

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türk Hava Yolları Anonim Ortaklığı

1. We have audited the accompanying balance sheet of Türk Hava Yolları Anonim Ortaklığı (“the Company”) as at 31 December 2004, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 31 December 2004. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004 the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

4. In accordance with a written opinion dated 2 May 2005, received from Turkish Republic Ministry of Finance, the Company has reached to a conclusion that the Company can utilize tentative clause of Article 33 of the Corporate Tax Law which states that “the companies’ profits arising from operations of their foreign offices or permanent representative offices between the effective date of this law which is 31 July 2004 and 31 December 2004 are exempt from corporate tax provided that these profits have been transferred to Turkey until 30 June 2005”. Hence, the Company in its corporate tax declaration dated 2 May 2005, deducted the profits of YTL 81.776.853 arising from sales of its foreign offices from its taxable profit for the year ended 31 December 2004. Accordingly, corporate tax amount of the Company which was declared to the public on financial statements for the year ended 31 December 2004 dated 1 April 2005 prepared in accordance with IFRS was changed and the Company’s management decided to restate the financial statements for the year ended 31 December 2004. As a result of the deduction explained above the Company’s previously reported corporate tax provision of YTL 23.424.559 decreased to zero and unused tax losses became YTL 16.296.468. Furthermore, investment incentives of YTL 36.212.727 which was used as a deduction in the calculation of the taxable profit in previously reported financial statements were transferred to future period to be used as a deduction from future profits. As a result of unused tax losses and investment incentives, deferred tax liability and deferred tax charge also decreased by YTL 8.593.151 compared to previously reported amounts. Consequently, net profit for the year ended 31 December 2004 increased by YTL 32.017.710 to YTL 107.058.441 due to changes explained above.

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

Selçuk Ürkmez, Partner

İstanbul, 1 April 2005
(13 May 2005 as to explanatory paragraph 4 above)

Türk Hava Yolları Anonim Ortaklığı
Balance Sheets as at 31 December 2004 and 2003

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

ASSETS	Note	31 December 2004 (As restated)	31 December 2003
Cash and cash equivalents	5	365.637.483	751.131.264
Accounts receivable (net)	6	158.585.050	134.491.305
Due from related parties (short-term)	7	812.921	134.972
Inventories	8	64.513.843	52.159.312
Prepaid Tax	21	51.305.913	-
Other receivables and current assets	9	36.461.857	60.143.614
Total current assets		<u>677.317.067</u>	<u>998.060.467</u>
Due from related parties (long-term)	7	-	59.598.705
Investments at equity	10	16.706.000	8.090.626
Financial assets available for sale	10	25.930.073	17.415.840
Fixed assets (net)	11	1.817.940.184	2.244.748.556
Advances given for aircraft	12	396.911.822	9.189.154
Other long term receivables and assets	13	13.347.328	17.593.961
Total non-current assets		<u>2.270.835.407</u>	<u>2.356.636.842</u>
Total assets		<u>2.948.152.474</u>	<u>3.354.697.309</u>

Türk Hava Yolları Anonim Ortaklığı
Balance Sheets as at 31 December 2004 and 2003

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

LIABILITIES	Note	31 December 2004 (As restated)	31 December 2003
Bank borrowings	14	281.244	-
Short term portion of finance lease obligations	15	202.712.254	277.446.906
Accounts payable		197.986.014	204.868.911
Due to related parties	16	6.508.221	6.113.740
Other short term payables	17	38.011.021	56.726.828
Deposits and advances received	18	38.871.227	63.572.464
Passenger flight liabilities	19	185.163.044	127.712.929
Other accrued liabilities	20	58.505.296	75.239.242
Provision for corporate tax	21	-	21.928.409
Total current liabilities		728.038.321	833.609.429
Long term portion of finance lease obligations	15	957.728.732	1.367.717.701
Manufacturers' credit (net)	22	2.391.220	4.838.733
Long term deferred tax liabilities	21	46.484.742	49.710.306
Retirement pay liability	23	99.777.377	89.528.586
Other long term payables	17	3.618.326	6.237.239
Total non-current liabilities		1.110.000.397	1.518.032.565
SHAREHOLDERS' EQUITY			
Share capital	24	1.914.005.871	1.914.005.871
Reserves		141.160.920	141.160.920
Share premium		895.492	895.492
Accumulated losses		(945.948.527)	(1.053.006.968)
Total shareholders' equity		1.110.113.756	1.003.055.315
Total liabilities and shareholders' equity		2.948.152.474	3.354.697.309

Türk Hava Yolları Anonim Ortaklığı

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

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

	Note	2004 (As restated)	2003
Operating revenues	29,34	2.793.385.946	2.845.770.616
Operating expenses	30,34	<u>(2.650.837.500)</u>	<u>(2.475.654.844)</u>
Main operating profit		142.548.446	370.115.772
Income from other operations	32,34	59.213.081	102.397.690
Loss from other operations	33	<u>(15.867.495)</u>	<u>(12.160.118)</u>
Operating Income		185.894.032	460.353.344
Financial income (net)		37.192.438	295.683.927
Monetary loss (net)		<u>(113.210.018)</u>	<u>(429.034.781)</u>
Profit before taxation		109.876.452	327.002.490
Taxation charge	21	(2.818.011)	(83.543.920)
Net profit		<u>107.058.441</u>	<u>243.458.570</u>
Basic earnings per share (YTL in full)	3.16	0,0006	0,0014

