PRESENTATION OF FINANCIAL STATEMENTS AND OPERATIONAL RESULTS IN INTERNATIONAL AIRLINE INDUSTRY

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ABSTRACT

International flying airlines must submit their financial statements and operational results to related civil aviation and financial institutions in home country and abroad. Airlines have to organize their financial statements appropriate to local accounting standards, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Turkish Airlines which is the unique international flying public held flying airline in the sector(1.8%) has to submit its audited financial results to the Security and Exchange Commission (SEC) of Turkey. Most of the airlines are member of International Air Transport Association (IATA), International Civil Aviation Organization, Association of European Airlines (AEA). That is why, these airlines have to submit financial to these organisation besides financal institutions. Airlines fly to different countries by carrying passengers from different nationalities. For this reason, airline industry needs international standardization. In this study, airlines' financial statement submission has widely discussed by distinguished revenue and cost materials in aviation sector, Newyork Stock Exchange (NYSE) and SEC requirements for NYSE listed airlines, Turkish Airlines financial reporting details. Throughout the study, the word "airline" or "airlines" means "internationally flying airlines".

Keyword: *airlines, financial, reporting, Turkish Airlines, capital markets.*

ULUSLAR ARASI UÇUŞ YAPAN HAVAYOLLARINDA FİNANSAL TABLOLARIN VE OPERASYON SONUÇLARININ SUNULMASI

ÖZET

Uluslar arası uçuş yapan havayolları, finansal tabloları ve operasyon sonuçlarını, havayolları ile ilgili kendi ülkesindeki ve ülke dışındaki sivil havacılık ve finansal kurumlara sunmak zorundadır. Havayolları finansal tablolarını kendi ülkesinin muhasebe ilkelerine, Uluslar arası Muhasebe Standartlarına (UMS) ve aynı zamanda Uluslar arası Finansal Raporlama Standartlarına (UFRS) göre hazırlamak zorundadır. Ülkenin tek halka açık olan havayolu işletmesi olan (%1.8) Türk Hava Yolları, finansal tablolarını bağımsız denetimden geçirdikten sonra Sermaye Piyasası Kurulu (SPK)'na sunmak zorundadır. Pekçok havayolu, Uluslararası Havayolu Taşıyıcıları Birliği

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(IATA), Uluslararası Sivil Havacılık Organizasyonu (ICAO) ve Avrupa Havayolları Birliği (AEA)'ya üyedirler. Bu nedenle, havayolu sektörü, uluslar arası standardizasyona ihtiyaç duyar. Bu çalışmada, havayollarının finansal tabloları sunuşları, kapsamlı olarak, özellikli gelir ve giderlerin ayırımı, havacılık sektörüne ait ayrıcalıklı gelir ve maliyet kalemleri, Newyork Sermaye Piyasası (NYSE)'nda kote olan havayollarının NYSE ve SEC'e yapılması istenenler raporlar ve Türk Hava Yolları'nın finansal raporlama detayları tartışılmıştır. Çalışma boyunca, "havayolu" veya "havayolları" kelimesi "uluslar arası uçuş yapan havayolları" şeklinde algılanmalıdır.

Anahtar kelimeler: *havayolları, finansal, Türk Hava Yolları, sermaye piyasaları.*

ABBREVIATIONS: **ASMs** (AVAILABLE SEAT MILES – ARZEDILEN KOLTUK MIL), **ATMs** (AVAILABLE TON MILES-ARZEDILEN TON MIL), **ATKs** (AVAILABLE TON KILOMETRES – ARZEDILEN TON KILOMETRE), **RTKs** (REVENUE TONNE KILOMETRES – KILOMETREDE TON GELIRI), **SEC** (Security and Exchange Commission)

INTRODUCTION

Commercial airlines are being affected from cultural, social and economical developments very quickly whether the events had been occurred in their homecountry or abroad. Airlines' financial management faces with difficulties in organizing preformed financial statements or performing financial analyses. Civil aviation sector had an outstanding development and revenue since the first flight had performed from St.Petersburg to Tampa which ticket had been sold 5 USD (Morrison, 1995) but also outstanding revenues cause internationally financial sector regulation needs.

Airlines earn money by carrying passengers, cargo, mail or rent their assets. In civil aviation sector; there is an important control and audit because of international relations. In international trading, foreign airline intend to understand other airlines' financial results very carefully. Aviation institutions have to control and analyse results at the end of periods. Additionally, aviation sector institutions need standardization in financial statements because of necessity in determining revenues and costs objectively and having a sector results. That is why international airlines are under international taxation, accounting and auditing control. Most of the airlines are member of IATA, ICAO and AEA.

