Standards on Auditing applicable for limited review engagements. Our review consisted of obtaining an understanding of the system for the preparation of the financial statements, applying analytical procedures to the underlying financial data and of making inquiries of persons responsible for financial and accounting matters. This limited scope review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
3. The Company’s financial statements were neither prepared nor reviewed as of and for the nine months period ended on 30 September 2003. Therefore, the accompanying financial statements do not include comparative figures for the statements of income, shareholders' equity, cash flows and related disclosures.
4. Based on our limited scope review, except that comparative figures have not been presented as explained in paragraph 3 above, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with International Financial Reporting Standards.

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

Selçuk Ürkmez, Partner

İstanbul, 26 November 2004

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

BALANCE SHEETS AS AT 30 SEPTEMBER 2004 AND 31 DECEMBER 2003

(All figures are adjusted for the effect of inflation in TL units current at 30 September 2004 pursuant to IAS 29)

<u>ASSETS</u>	<u>Note</u>	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Cash and Cash Equivalents	5	508,817,877	721,269,421
Accounts Receivable (Net)	6	172,818,917	129,144,492
Due from Related Parties (Short Term)	7	1,020,204	129,606
Inventories	8	61,790,503	50,085,676
Other Receivables and Current Assets	9	62,255,086	57,752,555
TOTAL CURRENT ASSETS		806,702,587	958,381,750
Due from Related Parties (Long Term)	7	-	57,229,310
Investments At Equity	10	14,840,500	7,768,976
Financial Assets Available For Sale	10	16,285,486	16,723,459
Fixed Assets (Net)	11	2,005,276,080	2,155,506,725
Advances Given For Aircraft	12	312,095,530	8,823,831
Other Long Term Receivables and Assets	13	14,052,242	16,894,500
TOTAL NON-CURRENT ASSETS		2,362,549,838	2,262,946,801
TOTAL ASSETS		3,169,252,425	3,221,328,551

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

BALANCE SHEETS AS AT 30 SEPTEMBER 2004 AND 31 DECEMBER 2003

(All figures are adjusted for the effect of inflation in TL units current at 30 September 2004 pursuant to IAS 29)

<u>LIABILITIES</u>	<u>Note</u>	<u>30 September 2004</u> <u>TL 000,000</u>	<u>31 December 2003</u> <u>TL 000,000</u>
Bank Borrowings	14	779,598	-
Short Term Portion of Finance Lease Obligations	15	223,745,138	266,416,776
Accounts Payable		242,945,099	196,724,179
Due to Related Parties	16	7,631,423	5,870,683
Other Short Term Payables	17	39,496,806	54,471,606
Deposits and Advances Received	18	23,256,372	61,045,088
Passenger Flight Liabilities	19	142,941,739	122,635,596
Other Accrued Liabilities	20	69,896,561	72,248,044
Provision for Corporate Tax	21	37,753,228	21,056,627
TOTAL CURRENT LIABILITIES		788,445,964	800,468,599
Long Term Portion of Finance Lease Obligations	15	1,129,685,584	1,313,342,956
Manufacturers' Credit (Net)	22	3,141,492	4,646,365
Long Term Deferred Tax Liabilities	21	64,758,821	47,734,032
Retirement Pay Liability	23	94,629,223	85,969,303
Other Long Term Payables	17	4,343,095	5,989,273
TOTAL NON-CURRENT LIABILITIES		1,296,558,215	1,457,681,929
SHAREHOLDERS' EQUITY			
Share Capital	24	1,837,912,989	1,837,912,989
Share Premium		859,891	859,891
Reserves	24	135,548,951	135,548,951
Accumulated Losses		(890,073,585)	(1,011,143,808)
TOTAL SHAREHOLDERS' EQUITY		1,084,248,246	963,178,023
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,169,252,425	3,221,328,551

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**STATEMENTS OF INCOME FOR****THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2004***(All figures are adjusted for the effect of inflation in TL units current at 30 September 2004 pursuant to IAS 29)*

	<u>Note</u>	1 January- 30 September 2004 <u>TL 000,000</u>
Operating Revenues	28,33	2,034,259,024
Operating Expenses	29,33	<u>(1,881,888,327)</u>
OPERATING PROFIT		152,370,697
Income from Other Operations	31,33	24,601,460
Loss from Other Operations	32	<u>(13,940,796)</u>
INCOME BEFORE FINANCIAL EXPENSE, MONETARY GAIN AND TAXATION		163,031,361
Financial Expense (Net)	30	(67,763,378)
Monetary Gain (Net)		<u>97,377,413</u>
INCOME BEFORE TAXATION		192,645,396
Taxation Charge	21	<u>(71,575,173)</u>
NET PROFIT		<u>121,070,223</u>
Basic Earnings per Share (TL in full)		692