Türk Hava Yolları Anonim Ortaklığı

Statements of Changes in Shareholders' Equity for the Years Ended

31 December 2004 and 2003

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

	<u>Share Capital</u>	<u>Reserves</u>	<u>Share Premium</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balances at 31 December 2002	1.914.005.871	141.160.920	895.492	(1.296.465.538)	759.596.745
Profit for the year	-	-	-	243.458.570	243.458.570
Balances at 31 December 2003	<u>1.914.005.871</u>	<u>141.160.920</u>	<u>895.492</u>	<u>(1.053.006.968)</u>	<u>1.003.055.315</u>
Profit for the year (As restated)	-	-	-	107.058.441	107.058.441
Balances at 31 December 2004	<u>1.914.005.871</u>	<u>141.160.920</u>	<u>895.492</u>	<u>(945.948.527)</u>	<u>1.110.113.756</u>

Türk Hava Yolları Anonim Ortaklığı
Statements of Cash Flows for the Years Ended 31 December 2004 and 2003
(Amounts expressed in New Turkish Lira (YTL) in terms of purchasing power of the Turkish Lira at 31 December 2004 unless otherwise stated)

	2004	2003
Cash flows from operating activities:		
Profit prior to taxation	109.876.452	327.002.490
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation	300.451.836	314.364.838
Provision for retirement pay liability	16.585.532	11.417.305
Interest income	(42.256.159)	(44.924.622)
(Gain) / loss on fixed asset sales	(44.922)	162.455
Monetary gain on deferred taxes liabilities	(6.043.575)	(7.820.234)
Impairment loss	(22.249.212)	(67.689.398)
Income from financial investment accounted per equity method	(12.846.679)	(3.113.565)
Interest expense	46.672.237	66.810.242
Movement in manufacturers' credit	(2.447.513)	(4.295.927)
Foreign exchange loss on finance leases (net of monetary gain)	30.920.326	88.844.373
Provision for diminution in value of financial assets available for sale	(7.006.906)	(4.078.264)
Amortization of deferred income from USAŞ share transfer	(1.499.120)	(3.118.618)
Decrease in provision for doubtful receivable	(5.269.940)	(5.934.305)
Operating profit before working capital changes	404.842.357	667.626.770
(Increase) / Decrease in trade receivables	(18.823.805)	29.781.548
(Increase) / Decrease in due from related parties	(677.949)	(9.505.109)
(Increase) / Decrease in inventories	(12.354.531)	16.248.934
(Increase) / Decrease in other receivables and short term assets	23.681.757	8.590.882
(Increase) / Decrease in other long term receivables and assets	63.845.338	4.918.392
Increase / (Decrease) in trade payables	(6.882.897)	4.842.143
Increase / (Decrease) in due to related parties	394.481	(852.552)
Increase / (Decrease) in other short and long term payables	(38.068.666)	(15.869.846)
Increase / (Decrease) in deposits and advances received	(24.701.237)	(5.353.171)
Increase / (Decrease) in passenger flight liabilities	57.450.115	18.991.311
Cash generated from operations	448.704.963	719.419.302
Retirement benefits paid	(6.336.741)	(21.406.261)
Interest paid	(48.679.413)	(75.899.455)
Income taxes paid	(73.234.322)	(56.926.817)
Net cash provided by operating activities	320.454.487	565.186.769
Cash flows from investing activities		
Decrease in financial assets held for trading	-	4.993.923
Cash inflow from sale of financial assets	-	6.242.754
Increase in financial assets	(8.207)	-
Dividend received from financial investment accounted per equity method	4.231.305	-
Cash proceeds from sale of fixed assets	6.392.004	23.723.413
Interest received	42.256.159	44.924.622
Acquisition of fixed assets	(118.563.959)	(71.656.714)
Advances given for aircraft	(387.722.668)	20.588.149
Net cash (used in) / provided by investing activities	(453.415.366)	28.816.147
Cash flows from financing activities		
Principal payment of finance leases	(252.814.146)	(302.387.862)
Changes in bank borrowings	281.244	(963.710)
Net cash used in financing activities	(252.532.902)	(303.351.572)
Net (decrease) / increase in cash and cash equivalents	(385.493.781)	290.651.344
Cash and cash equivalents at the beginning of the year	751.131.264	460.479.920
Cash and cash equivalents at the end of the year	365.637.483	751.131.264

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

1 THE COMPANY'S ORGANIZATION AND OPERATIONS

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

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

Turkish Republic Privatization Administration	75.17 %
Others	24.83 %
Total	<u>100.00%</u>

The total number of employees working for the Company as of 31 December 2004 is 10.956 (31 December 2003: 10.239). The average number of employees working for the Company in 2004 and 2003 is 10.341 and 10.683, respectively.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

As explained in the first tentative clause of Article 34 of the foresaid Communiqué – General Provisions related with financial statements obligations, preparation and public announcement of financial statements in accordance with IFRS until the beginning of that period in which application Communiqué No: 25 of Series XI becomes enforceable, is counted for fulfillment of provisions of preparation of financial statements and public announcement in accordance with that Communiqué. Consequently, the Company prepared and publicly announced its financial statements in accordance with IFRS starting from the year ended 31 December 2003. Furthermore, on 23 December 2004, CMB published Communiqué No: 27 of Series XI, "Communiqué on Changes Made in Communiqué on Accounting Standards in Capital Markets" which adds temporary clause No: 1 to Communiqué No: 25 of Series XI. In accordance with this article, preparing and publishing the financial statements and reports in accordance with International Financial Reporting Standards is in compliance with the financial statements preparation and publishing regulations anticipated in Communiqué No: 25 of Series XI.

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

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

The 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 3.

Inflation Accounting

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

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 69.7% for the three years ended 31 December 2004 based on the wholesale price index announced by the Turkish State Institute of Statistics.

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

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

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2001	4.951,7	1,6972
31 December 2002	6.478,8	1,2971
31 December 2003	7.382,1	1,1384
31 December 2004	8.403,8	1,0000

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

<u>Years</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Currency devaluation US Dollar	(3,8)%	(14,6)%	13,5%	114,3%	24,4%
WPI inflation	13,8%	13,9%	30,8%	88,6%	32,7%

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

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

Inflation Accounting (cont'd)

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.