In the airlines, accounting transactions are firstly being registered according to their local accounting system. These statements are transformed to IAS and (IFRS) for a better understanding of international related parties. Turkish Airlines submit basic and additional statements to Security and Exchange Commission of Turkey every three months and also to Ministry of Finance for taxation. For Ministry of Finance, statements have to be appropriate to Turkish Accounting

Uniform System. In Turkey, like the other countries, financial statements are divided in two categories as following;

- Basic Statements: balance sheet, income statement,
- Addition Statements: cash flow, fund flow, profit distribution, equity changes statement. (Akdogan, 1995)

By 2005, every listed European Union country will be required to produce its group financial statements in full accordance with International Accounting Standards and International Financial Reporting Standards.(Alexander and et.al, 2003) Airlines financial results are very important because some researches has provided additional evidence on the link between a firm's financial characteristics and its conduct in product markets. (http://papers.ssrn.com /sol3/papers. cfm?abstract _id=237374) Recently airlines has started to report on corporate social responsibility (CSR) too. Because shareholders pay attention to firms' social and ethical performance, the overall purpose of researcher was to determine whether the control environment relates to financial reporting decisions. A tone at the top an organization that fosters ethical decisions is of overriding importance. In addition, there is some reason for concern about fraudulent financial reporting.(D'Aquila,1998) Although there is no legislation requiring any social or environmental accounting or reporting there (at least in UK) have been a number of recommendations from the EC (European Commission), based upon their Fifth Action Programme on the Environment. Thus in a 1992 report entitled 'Towards Sustainability' the EC calls for organisations to disclose in their annual reports details of their environmental policy and activities, and the effects thereof. (Crowther, 2004) Corporate reporting has an internal aspect to it in that communication is not just to the external environment but also is internal to the organisation – that is between the managers and shareholders. (Crowther, 2002)

Another problem on submission of financial reporting of airlines' is e-commerce sales by internet. However e-commerce sales has a lot of advantages on cost, it is a problem about taxation and audit. Regulators that establish requirements for the reporting of financial results have recently issued several new initiatives targeted at the practices of e-commerce firms. The creation of regulations for financial reporting in the US and UK combine both legislative authority and the work of private organisations. In the US, a private, independent board, the Financial Accounting Standards Board (FASB), guided by the Financial Accounting Standards Advisory Council (FASAC), primarily sets the accounting regulations. Specifically, the Emerging Issues Task Force (EITF), a separate board that is a division of the FASB, responds to unique accounting situations that lack formal guidance in existing standards. (Manly and Leonard, 2002)

1. PROBLEM AND AIM OF THE STUDY

Because of Turkey has not applied International Accounting and Financal Reporting Standards yet, Turkish Airlines has to prepare two different type of financial reports for SEC and Ministry of Finance in Turkey. Further more, has to submit standardized reports to IATA, ICAO and AEA about its financial results. The financial statements of the Turkish Airlines are being prepared according to the IAS standards for abroad and according to Turkish Tax System for Internal Revenue Service of Ministry of Finance. However, Turkish Airlines is a public held company, its statements are regularly audited independent auditors at the end of every three months for Turkish SEC. The Exchange may require any deviation from the International Accounting Standards to be included in the submitted financial statements. The Exchange may also require from the issuer to disclose the financial statements prepared in accordance with the accounting standards employed in the issuers' country. (www.imkb.gov.tr) In United States of America, American airlines are also required to submit cash flow statements to the SEC too. (Kaps, 2000)

Many airlines are being listed in a foreign countries' stock and exchange. Following airlines have listed in NYSE (Newyork Stock and Exchange) like Air France (AKH), AirTran Holdings (AAI), Alaska Air Group Inc. (ALK), America West Holding Corporation (AWA), AMR Corporation (AMR), AMR Corporation Delaware Pines 7.875 (AAR), British Airways Plc (BAB), China Eastern Airlines Corporation Limited (CEA), China Southern Airlines Company Limited (ZNH), Continental Airlines Inc. (CAL), Delta Air Lines Inc. (DAL), Delta Airlines Notes (DNT), ExpressJet Holdings Inc. (XJT), Gol Linhas Aéreas Inteligentes S.A. (GOL), Lan Airlines, S.A. (LFL), Midwest Air Group, Inc. (MEH), Southwest Airlines Co. (LUV). (www.nyse.com)