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2004**

(All figures are adjusted for the effect of inflation in TL units current at 30 September 2004 pursuant to IAS 29)

	Share Capital TL 000,000	Share Premium TL 000,000	Reserves TL 000,000	Accumulated Losses TL 000,000
Balances at 31 December 2003	1,837,912,989	859,891	135,548,951	(1,011,143,808)
Profit for the period	-	-	-	121,070,223
Balances at 30 September 2004	<u>1,837,912,989</u>	<u>859,891</u>	<u>135,548,951</u>	<u>(890,073,585)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**STATEMENTS OF CASH FLOWS****FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2004***(All figures are adjusted for the effect of inflation in TL units current at 30 September 2004 pursuant to IAS 29)*

	1 January- 30 September 2004 TL 000,000
CASH FLOWS FROM OPERATING ACTIVITIES:	
Profit prior to taxation	192,645,396
Adjustments to reconcile profit for the period to net cash provided by operating activities:	
Depreciation	217,240,695
Provision for Retirement Pay Liability	14,357,624
Interest Income	(28,642,166)
Gain on Fixed Asset Sales	(50,235)
Monetary Gain on Deferred Taxes Liabilities	(4,067,301)
Impairment Loss	11,129,712
Income from Financial Investment Accounted per Equity Method	(7,071,524)
Interest Expense	35,233,711
Movement in Manufacturers' Credit	(1,504,873)
Foreign Exchange Gain on Finance Leases (Net of Monetary Gain)	(12,863,097)
Provision for Diminution in Value of Financial Assets Available For Sale	1,885,432
Amortization of Deferred Income from USA\$ Share Transfer	(2,605,858)
Decrease in Provision for Doubtful Receivable	(4,604,624)
Operating Profit Before Working Capital Changes	411,082,892
(Increase) / Decrease in Trade Receivables	(39,069,801)
(Increase) / Decrease in Due From Related Parties	(890,598)
(Increase) / Decrease in Inventories	(11,704,827)
(Increase) / Decrease in Other Receivables and Short Term Assets	(4,502,531)
(Increase) / Decrease in Other Long Term Receivables and Assets	2,842,258
Increase / (Decrease) in Trade Payables	46,220,920
Increase / (Decrease) in Due to Related Parties	1,760,740
Increase / (Decrease) in Other Payables and Accrued Expenses	(17,806,121)
Increase / (Decrease) in Deposits and Advances Received	(37,788,716)
Increase / (Decrease) in Passenger Flight Liabilities	20,306,143
Cash Generated from Operations	370,450,359
Retirement Benefits Paid	(5,697,705)
Interest Paid	(33,915,595)
Income Taxes Paid	(33,786,482)
Net Cash Provided by Operating Activities	297,050,577
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Proceeds from Receivable from Related Parties	57,229,310
Cash Outflows from Purchase of Financial Assets	(7,937)
Cash Proceeds from Fixed Assets Sales	5,873,398
Interest Received	28,642,166
Acquisition of Fixed Assets	(78,610,417)
Advances Given Related to Aircraft	(303,271,699)
Net Cash Used in Investing Activities	(290,145,179)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payment of Finance Leases	(220,136,540)
Changes in Bank Borrowings	779,598
Net Cash used in Financing Activities	(219,356,942)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(212,451,544)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	721,269,421
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	508,817,877

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

1. THE COMPANY'S OPERATIONS

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

As of 30 September 2004, the shareholders and their respective shareholdings in the Company were as follows:

Turkish Republic Privatization Administration	98.17 %
Others	<u>1.83 %</u>
Total	<u>100.00%</u>

The total number of employees working for the Company as of 30 September 2004 is 10,312 (31 December 2003: 10,239). The average number of employees working for the Company in 30 September 2004 and 31 December 2003 is 10,236 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 basis 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

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

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

Inflation Accounting

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

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 89% for the three years ended 30 September 2004 based on the wholesale price index announced by the Turkish State Institute of Statistics.

Although, increase in price indices does not exceed 100%, the financial statements are adjusted for inflation considering the following indicators for inflation have not ceased; general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency, the prices for goods and services are the determined at foreign currency, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, interest rates, wages and prices are linked to a price index.

