

INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 31 December 2003, and the related statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira as at 31 December 2003. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2003 the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

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

- a) As it is explained in detail in Footnote 2, the Company has decided to announce to the public its financial statements prepared in accordance with IFRS as of 31 December 2003. Consequently, the Companies which choose to apply Turkish Capital Market Board ("CMB") Bulletin XI No: 25 or IFRS, are not required to report in accordance with CMB Bulletins XI No:1, XI No: 20 and XI No: 21.
- b) In our report dated 7 May 2003 for the financial statements as of 31 December 2002, it was mentioned that the Company did not apply International Accounting Standard No: 36 "Impairment of Assets" for some of its aircrafts, since it was not yet certain as of 2001 report date, whether the decline in market prices of some of the Company's aircrafts, which occurred as a result of the terrorist attack in the United States on 11 September 2001, was permanent or temporary. Because market prices of used aircraft had not recovered as of 31 December 2002 and the Company's management was of the opinion that the decline in market prices was permanent, the Company has recorded the total impairment in 2002, including the amount that should be recorded in 2001 as an expense. While preparing its 2003 financial statements, in order to make statements of income for the year ended 31 December 2003 and 2002 comparable, the Management of the Company has restated its 2002 financial statements by adjusting its 2002 opening balance sheet.

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

Selçuk Ürkmez, Partner

İstanbul, 9 April 2004

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS

AS AT 31 DECEMBER 2003 AND 31 DECEMBER 2002

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
BALANCE SHEETS

AS AT 31 DECEMBER 2003 AND 31 DECEMBER 2002

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENTS OF INCOME FOR THE YEARS ENDED
31 DECEMBER 2003 AND 2002

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

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

	Capital TL 000,000	Additional Paid in Capital TL 000,000	Reserves TL 000,000	Revaluation Surplus (Note 4.4) TL 000,000	Accumulated Loss TL 000,000
Balance at 31 December 2001 (as previously reported)	1,681,308,782	786,622	123,999,146	109,320,972	(1,354,923,654)
To record impairment on fixed assets as of 31 December 2001 (after tax effect)	-	-	-	-	(132,531,440)
Other (after tax effect) (Note 21)	-	-	-	-	1,093,951
Balance at 31 December 2001 (As Restated)	<u>1,681,308,782</u>	<u>786,622</u>	<u>123,999,146</u>	<u>109,320,972</u>	<u>(1,486,361,143)</u>
Movement for the year	-	-	-	(109,320,972)	-
Profit for the year (As restated)	-	-	-	-	347,514,638
Balance at 31 December 2002 (As Restated)	<u>1,681,308,782</u>	<u>786,622</u>	<u>123,999,146</u>	-	<u>(1,138,846,505)</u>
Profit for the year	-	-	-	-	213,859,863
Balance at 31 December 2003	<u>1,681,308,782</u>	<u>786,622</u>	<u>123,999,146</u>	-	<u>(924,986,642)</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

1. THE COMPANY'S OPERATIONS

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

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

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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 restatement, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 181 % for the three years ended 31 December 2003 based on the wholesale price index announced by the Turkish State Institute of Statistics.

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

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

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

Inflation Accounting (cont'd)

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

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

3. SEGMENTAL REPORTING

3.1. Business Segments

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

3. SEGMENTAL REPORTING (cont'd)

3.2. Geographical Segments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1. Revenue Recognition and Commission Expenses

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

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

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

4.2. Inventory Valuation

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

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

4.3. Financial Investments

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

Investments Held for Trading:

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

Investments Held to Maturity:

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

Investments Available for Sale:

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

Investments At Equity:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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

4.4. Fixed Assets

Fixed assets are carried at indexed historical cost.

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

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

Impairment on Assets:

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

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

4.5. Manufacturers' Credits

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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 rate included in employee retirement expense is shown in the financial result as interest expense.

4.10. Related Parties

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

4.11. Foreign Currency Transactions

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

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

	<u>Ending Rate</u>	<u>Average Rate</u>
31 Aralık 2001	1,439,567	1,196,780
31 Aralık 2002	1,634,501	1,504,597
31 Aralık 2003	1,395,835	1,495,307

4.12. Leases

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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, securities, accounts receivable, due from related parties and financial assets.

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

Financial assets, except Sun Express, Uçak Servis A.Ş. and France 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 reported in net profit or loss.

Financial Liabilities

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

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 presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and the current economic environment.