New Turkish Lira:

A new law number 5083 on the Monetary Unit of the Republic of Turkey was enacted with the effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish Republic, The Turkish Lira ("TL"), to form a new currency the New Turkish Lira ("YTL"). Thus, YTL 1 = TL 1.000.000. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). As per the CMB decision MSD-10/832-43399 dated 1 December 2004, the financial statements to be publicly announced in 2005 should be prepared in YTL monetary unit including comparatives. Accordingly, the accompanying financial statements are presented in YTL.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Revenue Recognition and Commission Expenses

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

The Company develops estimations using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets of YTL 32.413.052 (approximately) were recognized as operating revenue as of 31 December 2004.

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Inventory Valuation

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

3.3 Financial Investments

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

Securities Held for Trading:

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

Investments Held to Maturity:

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

Investments Available for Sale:

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

Investments At Equity:

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

3.4 Tangible Fixed and Intangible Assets

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

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

	<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	-

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Tangible Fixed and Intangible Assets (cont'd)

Impairment on Assets:

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

3.5 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.

3.6 Maintenance and Repair Costs

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

3.7 Frequent Flyer Program

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

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

3.8 Taxation and deferred taxes

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

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Taxation and deferred taxes (cont'd)

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.

3.9 Employee Retirement and Termination Indemnities

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

3.10 Related Parties

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

3.11 Foreign Currency Transactions

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

The closing and average TL to US Dollar exchange rates for the periods are as follows:

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

3.12 Leases

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.13 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.

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 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.

Financial Liabilities

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

Financial expenses are accounted for on an accrual basis and are traced under related financial liability account to the extent that they are not settled in the period in which they arise. Accounts and other payables and due to related parties are recorded at their nominal value, which approximates their fair value.

Credit Risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and the current economic environment. The Company has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Price Risk

- **Currency Risk:**

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

- **Interest Risk:**

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

- **Market Risk:**

The Company invests in government bonds acquired under reverse repurchase agreements made for short periods or deposits to banks on a daily basis. Fair values of these investments fluctuate based on market conditions.

- **Liquidity Risk**

Usually, tickets are sold in advance and transportation is provided later. Therefore the Company takes advantage of collecting revenue in advance and incurring transportation cost later. The Company also benefits from the difference between the collection and the payment period to its counter parties.

3.14 Offsetting

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

3.15 Use of estimates

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

3.16 Earnings per Share

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

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Earnings per Share (cont'd)

A summary of the weighted average number of shares outstanding during 31 December 2004 and 2003 and the basic earnings per share calculation is as follows:

	<u>2004</u>	<u>2003</u>
Number of shares outstanding at January 1, (in full)	175.000.000.000	175.000.000.000
New shares issued (cash increase) (in full)	-	-
Number of shares outstanding at 31 December, (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Weighted average number of shares outstanding during the period (in full)	<u>175.000.000.000</u>	<u>175.000.000.000</u>
Net profit for the year (as restated for 2004)	107.058.441	243.458.570
Basic earnings per share	0,0006	0,0014

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

In accordance with CMB’s decision dated 22 February 2005 and numbered 7/242, full amount of the minimum profit to be distributed which is calculated from net distributable profit determined based on CMB regulations, can be distributed fully if net distributable profit based on statutory record is higher than this amount. Otherwise maximum amount to be distributed is the amount which is based on statutory records. Furthermore, no profit is distributed if a company is in loss position either in financial statements in accordance with CMB regulations or financial statements based on statutory records. Because the Company’s accumulated losses as of 31 December 2004 based on financial statements in accordance with IFRS is YTL 1.053.006.968, the Company does not have a distributable profit as of 31 December 2004.

4 SEGMENTAL REPORTING

4.1 Business Segments

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

4.2 Geographical Segments

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

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5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Cash	162.030	198.856
Cheques received	116.877	62.731
Banks	363.838.243	742.287.677
Other liquid assets	1.520.333	8.582.000
	<u>365.637.483</u>	<u>751.131.264</u>

Foreign currency bank balances are YTL 247.555.286 at 31 December 2004 (2003: YTL 738.692.290).

Time Deposits:

<u>Amount</u>	<u>Currency</u>	Opening <u>Date</u>	<u>Interest rate %</u>	<u>Maturity</u>	<u>31 December 2004</u>
115.431.254	YTL	25.10.2004- 31.12.2004	15,79-19,43%	03.01.2005- 24.01.2005	115.431.254
22.500.000	USD	31.12.2004	1,67%	03.01.2005	30.197.250
89.790.000	Euro	31.12.2004	1,14%-1,52%	03.01.2005	164.028.372
					<u>309.656.876</u>

<u>Amount</u>	<u>Currency</u>	Opening <u>Date</u>	<u>Interest rate %</u>	<u>Maturity</u>	<u>31 December 2003</u>
2.732.166	YTL	31.12.2003	19,78%	02.01.2004	2.732.166
205.300.000	USD	18.08.2003- 31.12.2003	2,41%-3,83%	02.01.2004- 23.02.2004	326.226.186
181.500.000	Euro	25.08.2003- 31.12.2003	2,81%-3,69%	02.01.2004- 23.02.2004	360.566.823
					<u>689.525.175</u>

6 ACCOUNTS RECEIVABLE (Net)

Accounts receivable consists of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Trade receivables	175.591.911	156.809.685
Discount on receivables	(341.303)	(382.882)
Provision for doubtful receivables	(16.665.558)	(21.935.498)
	<u>158.585.050</u>	<u>134.491.305</u>

7 DUE FROM RELATED PARTIES

Short term due from related parties consists of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	812.763	119.459
Uçak Servisi A.Ş. (USAŞ)	158	15.513
Due from related parties - short term	<u>812.921</u>	<u>134.972</u>

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7 DUE FROM RELATED PARTIES (cont'd)

Long term due from related parties consists of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Turkish Republic Privatization Administration (*)	-	16.230.156
Turban Turizm A.Ş. (*)	-	43.368.549
Due from related parties - long term	<u>-</u>	<u>59.598.705</u>

(*) Interest at a rate of 40,16% was 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 had been changed to 23,35% after December 2003 based on the letter sent on 31 May 2004. The receivables from Turkish Republic Privatization Administration and Turban together with accrued interest has been paid to THY on 16 July and 27 July 2004, respectively.