If any airline wants to be listed in NYSE, these companies have to report annually and also for interim earnings. The Exchange requires that companies publish an annual report containing financial statements of the company and its consolidated subsidiaries prepared in conformity with generally accepted accounting principles at least once a year and distribute to shareholders. The company must distribute its annual report to its shareholders not later than 120 days (225 days for Non-U.S. issuers) after the close of each fiscal year. Companies may satisfy the annual distribution requirement either by distributing an annual report to shareholders (or Form 20-F for Non-U.S. issuers) filed with the SEC, with an indication that it is distributed in lieu of a separate annual report. When the annual report (or Form 10-K or Form 20-F) is distributed to shareholders, two copies should be sent to the Exchange, together with advice as to the date of distribution to shareholders. Distribution shall be in such format and by such means as permitted or required by applicable law and regulation (including any interpretations thereof by the SEC). A company that is unable to timely file its Form 10-K or Form 20-F with the SEC must notify the Exchange prior to

the SEC filing deadline, explaining the reason for the delay and the anticipated filing date. The Exchange requires that all financial statements contained in annual reports of the company to its shareholders be audited by independent public accountants who are qualified under the laws of some state or country and are subject to a code of professional ethics of the professional accountancy body in that state or country. The financial statements will be accompanied by a copy of the report issued by the independent public accountants with respect to their examination of such statements. The Exchange requires that all financial statements contained in annual reports to shareholders be in the same form as the corresponding statements contained in the company's original listing application or as modified to include the additional disclosure agreed upon by the company and the Exchange. The statements are to be prepared in conformity with generally accepted accounting principles.

For Interim Earnings Reporting Requirement, no specific time limit for publication of interim earnings statements has been set, but it is assumed that such statements will be published as soon as available. It is expected that, in this respect, each company will conform at least to the pattern established by the majority of companies in its industry and, where the company has a previous record of publication of interim statements, to the pattern established by that previous record. The Exchange requires publication of interim statements as news items in the public press. It is not required that the statements be sent to shareholders. As a matter of fairness, corporations which distribute interim reports to shareholders should distribute such reports to both registered and beneficial shareholders. Whether or not the statements are sent to shareholders, to be sure of adequate coverage the statements should be released to newspapers and to the national news wire services, as described in the "Immediate Release Policy." In addition, they should be sent to the securities statistical services.

Minimum Quantitative Standards for NYSE listing: Distribution and Size Criteria

Round-lot Holders (A) (number of holders of a unit of trading - - generally 100 shares)	2,000 U.S.
or:	
Total Shareholders (A)	2,200
...together with:	
Average Monthly Trading Volume (for the most recent six months)	100,000 shares
or:	
Total Shareholders (A)	500
...together with:	
Average Monthly Trading Volume (for the most recent 12 months)	1,000,000 shares
Public Shares (B)	1,100,000 outstanding
Market Value of Public Shares (B,C):	
Public Companies	$100 million

IPOs, Spin-offs, Carve-outs and Affiliated Companies	$60 million
Minimum Quantitative Standards: Financial Criteria	
Earnings	
Aggregate pretax earnings (D) over the last three years	$10 million
Minimum in each of the 2 most recent years (must be positive amount in the third year)	$2 million
or:	
Valuation with Cash Flow	
For Companies with not less than $500 million in Global market capitalization and $100 million in revenues during the most recent 12 months:	
Aggregate Operating Cash Flow(E) over the last three years (e report a positive amount)	$25 million
or:	
Pure Valuation	
Revenues for the Most Recent Fiscal Year	$75 million
Global Market Capitalization (F)	$750 million
or:	
Affiliated Company Original distribution requirements as noted; market capitalization of $500 million or greater; entity must have 12 months of operations (although it is not required to have been a separate entity for that long); parent or affiliated company is a listed company in good standing; and parent or affiliated company retains control of the entity or is under common control with the entity.	
or:	
REITs (less than 3 years operating history) (B) Stockholders' equity	$60 million
or:	
Funds (less than 3 years operating history) (B) Net assets	$60 million

(www.nyse.com)

If an airline wants to be listed in NYSE, has to submit reports to SEC. Over the last ten years, the number of foreign companies accessing the U.S. public markets has increased dramatically. Since 1997, over 600 foreign companies have registered securities with the SEC for the first time. As of December 31, 2002, there were over 1,300 foreign companies from 58 countries filing periodic reports with the Commission. A foreign company that seeks to list its securities on the New York or American Stock Exchanges or the Nasdaq Stock Market must register its securities with the SEC by filing an Exchange Act registration statement, and must subsequently file annual reports. Form 20-F is the form used by most publicly traded, foreign companies for Exchange Act registration and annual reporting because its requirements are tailored specifically for foreign issuers. Form 20-F requires comprehensive disclosure about the company, including information about its business operations and its financial statements.