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 30 September 2004 are given below:

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2002	6,478.8	1.2456
30 September 2003	7,173.3	1.1250
31 December 2003	7,382.1	1.0931
30 September 2004	8,069.7	1.0000

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

Inflation Accounting (cont'd)

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

<u>Years</u>	September	<u>December</u>			
		<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Currency Devaluation US Dollar	%7.3	%(14.6)	%13.5	%114.3	%24.4
WPI	%9.3	%13.9	%30.8	%88.6	%32.7

As at 30 September 2004, the exchange rate announced by the Turkish Central Bank (which is a market rate) was TL 1,497,696 = US Dollar 1 (31 December 2003: TL 1,395,835=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
- 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

3. SEGMENTAL REPORTING

3.1 Business Segments

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

3.2 Geographical Segments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Revenue Recognition and Commission Expenses

Passenger fares and cargo revenues are recorded as operating revenue when the transportation 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 TL 25,865 Billion (approximately) were recognized as operating revenue as of 30 September 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.

4.2 Inventory Valuation

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.3 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.

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 joint control are carried at equity.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.4 Tangible and Intangible Assets

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

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

	<u>Useful Life</u>	<u>Residual Value</u>
- 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. In accordance with IAS 36 ("Impairment of Assets") 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.

4.5 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.6 Maintenance and Repair Costs

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

4.7 Frequent Flyer Program

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

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

4.8 Taxation and deferred taxes

Taxes on income for the 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.9 Employee Retirement and Termination Indemnities

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

4.10 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.

4.11 Foreign Currency Transactions

Transactions in foreign currencies are translated into Turkish Lira at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated 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:

	<u>Closing Rate</u>	<u>Average Rate</u>
31 December 2002	1,634,501	1,504,597
30 September 2003	1,376,707	1,514,363
31 December 2003	1,395,835	1,495,307
30 September 2004	1,497,696	1,415,901

4.12 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.13 Financial Instruments

Financial Assets

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

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

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

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

The Company's principal financial assets are cash and cash equivalents, 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.

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

Sun Express is accounted for using the equity method as the Company exercises a significant influence. Uçak Servis A.Ş. and France Telekom 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 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.13 Financial Instruments (cont'd)

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 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 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

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

4.14 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.

4.15 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.

4.16 Earnings per Share

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

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

A summary of the weighted average number of shares outstanding during 30 September 2004 and the basic earnings per share calculation is as follows:

	30 September 2004
Number of Shares Outstanding at January 1, (in full)	175,000,000,000
New shares issued (cash increase) (in full)	-
Number of Shares Outstanding at September 30, (in full)	<u>175,000,000,000</u>
Weighted average number of shares outstanding during the period (in full)	<u>175,000,000,000</u>
Net Profit for the Period (TL Million)	121,070,223
Basic Earnings per Share (TL in full)	692

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Cash	329,810	190,950
Cheques Received	143,638	60,237
Banks	505,779,831	712,777,419
Other Liquid Assets	2,564,598	8,240,815
	<u>508,817,877</u>	<u>721,269,421</u>

Foreign currency bank balances are TL 362,973,849 Million at 30 September 2004 (31 December 2003: TL 709,324,968 Million).

Time Deposits:

					30 September 2004
<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest rate %</u>	<u>Maturity</u>	<u>TL 000,000</u>
161,300,000	TL Million	31.08.2004-	16.82%-	01.10.2004-	
		30.09.2004	19.68%	25.10.2004	161,300,000
8,550,000	USD	30.09.2004	1.14%	01.10.2004	12,805,301
150,250,000	EURO	28.06.2004-	3.12%-	22.10.2004-	
		23.08.2004	3.47%	29.11.2004	277,235,591
					<u>451,340,892</u>

					31 December 2003
<u>Amount</u>	<u>Currency</u>	<u>Opening Date</u>	<u>Interest rate %</u>	<u>Maturity</u>	<u>TL 000,000</u>
2,595,262	TL Million	31.12.2003	19.78%	02.01.2004	2,623,546
205,300,000	USD	18.08.2003-	2.41%-	02.01.2004-	
		31.12.2003	3.83%	23.02.2004	313,256,795
181,500,000	EURO	25.08.2003-	2.81%-	02.01.2004-	
		31.12.2003	3.69%	23.02.2004	346,232,192
					<u>662,112,533</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

6. ACCOUNTS RECEIVABLE (Net)

Accounts receivable consists of the following:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Trade Receivables	189,697,433	150,575,587
Discount on Receivables	(419,706)	(367,661)
Provision for Doubtful Receivables	<u>(16,458,810)</u>	<u>(21,063,434)</u>
	<u><u>172,818,917</u></u>	<u><u>129,144,492</u></u>

7. DUE FROM RELATED PARTIES

Short term due from related parties consists of the following:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	1,020,204	114,710
Uçak Servisi A.Ş (USAŞ)	-	14,896
Due from Related Parties - Short Term	<u><u>1,020,204</u></u>	<u><u>129,606</u></u>