8 INVENTORIES

Inventories consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Spare parts, flight equipment	54.483.543	41.856.618
Other inventories	10.030.300	10.302.694
	<u>64.513.843</u>	<u>52.159.312</u>

9 OTHER RECEIVABLES AND CURRENT ASSETS

Other receivables and current assets consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
VAT deductible	152.793	126.251
Tax to be refunded	2.682.798	3.126.528
Maintenance service income accrual	6.172.005	14.111.878
Prepaid operating lease expenses	3.982.248	3.486.204
Prepaid sales commissions	10.414.392	10.264.570
Deposits given related to the outstanding litigations	-	2.165.290
Prepaid rent expenses	440.142	448.245
Other prepaid expenses	8.780.536	4.306.600
Receivables from personnel	574.197	613.781
Business advances given	345.966	153.193
Restriction on transfer of funds from banks (*)	845.502	18.979.307
Receivable from SITA deposit certificates	150.243	172.907
Special expense deduction receivable from tax offices	9.049	6.665
Interline passenger income accrual	182.580	312.149
Other receivables	1.729.406	1.870.046
	<u>36.461.857</u>	<u>60.143.614</u>

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

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10 FINANCIAL ASSETS

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

	<u>31 December 2004</u>	<u>31 December 2003</u>
Güneş Ekspres Havacılık A.Ş. (Sun Express)	16.706.000	8.090.626

Financial assets available for sale are as follows:

	<u>31 December 2004</u>	<u>31 December 2003</u>
France Telekom	20.214.336	20.214.336
Diminution in value of France Telekom shares	(11.192.456)	(11.091.310)
Uçak Servis A.Ş. (USAŞ)	8.213.707	6.714.587
Appreciation / (diminution) in value of USAŞ shares	6.880.463	(227.590)
Sita Inc.	1.785.738	1.785.738
Emek İnşaat ve İşletme A.Ş.	26.859	20.079
Other financial assets	1.426	-
	<u>25.930.073</u>	<u>17.415.840</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 YTL 16.853.544. "Deferred income" amount is amortized to income during 5 years catering service agreement on a straight-line basis. The Company has sold 342 million USAŞ shares in İstanbul Stock Exchange Market in 2003.

USAŞ distributed 1.852.500.000 of free shares to the Company based on the decision of General Assembly held on 8 December 2004 about the share capital increase from the inflation adjustment difference arising from capital restatement.

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

<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%	Less than 0,1%	Information & telecommunication services
Uçak Servis A.Ş. (USAŞ)	Turkey	6,5%	6,5%	Catering
France Telecom	France	Less than 0,1%	Less than 0,1%	Telecommunication

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11 FIXED ASSETS

	Land, Land Improvements & Building	Technical Equipments, Simulators and Vehicles	Other Equipments, Fixtures and Softwares	Aircraft and Spare Engines	Rotables and Repairable Spare Parts	Construction In Progress	Total Owned Assets	Leased Aircraft	Other Leased Fixed Assets & Simulators	Total Leased Assets	Total
Cost											
Opening Balance 1 January 2004	164.624.773	251.807.868	289.040.357	569.477.822	260.872.763	54.734	1.535.878.317	4.065.083.790	63.659.866	4.128.743.656	5.664.621.973
Transfers from leased assets*	-	51.683.818	6.672.125	693.369.166	-	-	751.725.109	(705.861.841)	(45.863.268)	(751.725.109)	-
Additions	141.805	5.561.829	8.021.900	10.470.162	94.036.737	38.738.550	156.970.983	-	-	-	156.970.983
Disposals	(372.575)	(15.926.812)	(8.178.858)	(1.861.642)	(70.518.752)	(38.407.024)	(135.265.663)	-	-	-	(135.265.663)
Closing balance 31 December 2004	164.394.003	293.126.703	295.555.524	1.271.455.508	284.390.748	386.260	2.309.308.746	3.359.221.949	17.796.598	3.377.018.547	5.686.327.293
Accumulated Depreciation											
Opening Balance 1 January 2004	43.037.148	202.520.056	255.993.641	356.440.423	129.661.927	-	987.653.195	1.177.343.037	47.672.568	1.225.015.605	2.212.668.800
Transfers from leased assets*	-	39.702.697	6.672.125	395.030.051	-	-	441.404.873	(397.606.665)	(43.798.208)	(441.404.873)	-
Depreciation for the year	2.734.571	16.565.058	13.590.171	28.628.168	80.721.856	-	142.239.824	156.821.204	1.390.808	158.212.012	300.451.836
Disposal	(134.748)	(6.124.416)	(8.078.258)	(1.658.426)	(70.518.752)	-	(86.514.600)	-	-	-	(86.514.600)
Closing Balance 31 December 2004	45.636.971	252.663.395	268.177.679	778.440.216	139.865.031	-	1.484.783.292	936.557.576	5.265.168	941.822.744	2.426.606.036
Accumulated impairment	-	7.934.076	-	290.085.424	-	-	298.019.500	1.139.159.001	4.602.572	1.143.761.573	1.441.781.073
31 December 2004 net book value	118.757.032	32.529.232	27.377.845	202.929.868	144.525.717	386.260	526.505.954	1.283.505.372	7.928.858	1.291.434.230	1.817.940.184
31 December 2003 net book value	121.587.624	42.017.810	33.046.716	109.949.264	131.210.837	54.734	437.866.985	1.795.237.779	11.643.792	1.806.881.571	2.244.748.556