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

Price Risk

- Currency Risk:

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

- Interest Risk:

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

- Market Risk:

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

- Liquidity Risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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

4.13. Financial Instruments (cont'd)

4.14. Offsetting

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

4.15. Use of estimates

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

4.16. Earnings per Share

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

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

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

Time Deposits:

					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>
2,400,000	TL Million	31.12.2003	19.78%	02.01.2004	2,400,000
		18.08.2003-	2.41%-	02.01.2004-	
205,300,000	USD	31.12.2003	3.83%	23.02.2004	286,564,926
		25.08.2003-	2.81%-	02.01.2004-	
181,500,000	EURO	31.12.2003	3.69%	23.02.2004	316,730,568
					<u>605,695,494</u>

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

6. MARKETABLE SECURITIES HELD TO MATURITY (NET)

Marketable securities consist of the following:

	31 December 2003	31 December 2002
	<u>TL 000,000</u>	<u>TL 000,000</u>
Repurchase Agreements	-	4,386,782
	<u>-</u>	<u>4,386,782</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

7. ACCOUNTS RECEIVABLE (Net)

Accounts receivable consist of the following:

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

8. DUE FROM RELATED PARTIES

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

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

8. DUE FROM RELATED PARTIES (cont'd)

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

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

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

9. INVENTORIES

Inventories consist of the following:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

10. OTHER RECEIVABLES AND CURRENT ASSETS

Other receivables and current assets consist of the following:

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

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

11. LONG TERM ADVANCES GIVEN

Advances given consist of the following:

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

12. FINANCIAL ASSETS

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

	31 December 2003 <u>TL 000,000</u>	31 December 2002 <u>TL 000,000</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	<u>7,107,000</u>	<u>4,371,970</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

12. FINANCIAL ASSETS

Other financial assets available for sale are as follows:

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

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

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

Name of the Company	Place of Incorporation and Operation	Proportion of Ownership Interest	Proportion of Voting Power Held	Principal Activity
Güneş Ekspres Havacılık A.Ş. (SUN EXPRESS)	Turkey	50 %	50 %	Air Transportation
Emek İnşaat ve İşletme A.Ş.	Turkey	0,3 %	0,3%	Construction Information & Telecommunication Services
Sita INC.	Holland	Less than 0,1%	None	
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 31 DECEMBER 2003 AND 2002

13. FIXED ASSETS

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

14. OTHER LONG TERM RECEIVABLES AND ASSETS

Other receivables and long term assets consist of the following

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

15. BANK LOANS

Bank Loans consist of the following:

	31 December 2003 <u>TL 000,000</u>	31 December 2002 <u>TL 000,000</u>
Short-term Portion of Long-term Bank Loans	-	846,546
	<u>-</u>	<u>846,546</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

16. CAPITAL LEASE OBLIGATIONS

The future lease rental payments under financial leases are:

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

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

17. DUE TO RELATED PARTIES

Due to related parties consist of the following:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

18. OTHER SHORT TERM AND LONG TERM PAYABLES

Other short term payables consist of the following:

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

Other long term payables consist of the following:

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

19. DEPOSITS AND ADVANCES RECEIVED

Advances received consist of the following:

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

20. PASSENGER FLIGHT LIABILITIES

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI**NOTES TO THE FINANCIAL STATEMENTS**

AS OF 31 DECEMBER 2003 AND 2002

21. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

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

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

22. TAXATION

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

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

Major Components of Taxation (Benefit) / Expense:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

22. TAXATION (Cont'd)

Corporate Tax:

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

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

The effective rates of tax are as follows:

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

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

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within 15 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax:

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

22. TAXATION (Cont'd)

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

Inflation Adjusted Tax Calculation:

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

Deferred Tax:

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

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

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

22. TAXATION (cont'd)

Temporary Differences: Deferred Tax Assets / (Liabilities)

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

22. TAXATION (cont'd)

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

23. MANUFACTURER'S CREDIT (Net)

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

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

24. RETIREMENT PAY PROVISION

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

25. CAPITAL

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

			31 December 2003 <u>TL 000,000</u>	31 December 2002 <u>TL 000,000</u>
	<u>Class</u>	<u>%</u>		
Turkish Republic Privatization Administration(*)	A,B,C	98.2	171,788,948	171,788,948
Others	A	1.83	3,211,052	3,211,052
Historic Capital (Nominal)			<u>175,000,000</u>	<u>175,000,000</u>
Restatement Effect			<u>1,506,308,782</u>	<u>1,506,308,782</u>
Restated			<u>1,681,308,782</u>	<u>1,681,308,782</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 October 30, 1990.