Long term due from related parties consists of the following:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Turkish Republic Privatization Administration (*)	-	15,584,914
Turban Turizm A.Ş. (*)	-	41,644,396
Due from Related Parties - Long Term	<u><u>-</u></u>	<u><u>57,229,310</u></u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

8. INVENTORIES

Inventories consist of the following:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Spare Parts, Flight Equipment	51,405,843	40,192,574
Other Inventories	10,384,660	9,893,102
	<u>61,790,503</u>	<u>50,085,676</u>

9. OTHER RECEIVABLES AND CURRENT ASSETS

Other receivables and current assets consist of the following:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
VAT Receivable	611,566	121,232
Tax to be Refunded	2,389,418	3,002,230
Maintenance Service Income Accrual	5,369,781	13,550,849
Prepaid Operating Lease Expenses	3,605,593	3,347,607
Prepaid Sales Commissions	11,236,732	9,856,493
Deposits Given Related to the Outstanding Litigations	-	2,079,207
Prepaid Rent Expenses	2,059,427	430,424
Other Prepaid Expenses	7,780,037	4,135,388
Receivables from Personnel	986,614	589,380
Business Advances	403,914	147,102
Restriction on Transfer of funds from Banks (*)	23,502,622	18,224,769
Receivable from SITA Deposit Certificates	126,816	166,033
Receivable of VAT Return from Tax Office	24,541	-
Interline Passenger Income Accrual	586,616	-
Other Receivables	3,571,409	2,101,841
	<u>62,255,086</u>	<u>57,752,555</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

10. FINANCIAL ASSETS

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

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	<u>14,840,500</u>	<u>7,768,976</u>

Financial assets available for sale are as follows:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
France Telekom Shares	19,410,699	19,410,699
Diminution in Value of France Telekom Shares	(11,906,675)	(10,650,366)
Uçak Servis A.Ş. (USAŞ)	7,887,165	6,447,643
Diminution in Value of USAŞ Shares	(847,665)	(218,542)
Sita Inc.	1,714,745	1,714,745
Emek İnşaat ve İşletme A.Ş.	25,791	19,280
Other Financial assets	1,426	-
	<u>16,285,486</u>	<u>16,723,459</u>

Tender for the catering service was won by Uçak Servis 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 TL 16,183,518 Million. "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 İstanbul Stock Exchange Market in 2003.

Details of the Company's long-term financial assets at 30 September 2004 are as follows:

<u>Name of the Company</u>	<u>Place of Incorporation And Operation</u>	<u>Proportion of Ownership Interest</u>	<u>Proportion of Voting Power Held</u>	<u>Principal Activity</u>
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%	None	Information & Telecommunication Services
Uçak Servis A.Ş. (USAŞ)	Turkey	6.5%	6.5%	Catering
France Telecom	France	Less than 0.1%	None	Telecommunication

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

11. FIXED ASSETS

Cost	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
Opening Balance 1 January 2004	158,079,979	241,797,038	277,549,319	546,837,762	250,501,551	52,559	1,474,818,208	3,903,473,030	61,129,015	3,964,602,045	5,439,420,253
Additions	-	3,690,652	2,188,788	-	72,549,268	14,473,312	92,902,020	-	-	-	92,902,020
Disposals	(357,763)	(3,043,937)	(4,530,330)	-	(36,709,621)	(14,291,603)	(58,933,254)	(11,996,018)	-	(11,996,018)	(70,929,272)
Closing balance 30 September 2004	157,722,216	242,443,753	275,207,777	546,837,762	286,341,198	234,268	1,508,786,974	3,891,477,012	61,129,015	3,952,606,027	5,461,393,001
Accumulated Depreciation											
Opening Balance 1 January 2004	41,326,171	194,468,706	245,816,399	342,269,840	124,507,109	-	948,388,225	1,130,536,793	45,777,305	1,176,314,098	2,124,702,323
Current period depreciation	1,969,370	10,386,266	9,357,712	4,381,028	58,102,817	-	84,197,193	130,058,906	2,984,596	133,043,502	217,240,695
Disposal	(129,391)	(3,030,843)	(4,497,462)	-	(36,709,621)	-	(44,367,317)	(2,609,135)	-	(2,609,135)	(46,976,452)
Closing Balance 30 September 2004	43,166,150	201,824,129	250,676,649	346,650,868	145,900,305	-	988,218,101	1,257,986,564	48,761,901	1,306,748,465	2,294,966,566
Accumulated impairment	-	6,112,448	-	107,719,372	-	-	113,831,820	1,043,883,120	3,435,415	1,047,318,535	1,161,150,355
30 September 2004 Net Book Value	114,556,066	34,507,176	24,531,128	92,467,522	140,440,893	234,268	406,737,053	1,589,607,328	8,931,699	1,598,539,027	2,005,276,080
31 December 2003 Net Book Value	116,753,808	40,347,358	31,732,917	105,578,140	125,994,442	52,557	420,459,222	1,723,866,621	11,180,882	1,735,047,503	2,155,506,725