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

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12 ADVANCES GIVEN FOR AIRCRAFT

Advances given for aircraft consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Pre payments for aircraft purchases	395.670.511	7.552.462
Deposits given for operational leases	1.241.311	1.636.692
Total advances given for aircraft	<u>396.911.822</u>	<u>9.189.154</u>

13 OTHER LONG TERM RECEIVABLES AND ASSETS

Other long term receivables and assets consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Prepaid aircraft financing expense	2.688.118	3.616.448
Prepaid eximbank USA guarantee and exposure fee	7.001.219	9.217.476
Due from personnel	1.127.433	1.480.510
Receivables from SITA deposit certificate	702.736	735.376
Deposits given	1.733.075	2.440.609
Other receivables	94.747	103.542
	<u>13.347.328</u>	<u>17.593.961</u>

14 BANK BORROWINGS

Bank borrowings of YTL 281.244 (31 December 2003: -) consist of overnight interest free borrowings for the purposes of settlement of tax and social security premium payments.

15 FINANCE LEASE OBLIGATIONS

The future lease rental payments under financial leases are:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Not later than one year	245.668.658	324.718.834
Between 1 - 2 years	229.820.665	271.760.624
Between 2 - 5 years	548.685.702	691.500.260
Over 5 years	280.926.023	523.764.029
	1.305.101.048	1.811.743.747
Less: Future interest expense	<u>(144.660.062)</u>	<u>(166.579.140)</u>
Principal value of future rentals shown in the balance sheets	<u>1.160.440.986</u>	<u>1.645.164.607</u>
Represented by :		
Current liabilities	202.712.254	277.446.906
Long term liabilities	957.728.732	1.367.717.701
	<u>1.160.440.986</u>	<u>1.645.164.607</u>
Interest range:		
Floating rate obligations	872.924.584	1.219.729.193
Fixed rate obligations	287.516.402	425.435.414
	<u>1.160.440.986</u>	<u>1.645.164.607</u>

As of 31 December 2004, the US Dollar denominated lease obligations' interest rates are between 5,96% and 7,68%, for the fixed rate obligations; and a margin ranging between LIBOR and LIBOR plus 3,00% for the floating rate obligations.

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16 DUE TO RELATED PARTIES

Due to related parties consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Sun Express	211.054	275.108
Uçak Servisi A.Ş. (USAŞ)	6.297.167	5.838.632
	<u>6.508.221</u>	<u>6.113.740</u>

17 OTHER SHORT TERM AND LONG TERM PAYABLES

Other short term payables consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Taxes and funds payable	19.340.449	20.561.294
Social security premiums payable	12.188.329	11.871.671
Payable to personnel	253.428	2.284.739
State Airport Administration (“DHMI”) protocol payable	1.822.211	18.191.523
Discount on DHMI protocol payable	(36.401)	(1.477.174)
Deferred income from USAŞ share transfer (Note 10)	3.618.326	3.118.619
Deferred income	34.199	224.001
Other liabilities	790.480	1.952.155
	<u>38.011.021</u>	<u>56.726.828</u>

Other long term payables consist of the following:

Deferred income from USAŞ share transfer (Note 10)	3.618.326	6.237.239
	<u>3.618.326</u>	<u>6.237.239</u>

18 DEPOSITS AND ADVANCES RECEIVED

Deposits and advances received consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Deposits and guarantees received	11.712.675	17.889.102
Advances received for mileage credit sales	23.101.559	28.992.050
Deposit received from Turkish Republic Religious Affairs	2.350.512	14.390.431
Other advances received	1.706.481	2.300.881
	<u>38.871.227</u>	<u>63.572.464</u>

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19 PASSENGER FLIGHT LIABILITIES

Passenger flight liabilities consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Flight liability - advanced ticket sales	133.091.186	93.753.909
Flight liability resulting from sales of mileage	52.071.858	33.959.020
	<u>185.163.044</u>	<u>127.712.929</u>

20 OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Sales incentive premium accrual	7.734.390	4.865.424
Fuel oil privilege expense accrual	730.598	10.925.904
Rejected passengers expense accrual	-	826.291
DHMI expense accrual	1.608.554	41.391
Accrued salaries	15.619.949	24.026.853
Accrued maintenance costs	15.944.575	13.199.416
Accrued frequent flyer liability	6.993.168	13.030.025
Provision for legal claims	9.245.739	5.810.493
Rent accrual for RJ aircraft that will be returned	-	1.141.316
Other liabilities	628.323	1.372.129
	<u>58.505.296</u>	<u>75.239.242</u>

21 TAXATION

Corporate tax payable is as follows:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Corporate tax payable	-	89.923.188
Prepaid taxes and funds	(51.305.913)	(67.994.779)
	<u>(51.305.913)</u>	<u>21.928.409</u>

Tax expense is as follows:

	<u>2004</u>	<u>2003</u>
Current year tax expense	-	89.923.188
Deferred tax expense / (benefit)	2.818.011	(6.379.268)
Tax expense	<u>2.818.011</u>	<u>83.543.920</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.