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

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

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

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

- a) To suggest a change in the Main Agreement
- b) Increase or decrease in the share capital
- c) Registration of the transfer of the shares issued to name in the 'Register of the Company'
- d) To determine the bases of personnel regulations especially about terminating
- e) To appoint the independent auditing organization
- f) To determine the wages and bonuses of the top management
- g) Suggestion of profit distribution
- h) To determine the form of document indicating representation authority that takes part in the article 30th of the Main Agreement

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

25. CAPITAL (cont'd)

- i) To make decisions on strategy and investment decisions of the Company
- j) To make decisions about establishing a new company or companies, to participate to the established ones or merge with them, to buy a company

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

The profit per unconsolidated financial statements prepared based on the Communiqué No: 25 of Series XI/IFRS standards should be taken into account in profit distribution by the 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 31 December 2003 and 2002, based on the Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards" published by the Capital Market Board on 15 November 2003, are stated below with their nominal amounts and the differences arises from indexation of equity items is presented in "Equity Inflation Adjustment Differences" account.

	31 December 2003 TL 000,000	31 December 2002 TL 000,000
Capital	175,000,000	175,000,000
Additional Paid in Capital	181,185	181,185
Legal Reserves	417,011	417,011
Extraordinary Reserves	7,806,889	7,806,889
Other Profit Reserves	9	9
Equity Inflation Adjustment Differences (*)	1,622,689,456	1,622,689,456
Net Profit for the year	213,859,863	347,514,638
Accumulated Loss	(1,138,846,505)	(1,486,361,143)
	<u>881,107,908</u>	<u>667,248,045</u>
(*) Equity Inflation Adjustment Differences:		
Capital	1,506,308,782	1,506,308,782
Additional Paid in Capital	605,437	605,437
Legal Reserves	53,179,514	53,179,514
Extraordinary Reserves	57,928,362	57,928,362
Other Profit Reserves	4,667,361	4,667,361
	<u>1,622,689,456</u>	<u>1,622,689,456</u>

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

26. CONTINGENT LIABILITIES

a) Guarantees Given:

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

b) Purchase Commitments:

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

c) Letter of Comfort:

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

26. CONTINGENT LIABILITIES

d) Land and buildings built on State Airports Administration (DHMI) lands, and their legal structure (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 78,644,063 Million (see note 24) according to IAS 19 (revised). The Company's total undiscounted liability for retirement pay would be TL 117,317,887 Million as of 31 December 2003, if all employees had been terminated as at that date.

27. OPERATING LEASE COMMITMENTS

Commitments for future operating leases are as follows:

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

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- Market price of 202,735 France Telecom securities, which is quoted at the Paris stock exchange, included in the financial investments available for sale as of 31 December 2003, has decreased from Euro 22.65 at 31 December 2003 to Euro 21.23 at 5 April 2004, hence the total market value of these securities decreased by TL 402,837 Million as of 5 April 2004.
- Market price of 299,250,000 USAŞ securities, which is traded in Istanbul Stock Exchange, and included in the financial investments available for sale as of 31 December 2003, has decreased from TL 19,042 at 31 December 2003 to TL 18,556 at 5 April 2004, hence the total market value of these securities decreased by TL 145,435 Million as of 5 April 2004.

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NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (cont'd)

- Termination indemnity ceiling that is TL 1,389,950,000 as at 31 December 2003 has been increased to TL 1,485,430,000 commencing on 1 January 2004.

29. SEGMENTAL INFORMATION

Analysis of Traffic Revenue:

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

30. OPERATING EXPENSE

Operating expenses consist of the following:

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

31. FINANCIAL INCOME / (EXPENSE) (NET)

Financial income / (expenses) consist of the following:

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

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003 AND 2002

32. INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

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

33. LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the following:

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2003 AND 2002

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.

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

Dividend Income from Equity Investments are as follows:

	2003 <u>TL 000,000</u>	2002 <u>TL 000,000</u>
Uçak Servisi A.Ş.	1,751,261	-
Emek İnşaat and İşletim A.Ş.	1,584	1,244
	<u>1,752,845</u>	<u>1,244</u>

**TÜRK HAVA YOLLARI
ANONİM ORTAKLIđI**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2003

*Translated into English from
The Original Turkish Report*