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

12. ADVANCES GIVEN FOR AIRCRAFT

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Pre Payments for Aircraft Purchases	310,552,903	7,252,207
Deposits Given for Operational Leases	<u>1,542,627</u>	<u>1,571,624</u>
Total Advances Given For Aircraft	<u><u>312,095,530</u></u>	<u><u>8,823,831</u></u>

13. OTHER LONG TERM RECEIVABLES AND ASSETS

Other long term receivables and assets consist of the following:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Prepaid Aircraft Financing Expense	2,810,282	3,472,673
Prepaid Eximbank USA Guarantee and Exposure Fee	7,275,127	8,851,028
Due from personnel	1,326,455	1,421,652
Receivables from SITA Deposit Certificate	756,082	706,141
Deposits Given	1,788,896	2,343,582
Other Receivables	<u>95,400</u>	<u>99,424</u>
	<u><u>14,052,242</u></u>	<u><u>16,894,500</u></u>

14. BANK BORROWINGS

Bank borrowings of TL 779,598 Million consist of overnight interest free borrowings for the purposes of settlement of tax and social security premium payments.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

15. FINANCE LEASE OBLIGATIONS

The future lease rental payments under financial leases are:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Not later than one year	268,858,315	311,809,369
Between 1 - 2 years	264,196,651	260,956,556
Between 2 - 5 years	415,457,374	469,372,590
Over 5 years	560,907,417	697,577,865
	<u>1,509,419,757</u>	<u>1,739,716,380</u>
Less: Future interest expense	<u>(155,989,035)</u>	<u>(159,956,648)</u>
Nominal value of future rentals shown in the balance sheets	<u>1,353,430,722</u>	<u>1,579,759,732</u>
Represented by :		
Current Liabilities	223,745,138	266,416,776
Long Term Liabilities	1,129,685,584	1,313,342,956
	<u>1,353,430,722</u>	<u>1,579,759,732</u>
Interest Range		
Floating rate obligations	1,007,500,036	1,171,237,853
Fixed rate obligations	345,930,686	408,521,879
	<u>1,353,430,722</u>	<u>1,579,759,732</u>

As of 30 September 2004, the US Dollar denominated lease obligations' interest rates are between 5.96% and 8.00%; for the fixed rate obligations, and LIBOR plus a margin ranging between 0.02% and 3.00% for the floating rate obligations.

16. DUE TO RELATED PARTIES

Due to related parties consist of the following:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Sun Express	291,103	264,170
Uçak Servis A.Ş. (USAŞ)	7,340,320	5,606,513
	<u>7,631,423</u>	<u>5,870,683</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

17. OTHER SHORT TERM AND LONG TERM PAYABLES

Other short term payables consist of the following:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Taxes and Funds Payable	20,430,173	19,743,863
Social Security Premiums Payable	8,847,960	11,399,703
Payable to Personnel	273,977	2,193,908
State Airport Administration (“DHMI”) Protocol Payable	6,322,211	17,468,304
Discount on DHMI Protocol Payable	(309,720)	(1,418,448)
Deferred Income from USAŞ Share Transfer (Note 10)	3,474,477	2,994,636
Deferred Income	49,973	215,096
Other Liabilities	407,755	1,874,544
	<u>39,496,806</u>	<u>54,471,606</u>

Other long term payables consist of the following:

Deferred Income from USAŞ Share Transfer (Note 10)	4,343,095	5,989,273
	<u>4,343,095</u>	<u>5,989,273</u>

18. DEPOSITS AND ADVANCES RECEIVED

Deposits and advances received consist of the following:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Deposits and Guarantees Received	13,467,534	17,177,906
Advances Received for Mileage Credit Sales	4,785,455	27,839,447
Deposit Received From Turkish Republic Religious Affairs	2,286,999	13,818,328
Other Advances Received	2,716,384	2,209,407
	<u>23,256,372</u>	<u>61,045,088</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

19. PASSENGER FLIGHT LIABILITIES

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Flight Liability - Advanced Ticket Sales	111,752,476	90,026,645
Flight Liability Resulting from Sales of Mileage	<u>31,189,263</u>	<u>32,608,951</u>
	<u>142,941,739</u>	<u>122,635,596</u>

20. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Sales Incentive Premium Accrual	4,541,515	4,671,995
Fuel Oil Privilege Expense Accrual	2,354,581	10,491,536
Rejected Passengers Expense Accrual	1,717,857	793,441
DHMI Expense Accrual	6,722,323	39,745
Accrued Salaries	17,479,910	23,071,645
Accrued Maintenance Costs	13,771,496	12,674,662
Accrued Frequent Flyer Liability	9,298,727	12,512,005
Provision for Legal Claims	9,668,129	5,579,492
Rent Accrual for RJ Aircraft that will Returned	<u>3,794,162</u>	<u>1,095,942</u>
Other Liabilities	<u>547,861</u>	<u>1,317,581</u>
	<u>69,896,561</u>	<u>72,248,044</u>

21. TAXATION

Corporate Tax Payable is as follows:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Corporate Tax Payable	50,483,083	86,348,218
Prepaid Taxes and Funds	<u>(12,729,855)</u>	<u>(65,291,591)</u>
	<u>37,753,228</u>	<u>21,056,627</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

21. TAXATION (Cont'd)

Major components of tax charge consist of the following:

	30 September 2004 <u>TL 000,000</u>
Current Tax Charge	50,483,083
Deferred Tax Charge	<u>21,092,090</u>
Tax Charge	<u><u>71,575,173</u></u>

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

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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

21. TAXATION (Cont'd)

Income withholding tax:

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

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

Inflation Adjusted 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 Newspaper 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 like retirement pay provision and provision for doubtful receivables.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

21. TAXATION (cont'd)

Temporary Differences: Deferred Tax Assets / (Liabilities)

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Allowance for Unrecoverable		
Bank Accounts	304	1,328,016
Prepaid Expenses	434,277	-
Provision for Doubtful Receivables	539,466	409,819
Restatement of Inventory	7,058,031	5,437,167
Changes in Other Short Term Assets	1,100,573	-
Short Term Lease Obligation	56,069,997	59,804,662
Provision for Advance Ticket Sales	(20,310,598)	(17,639,713)
Accrued Liabilities	16,886,938	11,173,029
Fixed Assets	(534,689,254)	(529,828,903)
Long Term Lease Obligation	372,796,243	394,002,884
Retirement Pay Provision	31,227,643	25,790,791
Long Term Assets	(970,108)	(2,175,662)
Manufacturers' Credit	1,036,692	1,393,909
Deferred Income	2,579,814	2,695,180
Discount on Receivables	138,503	110,298
Discount on Payables	(107,128)	(425,534)
Diminishing in Value of Financial		
Assets	1,449,786	1,217,217
Interest Accrual on Bank Accounts	-	(1,027,192)
Deferred Tax Liability	<u>(64,758,821)</u>	<u>(47,734,032)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

21. TAXATION (cont'd)

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

	30 September 2004 <u>TL 000,000</u>
Deferred Tax Charge Related to the Origination and Reversal of Temporary Differences	(16,725,417)
Deferred Tax Charge Resulting from Change in Effective Tax Rate	<u>(4,366,673)</u>
Net Deferred Tax Charge	<u>(21,092,090)</u>
Monetary Gain on Deferred Tax Liabilities	<u>4,067,301</u>
Change in Net Deferred Tax	<u><u>(17,024,789)</u></u>

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

	30 September 2004 <u>TL 000,000</u>
Profit Before Taxation	192,645,396
Expected Tax (at 33%)	63,572,981
Reconciling Items:	
Non-deductible Expenses	7,834,256
Tax Exempt Income	(1,405,985)
Monetary Gain not Taxable	(851,414)
Deferred Tax Charge Resulting from change in effective tax rate	4,366,673
Investment Incentives Used	<u>(1,941,338)</u>
Actual Tax Charge	<u><u>71,575,173</u></u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

22. MANUFACTURER'S CREDIT (Net)

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

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Gross Manufacturer's Credit	18,921,891	19,277,575
Accumulated Amortization (-)	<u>(15,780,399)</u>	<u>(14,631,210)</u>
	<u>3,141,492</u>	<u>4,646,365</u>

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 TL 1,574,740,000 as at 30 September 2004 (TL 1,389,950,000 as at 31 December 2003 at historic money values). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

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

	30 September 2004 <u>TL 000,000</u>
Current Service Cost	17,862,010
Interest Cost	<u>3,820,854</u>
	<u>21,682,864</u>

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

	2004 <u>TL 000,000</u>
Provision at January 1	85,969,304
Charge for the Period	21,682,864
Monetary Gain	(7,325,240)
Payments During the Period	<u>(5,697,705)</u>
Provision at June 30	<u>94,629,223</u>