The Securities Act requires companies to register each public offering of securities in the U.S. In an initial public offering, a foreign company registers its securities using a Form F-1 registration statement. The registration statement includes the prospectus, which is the principal

document used to market securities to investors. The disclosure contained in a prospectus generally is the same as that required by Form 20-F and also includes various matters that are specific to the offering. The integrated disclosure system designed for foreign private issuers provides a number of accommodations to practices in other jurisdictions. These accommodations include:

- interim reporting on the basis of home country and stock exchange practice rather than quarterly reports;
- exemption from the proxy rules and the insider reporting and short swing profit recovery provisions of Section 16;
- aggregate executive compensation disclosure rather than individual disclosure, if so permitted in an issuer's home country;
- acceptance of three International Financial Reporting Standards (IFRS) relating to cash flow statements (IAS # 7), business combinations (IAS # 22) and operations in hyperinflationary economies (IAS 21);
- offering document financial statements updated principally on a semi-annual, rather than a quarterly basis; and
- foreign companies may prepare their financial statements using a comprehensive body of generally accepted accounting principles (GAAP) other than U.S. GAAP. Foreign companies that present their financial information in accordance with the GAAP of their home country or International Accounting Standards must include a reconciliation of significant variations from U.S. GAAP.

Instructions for financial statements and the reconciliation to US GAAP are included in Item 17 and Item 18 of Form 20-F. On May 14, 2002, the Commission adopted amendments to the rules that govern the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. These amendments require foreign private issuers and foreign governments to file electronically through the EDGAR system most of their securities documents, including registration statements under the Securities Act of 1933 and registration statements, reports and other documents under the Securities Exchange Act of 1934 (Securities Act Release 33-8809). By mandating the electronic filing of foreign issuers' securities documents on EDGAR, the Commission hopes to realize the same investor benefits and the same efficiencies in information transmission, dissemination, retrieval and analysis achieved since mandatory EDGAR filing for domestic issuers began in 1993. The rule amendments also clarify when an electronic or paper filer may submit an English summary instead

of an English translation of a foreign language document. (http://www.sec.gov/divisions/corpfin/internatl/issues1004.htm#P102_3459)

Airlines fly from one continent to another in a broad area. That is why, accountants and auditors need to have education on international taxation, accounting and auditing for bookkeeping very range of costs and revenues proper to national and international regulations. Sector needs financial statement standardization because of following reasons;

1) Distortion of data: Inflation affects profitability, primarily through depreciation, which is usually based on the historic cost of assets.
2) Differences in accounting treatment: Different depreciation periods will affect the comparability of ratios, as well as whether aircraft leases are on or off balance sheet. Writing off route rights or slot acquisitions against reserves will increase the debt/equity ratio.
3) Window dressing: Balance sheets are only a snapshot on a particular date and firms can employ techniques to make their position look better on that day. (Morrell, 1997)

2. METHODOLOGY

In this study, national and international financial and accounting books, regulations were searched and airlines financial reporting system were discussed and evaluated with Turkish Airlines's Accounting Department Staff. Original reporting documentation have been sent by IATA, AEA and ICAO. NYSE and SEC web pages were used for the requirements for listing and reporting in NYSE and SEC.

3. RECENT DEVELOPMENTS IN AIRLINE SECTOR AFTER SEPTEMBER THE 11th EFFECTS ON AIRLINE FINANCIAL RESULTS

On September 11, 2001, terrorists launched a devastating attack against the United States using commercial airliners loaded with jet fuel as weapons. The United States experienced its most devastating terrorist attack on September 11, 2001, when terrorists crashed hijacked commercial airliners, loaded with as much as 25,000 gallons of jet fuel each, into the two World Trade Center towers and the Pentagon. A fourth jet was crashed into the Pennsylvania countryside. Within two hours of the first attack, both 110-story twin towers of the World Trade Center had collapsed. Because of the attacks and damage to the New York City financial district, U.S. financial markets were closed until September 17. When the markets reopened, airline stock prices plummeted, in some cases by more than 60 The overall market declined seven percent on September 17,

experiencing its largest one-day point decline, although not its largest percentage decline.[2] The flight ban, imposed by the U.S. government on September 11, cost the airlines hundreds of millions, and perhaps billions, of dollars. Further, the attacks raised the possibility of significant declines in airline revenue due to steep declines in passenger traffic fueled by fears of further attacks, as well as by deteriorating economic conditions. In fact, concerns about passenger traffic proved to be well founded. In a monthly decline of a size not seen since the immediate aftermath of the Gulf War more than 10 years earlier, passenger traffic on the scheduled services of Air Transport Association member airlines declined 29.7 percent in September, compared with September 2000. For October 2001, passenger traffic was down 21.1 percent domestically and 37.3 percent for international travel (Air Transport Association, 2001a). Market participants were able to distinguish between airlines based on their ability to cover short-term obligations, as measured by the ratio of cash and equivalents to total assets. Those airlines with lower levels of cash and equivalents to total assets were penalized most, suggesting the market was concerned about the airlines' ability to survive a prolonged downturn in air travel. Traditionals methods of costing are based upon the assumption that costs are related to the volume of production of each of the products made by a business (Crowther, 2004). After September the 11th, airline has faced with additional cost problems. Because of sharply decrease in the number of passengers, IATA had to invervent directly to government requests from airlines like marshalls in the airlines during the flight. IATA have struggled for fuel, taxation and insurance costs because of unfair aviation rulings by governments and authorities around the globe. Taxes saved or avoided by the industry in 2003 amounted to US 620.9 million. These savings were the result of campaigns to: facilitate competition, reduce duties, fees, and taxes; ensure reliable fuel supplies; harmonise technical standards; enhance safety audits of fuel facilities.