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21 TAXATION (cont'd)

Corporate tax (cont'd):

The effective tax rates are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% fund.
- In 2003: 30% (10% fund contribution was abolished.)
- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004)
- In 2005: 30%

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

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

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

Income withholding tax:

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

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

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

21 TAXATION (cont'd)

Inflation adjusted legal tax calculation:

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

Deferred tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from the differences between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and are calculated over accounts such as fixed assets, retirement pay provision and provision for doubtful receivables. The deferred tax rate is 30%.

Temporary differences: deferred tax assets / (liabilities)

	31 December 2004	31 December 2003
	(As restated)	
Allowance for unrecoverable bank accounts	276	1.382.998
Prepaid expenses	290.395	-
Provision for doubtful receivables	416.692	426.786
Restatement of inventory	8.716.457	5.662.276
Changes in other short term assets	60.960	-
Short term lease obligation	47.867.011	62.280.682
Provision for advance ticket sales	(17.973.936)	(18.370.029)
Accrued liabilities	13.125.543	11.635.613
Fixed assets	(425.380.016)	(551.764.767)
Long term lease obligation	287.318.620	410.315.308
Retirement pay liability	29.933.213	26.858.576
Adjustments to long term assets	(620.529)	(2.265.738)
Manufacturers' credit	717.366	1.451.619
Deferred income	1.851.799	2.806.765
Discount on receivables	102.072	114.865
Discount on payables	(19.996)	(443.152)
(Appreciation) / Diminution in value of financial assets	(1.483.820)	1.267.612
Interest accrual on bank accounts	-	(1.069.720)
Unused investment incentives	3.704.211	-
Unused tax losses	4.888.940	-
Deferred tax liability	<u>(46.484.742)</u>	<u>(49.710.306)</u>

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Notes to the Financial Statements as at 31 December 2004

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

21 TAXATION (cont'd)

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

	2004	2003
	(As restated)	
Deferred tax charge / (benefit) related to the origination and reversal of temporary differences	2.818.011	(1.280.215)
Deferred tax benefit resulting from change in effective tax rate	-	(5.099.053)
Net deferred tax charge / (benefit)	<u>2.818.011</u>	<u>(6.379.268)</u>
Monetary gain on deferred tax liabilities	<u>(6.043.575)</u>	<u>(7.820.234)</u>
Change in net deferred tax	<u>(3.225.564)</u>	<u>(14.199.502)</u>

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

	2004	2003
	(As restated)	
Profit Before Taxation	109.876.452	327.002.490
Expected Tax (2004 : 33%, 2003 : 30%)	36.259.229	98.100.747
<i>Reconciling Items:</i>		
Non-deductible expenses	693.161	5.939.150
Tax exempt Income	(29.679.346)	(1.066.715)
Non-deductible monetary losses	9.645.907	6.248.310
Deferred tax benefit resulting from change in deferred tax calculation from restatement of fixed assets	-	(19.392.026)
Tax benefit due to using tax rate of 30% for calculation of deferred tax	(5.507.789)	-
Deferred tax benefit resulting from change in effective tax rate	-	(5.099.053)
Investment incentives used	(3.704.211)	(1.186.493)
Unused tax losses	<u>(4.888.940)</u>	<u>-</u>
Actual tax charge	<u>(2.818.011)</u>	<u>83.543.920</u>

22 MANUFACTURER'S CREDIT (Net)

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

	31 December 2004	31 December 2003
Gross manufacturer's credit	16.956.092	20.075.702
Accumulated amortization (-)	<u>(14.564.872)</u>	<u>(15.236.969)</u>
	<u>2.391.220</u>	<u>4.838.733</u>

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

23 RETIREMENT PAY LIABILITY

Under Turkish Labor Law, employees are entitled to receive a lump sum payment when their employment is terminated without due cause or when they retire, complete 25 years of service (20 years for women), are called up for military service. The amount payable consists of one month's gross salary per year of service. The gross salary is the salary at the date of termination, but subject to a limit of YTL 1.575 as at 31 December 2004 (31 December 2003: YTL 1.390). The number of years' service required before retirement is rising according to a sliding scale based on new legislation enacted in 1999. The system described above can be classified as an unfunded defined benefit system. The total provision provided in the financial statements represents the estimated present value of the vested benefit obligation.

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

	<u>2004</u>	<u>2003</u>
Current service cost	11.702.155	5.519.969
Interest cost	4.883.377	5.897.336
	<u>16.585.532</u>	<u>11.417.305</u>

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

	<u>2004</u>	<u>2003</u>
Provision at 1 January	89.528.586	99.517.542
Charge for the year	16.585.532	11.417.305
Payments during the year	<u>(6.336.741)</u>	<u>(21.406.261)</u>
Provision at 31 December	<u>99.777.377</u>	<u>89.528.586</u>

The estimated value of the vested benefit obligation is discounted with an approximate rate of 5,45% per annum after considering the effect of increase in eligible pay and its limit.

24 SHARE CAPITAL

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

	Class	%	31 December 2004	%	31 December 2003
Turkish Republic Privatization Administration(*)	A, C	75,17	131.538.948	98,17	171.788.948
Others	A	24,83	<u>43.461.052</u>	1,83	<u>3.211.052</u>
Share capital (historic)			175,000,000		175,000,000
Restatement effect			<u>1.739.005.871</u>		<u>1.739.005.871</u>
Restated			<u>1.914.005.871</u>		<u>1.914.005.871</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.

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Notes to the Financial Statements as at 31 December 2004

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

24 SHARE CAPITAL (cont'd)

23% of the Company's shares which were owned by Privatization Administration were offered to the public during December 2004. As a result of this secondary public offering ownership rate of Privatization Administration has decreased to 75,17% from 98,17%.