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

24. SHARE CAPITAL

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

			30 September 2004	31 December 2003
	<u>Class</u>	<u>%</u>	<u>TL 000,000</u>	<u>TL 000,000</u>
Turkish Republic Privatization Administration(*)	A, C	98.17	171,788,948	171,788,948
Others	A	1.83	3,211,052	3,211,052
Share Capital (Historic)			<u>175,000,000</u>	<u>175,000,000</u>
Restatement Effect			<u>1,662,912,989</u>	<u>1,662,912,989</u>
Restated			<u>1,837,912,989</u>	<u>1,837,912,989</u>

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

As at 30 September 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 1,000 TL each. These shares are issued to name. The Class C share, which belongs to the Privatization Administration, is a unique share with a par value of 1,000 TL with the following privileges:

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

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

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

- a) 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

24. SHARE CAPITAL (cont'd)

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

The Shareholder's Equity accounts of the Company as of 30 September 2004 and 31 December 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.

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
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 (*)	1,790,916,737	1,790,916,737
Net Profit for the Period / Year (According to IFRS)	121,070,223	233,779,675
Accumulated Losses (According to IFRS)	<u>(1,011,143,808)</u>	<u>(1,244,923,483)</u>
	<u>1,084,248,246</u>	<u>963,178,023</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

24. SHARE CAPITAL (cont'd)

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
(*) Shareholders' Equity Inflation Adjustment Differences:		
Share Capital	1,662,912,989	1,662,912,989
Share Premium	678,706	678,706
Legal Reserves	58,171,721	58,171,721
Extraordinary Reserves	64,051,221	64,051,221
Other Reserves	5,102,100	5,102,100
	<u>1,790,916,737</u>	<u>1,790,916,737</u>

25. CONTINGENT LIABILITIES

a) Guarantees Given:

	30 September 2004 <u>TL 000,000</u>	31 December 2003 <u>TL 000,000</u>
Guarantee Letters Given	42,425,743	37,185,763

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 207 Million as of 30 September 2004 related to these new purchases.

a) Letter of Comfort:

	<u>30 September 2004</u>	<u>31 December 2003</u>
Letters of Comfort Given to Sun Express	USD 2,900,000	USD 2,900,000
	EURO 2,556,459	EURO 2,556,459

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

The majority of THY's airport and terminal buildings, repair and maintenance centers, data processing centers, and training facilities are located on the land leased from the State Airports Administration (DHMI). The buildings and facilities on these leased lands have been constructed by THY and are recorded as fixed assets of the Company. However the land on which all these buildings were built is not registered as THY's property. The title of the property on which all these buildings were built belongs to the Ministry of Finance and allocated to DHMI for its use. The Company pays rent to DHMI for the land. The rent agreements made with DHMI are valid for one year. The agreements are renewed automatically at the beginning of each year if there is not any disapproval from any sides. The net book value of these buildings are TL 94,461,675 Million as of 30 September 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, DHMI does not renew the rent agreement.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

25. CONTINGENT LIABILITIES (cont'd)

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

e) The Company discounted its retirement pay provision to TL 94,629,223 Million (see note 23) according to IAS 19. The Company's total undiscounted liability for retirement pay would be approximately TL 155 Billion as of 30 September 2004, if all employees had been dismissed as at that date.

f) 8 RJ 100/70 aircraft were grounded on May 2004 due to corrosion identified on 2 RJ 100 aircraft during delivery maintenance check, were also identified in other RJ 100/70 aircraft in the fleet. On July 2004, 6 of these aircraft, which have further lease periods, were given back to service as a result of written approval of air worthiness by Civil Aviation Directorate of Turkey.

According to conditions of the lease agreements, at the end of the lease period, the Company has to deliver the aircraft in air worthy condition and related maintenance checks were completed. An expense and expense provision amount of US Dollar 2,848,399 related to these maintenance checks including treatment for corrosion has been recognized in the accompanying financial statements.