TAXES: IATA obtained notable successes in achieving tax reductions and avoidance in 2003 and to-date in 2004. In doing so, IATA has also contributed to substantial savings for passengers. The German Parliament approved a new finance package without removing the exemption from value added tax (VAT) on international air transport, avoiding annual VAT of Euro 500 million (US547 million), net of reclaims. Most recently, in the UK avoidance of an increase in the passenger departure fee won cost savings of US1.45 billion in 2004.

INSURANCE: In the area of insurance, IATA obtained amendments to the proposed European Parliament and Council regulations on minimum insurance requirements for air carriers. The ICAO draft replacement for the 1952 Rome Convention causes concern for threshold compensation

[2] On September 17, 2001, the Dow Jones Industrial Average fell almost 684.81 points, its largest point drop. However, the percentage decline of approximately seven percent was dwarfed by the 23 percent drop on "Black Monday" (October 19, 1987). The NASDAQ Composite Index declined by 115.83 points (6.83%), which was neither the largest point nor percentage decline.

amounts and airline liability for airborne terrorist incidents. IATA is mounting a concerted effort to exact needed changes.

FUEL: Airlines spent around US 59 billion on fuel in 2003, and the cost in 2004 is expected to top US 67 billion. Looking back two years, fuel prices have risen more than 50% on average. IATA is working to eliminate price distortions caused by monopoly providers or controlled supply. To assist the airlines, IATA focuses on ensuring a reliable, optimally priced supply of quality jet fuel at airports worldwide. IATA seeks at every turn to oppose the taxation of aviation fuel and to ensure that fuel through-put charges are reasonable. To date in 2004, US113 million in fuel savings have been achieved. (http://www.iata.org/NR/ContentConnector/CS2000/SiteInterface/sites/about/file /annual_report _ 2004.pdf)

After September the 11th, many, but not all, major U.S. passenger airlines are experiencing their second consecutive year of record financial losses. In 2001, the U.S. commercial passenger airline industry reported losses in excess of $6 billion. For 2002, some Wall Street analysts recently projected that U.S. airline industry losses will approach $7 billion, and noted that the prospects for recovery during 2003 are diminishing. Such projections could worsen dramatically in the event of additional armed conflict, if travel demand drops and fuel prices rise. Several carriers have entered Chapter 11 bankruptcy proceedings. Yet Southwest Airlines, JetBlue, and AirTran continue to generate positive net income. These low-fare carriers have fundamentally different business structures than most major U.S. airlines, including different route structures and lower operating costs.

Nevertheless, federal security requirements have altered the cost of doing business for all carriers. Carriers have taken many actions to lower their costs and restructure their operations. Since September 2001, carriers have furloughed an estimated 100,000 staff, renegotiated labor contracts, and streamlined their fleets by retiring older, costlier aircraft. Carriers have reduced capacity by operating fewer flights or smaller aircraft, such as substituting “regional jets” for large “mainline” jet aircraft. In some cases, carriers eliminated all service to communities. For example, since September 2001, carriers have notified the Department of Transportation (DOT) that they intend to discontinue service to 30 small communities. At least two carriers are modifying their hub operations to use resources more efficiently by spreading flights out more evenly throughout the day. Finally, to increase revenues, some carriers have proposed creating marketing alliances under which the carriers would operate as code-sharing partners. United Airlines and US Airways announced plans to form such an alliance on July 24, 2002, as did Continental Airlines, Delta Air Lines, and Northwest Airlines one month later.

As the aviation industry continues its attempts to recover, the Congress will be confronted with a need for increased oversight of a number of public policy issues. First, airlines’ reactions to

financial pressures will affect the domestic industry's competitive landscape. Some changes, such as extending airline networks to new markets through code sharing alliances, may increase competition and benefit consumers. Others, such as carriers' discontinuing service to smaller communities, may decrease competition and reduce consumers' options, particularly over the long term. Second, airlines' reductions in service will likely place additional pressure on federal programs supporting air service to small communities, where travel options are already limited. Finally, while domestic travel has been the focus of our concern today, there are numerous international developments—especially regarding the European Union (EU)—that may affect established international "open skies" agreements between the United States and EU member states. Various studies have illustrated the benefits to both consumers and carriers that flow from liberalizing aviation trade through such agreements. As international alliances are key components of major domestic airlines' networks, international aviation issues will affect the overall condition of the industry. (http://www.gao.gov/new.items/d03171t.pdf)

Balance Sheet and Income Statement are basic financial statements which are interested by stockholders, Revenue Services and Tax Departments of the governments, labor unions and the others. Airlines have to declare their basic statements periodically. Especially after the September 11th, 2001 civil aviation sector had a big crisis because of terrorist attack. Major American airlines' financial statistics between year 2000 third quarter and year 2001 third quarter.