As at 31 December 2004, the Company's issued and paid-in share capital consists of 174.999.999.999 Class A shares and 1 Class C share, all with a par value of YKr 0.1 each. These shares are issued to name. The Class C share, which belongs to the Privatization Administration, is a unique share with a par value of YKr 0.1 with the following privileges:

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

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

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

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

Main Agreement Temporary Article 1: The Company's chairman of the Board of Directors, members of the Board of Directors, auditors and general manager who meet the conditions mentioned in law numbered 4046, are to be selected from candidates suggested by A group shareholders, then assigned by a nomination of the 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.

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

24 SHARE CAPITAL (cont'd)

The Shareholder's Equity accounts of the Company as of 31 December 2004 and 2003, based on the Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards" issued by the Capital Market Board on 15 November 2003, are stated below with their nominal amounts and the differences arises from indexation of equity items is recognized in "Shareholders' Equity Inflation Adjustment Differences" account.

	31 December 2004	31 December 2003
	(As restated)	
Share capital	175.000.000	175.000.000
Share premium	181.185	181.185
Legal reserves	417.011	417.011
Extraordinary reserves	7.806.889	7.806.889
Other reserves	9	9
Shareholders' equity inflation adjustment differences (*)	1.872.657.189	1.872.657.189
Net profit for the year (according to IFRS)	107.058.441	243.458.570
Accumulated losses (according to IFRS)	(1.053.006.968)	(1.296.465.538)
	<u>1.110.113.756</u>	<u>1.003.055.315</u>

(*) Shareholders' Equity Inflation Adjustment

Differences:

Share Capital	1.739.005.871	1.739.005.871
Share Premium	714.307	714.307
Legal Reserves	60.597.395	60.597.395
Extraordinary Reserves	67.026.275	67.026.275
Other Reserves	5.313.341	5.313.341
	<u>1.872.657.189</u>	<u>1.872.657.189</u>

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Notes to the Financial Statements as at 31 December 2004

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25 FOREIGN CURRENCY POSITION

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

	US Dollar	Euro	Sterling	Other	Total
<i>Foreign currency based assets</i>					
Cash and cash equivalents	40.353.808	178.302.052	2.317.807	28.309.351	249.283.018
Accounts receivables (Net)	35.521.212	32.904.743	5.421.928	38.641.943	112.489.826
Due from related parties	477.642	311.411	-	-	789.053
Other receivables and current assets	18.473.390	1.964.284	433.532	1.995.243	22.866.449
Advances given for the aircrafts	396.911.822	-	-	-	396.911.822
Other receivables and long term assets	11.874.823	531.427	77.424	831.445	13.315.119
	<u>503.612.697</u>	<u>214.013.917</u>	<u>8.250.691</u>	<u>69.777.982</u>	<u>795.655.287</u>
<i>Foreign currency based liabilities</i>					
Short term finance lease obligations	202.712.254	-	-	-	202.712.254
Accounts payable	80.958.851	48.701.272	4.784.959	21.697.322	156.142.404
Due to related parties	215.959	1.268	-	-	217.227
Other short and long term payables	551.479	505.911	99.649	75.949	1.232.988
Deposits and advances received	27.527.730	8.394.359	687.023	1.864.239	38.473.351
Other accrued liabilities	17.057.945	2.797.675	2.708.864	1.629.380	24.193.864
Long term finance lease obligations	957.728.732	-	-	-	957.728.732
Manufacturer's credit (net)	2.391.220	-	-	-	2.391.220
	<u>1.289.144.170</u>	<u>60.400.485</u>	<u>8.280.495</u>	<u>25.266.890</u>	<u>1.383.092.040</u>
Net foreign currency position (*)	<u>(785.531.473)</u>	<u>153.613.432</u>	<u>(29.804)</u>	<u>44.511.092</u>	<u>(587.436.753)</u>

(*) Although, The Company is shown as in an open position based on its monetary assets and liabilities, as explained in Note 3.4, the Company values its aircraft and spare engines based on their US Dollar acquisition costs or US Dollar selling prices. In this respect, the Company's management is of the opinion that the Company's tangible assets which are carried from US Dollar denominated values should also be considered during the evaluation of the Company's sensitivity of its assets and liabilities against the changes in foreign exchange rates. As of 31 December 2004, the net book values of aircraft and spare engines, which are carried from US Dollar acquisition costs or US Dollar selling prices is YTL 1.504.373.218.

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Notes to the Financial Statements as at 31 December 2004

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

26 CONTINGENT LIABILITIES

a) Guarantees Given:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Guarantee letters given	34.044.958	38.725.321

b) Purchase Commitments:

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

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

c) Letter of Comfort:

	<u>31 December 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 YTL 97.904.134 as of 31 December 2004 and THY amortizes these buildings based on their useful lives of 50 years. It is possible for THY to amortize related buildings in a period less than 50 years in case, DHMI does not renew the rent agreement.

The conflict between DHMI and THY about the rent demand of DHMI for the buildings and facilities of THY on lands leased from DHMI came to a conclusion in October 2004. In accordance with the agreement between THY and DHMI, THY paid the invoice amount of YTL 515.272 for the "indoor area rent" of 2000, 2001, 2002 and 2003 and THY agreed to pay 50% rent for the currently leased land which have a clause of "indoor are rent will paid" in their assignment and for the buildings that will be constructed on land that will be leased from DHMI in future.

e) The Company discounted its retirement pay provision to YTL 99.777.377 (note 23) according to IAS 19. The Company's total undiscounted liability for retirement pay would be approximately YTL 158 million as of 31 December 2004, if all employees had been dismissed as at that date.

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27 OPERATING LEASE COMMITMENTS

Commitments for future operating leases are as follows:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Not later than one year	74.824.262	47.955.884
Between 1 and 2 years	65.908.778	29.481.123
Between 2 and 5 years	53.303.431	1.687.541
	<u>194.036.471</u>	<u>79.124.548</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 2004, has decreased from Euro 24,36 at 31 December 2004 to Euro 22,87 at 30 March 2005. Hence, the total market value of these securities decreased by YTL 722.920 compared to balance sheet date.