According to the Company's management, cost of corrosion treatment should be paid by manufacturer, because corrosion identified in the aircraft was caused by manufacturer's error. However, manufacturer is of the opinion that corrosion was caused by improper operating of the aircraft. The matter has been brought in to legal process through British Courts in accordance with conditions of the lease agreement and discussions among the Company, lessor and manufacturer have been continuing. If legal process or discussions among related parties results in favor of the Company, provision for corrosion treatment will be reversed and recognized as income.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

26. OPERATING LEASE COMMITMENTS

Commitments for future operating leases are as follows:

	30 September 2004	31 December 2003
	<u>TL 000,000</u>	<u>TL 000,000</u>
Not later than one year	65,508,299	46,049,359
Between 1 and 2 years	33,604,043	28,309,076
Between 2 and 5 years	8,013,689	1,620,452
	<u>107,126,031</u>	<u>75,978,887</u>

27. 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 30 September 2004, has increased from Euro 20.06 at 30 September 2004 to Euro 22.85 at 24 November 2004. Hence, the total market value of these securities increased by TL 1,043,680 Million.
- Market price of 370,500,000 USAŞ securities, which is traded in Istanbul Stock Exchange Market, and included in the financial investments as available for sale as of 30 September 2004, has increased from TL 19,000 at 30 September 2004 to TL 42,500 at 24 November 2004. Hence, the total market value of these securities increased by TL 8,706,750 Million.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

28. OPERATING REVENUES

Operating Revenues are as follows

	30 September 2004 <u>TL 000,000</u>
Scheduled Services	
- Passenger	1,632,894,450
- Cargo and mail	<u>176,611,854</u>
	1,809,506,304
Non-scheduled Services	31,920,400
Other Revenues	<u>192,832,320</u>
Total Revenues	<u><u>2,034,259,024</u></u>

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

	30 September 2004 <u>TL 000,000</u>
International	
- Europe	769,760,542
- Middle East	172,660,598
- North Africa	46,716,404
- North America	107,487,127
- Far East	<u>299,200,274</u>
	1,395,824,945
Domestic	<u>413,681,359</u>
Total Scheduled Services' Flight Revenue	<u><u>1,809,506,304</u></u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

29. OPERATING EXPENSE

Operating expenses consist of the following:

	30 September 2004 <u>TL 000,000</u>
Fuel Oil Expenses	345,207,514
Maintenance Expenses	100,863,788
Passenger Service and Catering Expenses	120,020,394
Landing and Navigation Expenses	172,774,330
Handling and Station Expenses	132,654,522
Staff Expenses	424,948,205
Marketing and Selling Expenses	225,337,452
General Operations	52,766,807
General Administrative Expenses	11,667,932
Insurance Expenses	22,727,527
Depreciation Expenses	217,240,695
Operating Lease Expenses	37,611,080
Impairment Loss	11,129,712
Other Expenses	6,938,369
	<u>1,881,888,327</u>

30. FINANCIAL EXPENSE (NET)

Financial (expense) / income consist of the following:

	30 September 2004 <u>TL 000,000</u>
Interest Income	28,642,166
Income from Investment Accounted from Equity Method	11,140,609
Foreign Exchange Gains	172,731,513
Discount Income	357,438
Financial Income	<u>212,871,726</u>
Foreign Exchange Losses	(237,988,912)
Interest Expenses	(3,382,181)
Finance Lease Interest Expense	(31,851,530)
Retirement Pay Interest Cost	(3,820,854)
Diminution in Value of Financial Assets	(1,885,432)
Discounting Expense	(1,706,195)
Financial Expense	<u>(280,635,104)</u>
Financial Expense (Net)	<u>(67,763,378)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

31. INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

	30 September 2004 <u>TL 000,000</u>
Commission Income	146,017
Dividend Income	281,841
Insurance Claims Received	387,715
Gain from Sale of Fixed Assets	50,235
Discounts Received From Spare Parts Suppliers	7,508,178
Reversal of Unnecessary Provision	7,373,324
Manufacturer's Credit Income	1,419,142
Land and Building Rent Income	291,314
Compensations Received	1,183,778
Free of Cost Materials Income	910,179
Other Income	5,049,737
	<u>24,601,460</u>

32. LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the following:

	30 September 2004 <u>TL 000,000</u>
Provision Expenses	8,298,070
Rent Expense of RJ Aircraft For The Non-Operating Period	2,259,370
Rent Expense of RJ Aircraft To Be Returned	2,767,529
Other Expenses	615,827
	<u>13,940,796</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER 2004

33. 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:

	30 September 2004 <u>TL 000,000</u>
Services given to Sun Express	1,931,614
Services given to USAŞ	173,981
	<u>2,105,595</u>
Services taken from Sun Express	2,357,748
Services taken from USAŞ	47,998,896
	<u>50,356,644</u>

Dividend income from equity investments are as follows:

	30 September 2004 <u>TL 000,000</u>
Uçak Servisi A.Ş.	185,178
Emek İnşaat and İşletme A.Ş.	6,299
	<u>191,477</u>

**TÜRK HAVA YOLLARI
ANONİM ORTAKLIĞI**

FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED
30 SEPTEMBER 2004