Statistics on Operating Expenses and Operating Profits (thousands of dollars)

Carrier	Year	Total Operating Revenues	Total Operating Expenses	Operating Profit (Loss)	Net Income(Lost)
American	2000	4.832.581	4.316.393	516.188	316.112
	2001	3.801.544	4.154.951	(353.407)	(258.133)
United	2000	4.915.785	4.945.291	(29.506)	(111.143)
	2001	4.096.978	6.157.567	(2.060.589)	(1.179.220)
US Airways	2000	2.376.491	2.365.870	10.621	(23.224)
	2001	1.980.028	2.131.996	(151.968)	(755.962)

(www.bts.gov)

As seen upper statistics, after Sep 11th, terrorist attacks had been occurred in Manhattan by using 2 aircrafts as gun, airline sector sales has decreased sharply. Most of airlines needed to have critical accounting policies for Revenue Recognition, Long-Lived Assets, Frequent Flyer Program. (Delta Airlines 2001 Annual Report)

4. REVENUE AND COST CONCEPTS IN AIRLINES

4.1. Structure of Revenues in Airlines:

According to IATA Accounting Guide 1996, revenue is generally recognized when both of the following conditions in the airlines are met: (1) the earning process is complete or virtually compete, and (2) an exchange has taken place. (IATA Accounting Guide No:4, 1996) Commercial airlines plan and schedule at all levels, from aggregate planning down to detailed scheduling of hourly activities. The profitability of the airlines and the satisfaction of its customers ride in the balance in this risky and volatile industry.(Everett, 1992) Disclosure of the segmentation of revenue should comprise: 1) Passenger revenue: Scheduled services, Charter 2) Cargo revenue 3) Other income (leasing of aircraft "as lessor", third party engineering and maintanence services, catering services, package holiday sales, excess baggage).

In the airlines, revenues has been changing because it is possible ticketing in different prices for the same route. For example; following data describes the present structure of one of the airlines on the Heathrow-Toronto route. This route has not been selected on account of it having any special features. The situation there is a typical one, replicated on thousands of different routes around the world. That is why auditor and/or accountant need to have "ticketing" education, read ABC books and airlines system to determine correct airline revenue. As seen here, there are two different prices in economy class.

Fare Structure, Heathrow – Toronto 1998 (USD)

Fare Type	***Fare Level***	***Conditions***
First Class	4.600	-
Business Class	2.884	-
S2	**712**	Point-to-point only
"World Offer"	**239**	Saturday night stay required 21 days advanced booking. Non-refundable.

(Stephen, 1990)

Additionally, most of passenger travels to different destinations by the same ticket. Accountant needs to calculate airline's revenue and taxes by countries because airline has to pay taxes to all countries where passenger has been stepped. For example, a passenger may fly from Sydney – Singapore – Dubai – Turkey – Paris – London – Montreal. This ticket may issue by different airlines for different classes like first, business and economy. The Turkish accountant have to calculate his/her airline revenue and pay correct taxes amount to Ministry of Finance in Turkey. For this transaction, accountant have to educated on ticketing because it is necessary to use 'mileage system' during calculating. Besides, accountant have to pursue Double Taxation Aggrements of his/her country with the other countries which have designed and published to OECD taxation models.

Another revenue comes from (FFP's) Frequent Flyer Program revenues. FFP's have been introduced by many international airlines, principle to induce higher levels of repeat business from premium fare traffic. Various types of awards may be offered by the FFP in exchange for frequent flyer points accumulated under the scheme like; a) the right to buy a ticket the discount, b) the right to a free companion ticket, c) the right to travel free on the sponsoring airline. Accountant and/or auditor have to be familiar with the airline's FFP regulations. FFP's helps the airline to improve their revenues. The Accounting Task Force has not been able to identify any specific guidance issued by major accounting standards setting bodies relating to the accounting treatment appropriate for the FFP. In US, airlines are required to provide detailed supplemental information on FFP's in the annual SEC report. (IATA Airline Accounting Guideline No.2, 1995)

4.2. Structure of Operating Cost in Airlines:

Direct Operating Costs (DOC) in airlines:

1. Flight operations
   - Flight crew salaries and expenses, Fuel and oil, Airport and en route charges, Aircraft insurance, Rental/lease of flight equipment/crews
2. Maintenance and overhaul: Engineering staff costs, Spare parts consumed, Maintenance administration
3. Depreciation and amortization
   - Flight equipment, Ground equipment and property, Extra depreciation (in excess of historic costs), Amortization of development costs and crew training

Indirect Operating Costs (IOC) in airlines:

4. Station and ground expenses
   - Ground staff, Buildings, equipment, transport, Handling fees paid to others
5. Passenger services
   - Cabin crew salaries and expenses, Other passenger service costs, Passenger insurance
6. Ticketing, sales and promotion
7. General and administration
8. Other operation costs

While the approach to cost categorization used by each airline is strongly influenced by accounting practices in its home country, it is also influenced by the cost classification adopted by the ICAO. The governments of the member states of ICAO are required to provide each year with financial data about their airlines on a standard form. These data provide the basis for ICAO's annual *Digest of Statistics , Series F, Financial Data,* which contains the balance sheets and profit and loss statements for all the ICAO member airlines. (Doganis, 1991)

5. IMPORTANT AIRLINE AUDITING POINTS ARRANGING FINANCIAL STATEMENTS OF AIRLINES

Airline tickets usually sold in advance of the transportation date, and the ticket sales date usually does not coincide with the revenue recognition date (the date that service is provided). Revenue recognition procedures are generally complex in the airline industry as a result of the volume of transactions to be processed; the multitude of fares that maybe available for the same service; and the possibility that one or more segments of a flight may be on another airline requiring the fare to be prorated between airline. Controls over the following areas are very important:

- Unused ticket stock,
- Ticket sales, particularly sales by travel agents or other third parties,
- The passenger boarding process and lifting of flight coupons,
- Settlements between carriers – either through interline clearing-houses or directly between the involved parties- for providing travel services on tickets sold by other carriers,
- Ascertaining that the correct fares have been charged,
- Accounts receivable processing and collection,
- Ticket refund and exchange transactions,
- Processing flight coupons,
- Accounting for travel agent commissions and credits,
- Unreported ticket sales, which can result from delays or from lack of controls surrounding the matching of tickets lifted with tickets sold,
- Expenses incurred at the local level in the pursuit of passenger service, including meals, transportation, and accommodations of various kinds for both scheduled and delayed passengers,
- Commissions, authorized or unauthorized, on sales of aircraft in foreign countries,
- Improper commissions or unauthorized payments to travel agents,
- The risk of ticket exchange transactions, whether authorized or unauthorized, and similar arrangements that are inherent in a business devoted to the sale of an attractive but perishable commodity,
- The failure to act properly or promptly on audit findings, including those of internal auditors and regulatory agency auditors. (IATA Accounting Guide, 1996)

Important points for auditing of Station Sales;

- Ticket sales credited to the AT account are supported by ticket sales reports, which are balanced with auditors' coupon on a daily basis,

- The numerical sequence of tickets and all other accountable documents is accounted for inventory reports on a daily basis,
- Ticket stock is maintained and disbursed by the carrier or an independent source, with issues reported to the main office,
- Internal verification of cash and charge sales on the ticket sales report is performed,
- Segregation of duties exists between the sale of tickets and collection of cash, the recording of sales, the recording of accounts receivable, and the processing of lifted coupons.

Important points for auditing of Travel Agency Sales;

- Tickets and reports are received from travel agencies or from appropriate area settlement banks on a scheduled basis,
- The entry to receivables and air traffic liability is supported by travel agency reports and auditors' coupons,
- Tickets may be priced individually and introduced into the sales system via a subsidiary sales file, which is balanced with travel agency reports. (IATA Accounting Guide, 1996)

6. CURRENT ACCOUNTING AND AUDITING STANDARDS IN CIVIL AVIATION

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria.(Arens and Loebbecke; 1997:152) At the ended of term, airlines have to present their audited financial statements to related parties. Local prepared financial statements are transformed to international type for a better understanding by related parties like IATA, ICAO or stockholders. International accounting and auditing standards are used during transformation. For example; Turkish Airlines' the balance sheet and income statements which are prepared proper to Turkish Uniform Accounting System are transformed to international accounting system. The International Accounting Standards Committee (IASC) has issued standards which confirm the appropriateness of the broad principle that revenue should be recognized when transportation or carriage is provided;

- IAS 1: (Presentation of Financial Statements) Disclosure of Accounting Policies states that revenues should be recognized as it is earned and recorded in the accounting period to which it relates.
- IAS 18: (Revenue) Revenue Recognition states that revenue from service transactions should be recognized when there is no significant uncertainty regarding the consideration or the associated costs from rendering this service. In accordance with the IASC "Framework

for the Preparation and Presentation of Financial Statements" the costs associated with these revenues should be recognized at the same time, in line with the matching concept. (IATA Accounting Guide, 1996)