Market price of 2.223 USAŞ securities, which is traded in İstanbul Stock Exchange Market, and included in the financial investments as available for sale as of 31 December 2004, has decreased from YTL 6,79 at 31 December 2004 to YTL 5,20 on 30 March 2005. Hence, the total market value of these securities decreased by YTL 3.534.570 compared to balance sheet date.

Retirement pay ceiling has been increased to 1.648,9 as of 1 January 2005 .

29 OPERATING REVENUES

Operating Revenues are as follows

	<u>2004</u>	<u>2003</u>
Scheduled services		
- Passenger	2.200.855.649	2.224.832.685
- Cargo and mail	254.127.479	260.477.010
	<u>2.454.983.128</u>	<u>2.485.309.695</u>
Non-scheduled services	46.078.926	49.590.591
Other revenues	292.323.892	310.870.330
Total revenues	<u>2.793.385.946</u>	<u>2.845.770.616</u>

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

	<u>2004</u>	<u>2003</u>
- Europe	1.033.565.325	1.067.758.527
- Middle East	237.256.813	234.676.517
- North Africa	65.525.149	60.328.852
- North America	142.697.554	155.893.131
- South Africa	-	7.390.977
- Far East	417.601.989	379.484.439
	<u>1.896.646.830</u>	<u>1.905.532.443</u>
Domestic	<u>558.336.298</u>	<u>579.777.252</u>
Total scheduled services' flight revenue	<u>2.454.983.128</u>	<u>2.485.309.695</u>

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

30 OPERATING EXPENSE

Operating expenses consist of the following:

	<u>2004</u>	<u>2003</u>
Fuel expenses	513.784.355	393.068.379
Maintenance expenses	152.044.598	110.753.338
Passenger service and catering expenses	160.554.128	159.842.346
Landing and navigation expenses	240.215.847	238.614.630
Handling and station expenses	180.775.212	175.829.671
Staff expenses	591.486.507	562.605.209
Marketing and selling expenses	315.547.494	320.251.423
General operations	46.679.934	47.309.269
General administrative expenses	31.911.387	35.987.799
Insurance expenses	30.752.863	30.762.548
Depreciation expenses	300.451.836	314.364.838
Aircraft and seat rent expense	27.792.751	8.507.687
Operating lease expense	58.840.588	77.757.707
	<u>2.650.837.500</u>	<u>2.475.654.844</u>

31 FINANCIAL INCOME (NET)

Financial income / (expense) consist of the following:

	<u>2004</u>	<u>2003</u>
Interest income	42.256.159	44.924.622
Income from investment accounted for equity method	12.846.679	3.113.565
Foreign exchange gains	250.059.990	568.969.810
Increase in value of available for sale financial assets	7.006.906	4.078.306
Discount income	580.595	3.350.158
Financial income	<u>312.750.329</u>	<u>624.436.461</u>
Foreign exchange losses	(222.638.553)	(254.068.639)
Interest expenses-third parties	(4.324.789)	(5.263.691)
Finance lease interest expense	(42.347.448)	(61.546.551)
Retirement pay interest cost	(4.883.377)	(5.897.336)
Discount expense	(1.363.724)	(1.976.317)
Financial expense	<u>(275.557.891)</u>	<u>(328.752.534)</u>
Financial income (net)	<u>37.192.438</u>	<u>295.683.927</u>

Türk Hava Yolları Anonim Ortaklığı

Notes to the Financial Statements as at 31 December 2004

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

32 INCOME FROM OTHER OPERATIONS

Income from other operations consists of the following:

	<u>2004</u>	<u>2003</u>
Commission income	315.923	1.052.833
Dividend income	299.757	3.582.613
Insurance claims received	4.188.704	4.756.705
Gain from sale of fixed assets	605.066	-
Discounts received from spare parts suppliers	8.556.212	8.682.908
Reversal of unnecessary provision	13.757.874	5.787.753
Manufacturer's credit income	1.695.609	2.007.570
Compensations received	1.293.645	-
Decrease in provision for impairment of tangible fixed assets	22.249.212	67.689.398
Free of cost materials income	1.511.262	1.677.130
Other income	4.739.817	7.160.780
	<u>59.213.081</u>	<u>102.397.690</u>

33 LOSS FROM OTHER OPERATIONS

Loss from other operations consists of the following:

	<u>2004</u>	<u>2003</u>
Provision expenses	8.198.401	6.300.785
Loss from sale of fixed assets	560.144	162.455
Rent expense of RJ aircraft to be returned	4.507.796	-
Other expenses	2.601.154	5.696.878
	<u>15.867.495</u>	<u>12.160.118</u>

34 TRANSACTIONS WITH RELATED PARTIES

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

Transactions with related parties are as follows:

	<u>2004</u>	<u>2003</u>
Services given to Sun Express	1.912.675	1.663.330
Services given to USAŞ	256.824	228.979
	<u>2.169.499</u>	<u>1.892.309</u>
Services taken from Sun Express	2.603.397	388.956
Services taken from USAŞ	66.785.003	68.155.117
	<u>69.388.400</u>	<u>68.544.073</u>

Dividend income from equity investments are as follows:

	<u>2004</u>	<u>2003</u>
Sun Express	4.231.305	-
Uçak Servisi A.Ş. (USAŞ)	192.844	1.993.640
Emek İnşaat and İşletme A.Ş.	6.560	1.803
	<u>4.430.709</u>	<u>1.995.443</u>

**TÜRK HAVA YOLLARI
ANONİM ORTAKLIđI**

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

*Translated into English from
the Original Turkish Report*