- IAS 29: (Financial Reporting in Hyperinflationary Economics) Airlines must reorganize their financial statements proper to IAS 29 makes a distinction between historical financial statements and current cost financial statements. Under the historical cost basis of accounting, nonmonetary items are restated from the date of the revaluation. At the beginning of the first period of application of IAS 29, any revaluation surplus that arose in previous periods is eliminated and restated retained earnings are derived from all the other amounts in the restated balance sheet. (Epstein and Mirza, 2002)

At the end of the term, independent auditing firm assures the results of the airline for the following reasons. *SAS 31 (Standards of Auditing Statements)* classifies assertions reasons into five broad categories:

1) Existence or occurence: Assertion about existence deal with whether assets, obligations, and equities included in the balance sheet actually existed on the balance sheet date.
2) Completeness: These management assertion state that all transactions and accounts that should be presented in the financial statements are included.
3) Valuation and allocation: These assertion deal with whether asset, liability, equity, revenue and expense accounts have been included in the financial statements.
4) Rights and obligations: These management assertions deal with whether assets are the rights of the entity and liabilities are the obligations of the entity at a given date.

5) Presentation and disclosures: These assertions deal with whether components of financial statement are properly combined or separated, described and disclosed. (Arens and Loebbecke, 1997)

Following SAS help auditor during airline auditing process.

- *SAS No.55, Considering of Internal Control in a Financial Statement Audit, as amended by SAS No.78,* provides guidance on the independent auditor's consideration of an entity's internal control in an audit of financial statements in accordance with generally accepted auditing standards. It describes the components of internal control and explains how an auditor should consider internal control in planning and performing an audit.
- *SAS No.65, The Auditor' s Consideration of the Internal Audit Function in an Audit of Financial Statements,* states that when obtaining an understanding of internal control, the auditor should obtain an understanding of the internal audit function sufficient to identify those internal audit activities that are relevant to planning the audit. Independent auditors are concerned with obtaining knowledge about whether controls have been placed in operation

in order to determine that the entity is using them. The control aspects of the internal audit function may be of special importance, particularly to airlines with numerous airport(station) locations and city ticket offices, if the airline's internal audit group conducts audits on a regular basis.

- *SAS No.80, Amendment to Statement on Auditing Standards No.31, Evidential Matter,* provides guidance to auditors in auditing the financial statements of entities for which significant information is transmitted, processed, maintained, or accessed electronically. The Auditing Procedure Study titled *The Information Technology Age*: *Evidential Matter in the Electronic Environment,* provides guidance to auditors in applying SAS No.80 by describing electronic evidence on the audit, and presenting possible audit approaches.
- *SAS No.56*, Analytical Procedures, provides guideliness for the auditor to consider his application of analytical procedures. SAS.No.56, paragraph 2, states that "analytical procedures are an important part of the audit process and consist of evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data". The airline industry ends itself very readily to analytical procedures in both the operational and financial areas. This is particularly true for the larger carriers, for the statistical data is very useful. Through the study of certain operating data and statistics, the auditor can consider revenue trends, aircraft efficiency, capacity utilization, about productivity, unit costs and profitability, and return on investment. Certain operating statistics are used universally within the airline industry. They provide an indication of the carrier's operations and are used to derive other barometres of performance. Among these are; available seat miles (ASMs), available ton miles (ATMs), average fight segment length, block-to-block aircraft hours, break-even load factor, cargo ton miles (CTMs), load factor, mail ton miles, revenue passengers, revenue passengers miles (RPMs), revenue and operating cost per available seat mile and yield.

In the recent years, most international airlines sale their tickets by internet. Auditor needs to evaluate e-sales revenues. Usually independent auditing firms have their electronic commerce audit tools. About Electronic Data Processing (EDP) auditor may encounter in the airline industry include;

- On-line information systems that allow third-party access to the system.
- Sales audit applications, including matching of passenger tickets lifted with ticket sold, testing of fare computations and any applicable commissions, and segregating and billing of interline transactions.
- Inventory systems to control and segregate rotable and expendable parts.

- Revenue applications utilizing sophisticated statistical sampling techniques to determine earned revenue.
- Payroll applications to effectively control and prepare complex flight payrolls.

7. AIRLINE'S BALANCE AND INCOME STATEMENT

7.1.Consolidated Statements of Operations (According to General Use)

Income statement summarize the firm's revenues and expenses over an accounting period, generally a quarter or a year. (Weston, Brigham 1993) For the airlines, income statement generally organized as following;

Operating Revenues

Passenger

Cargo

Contracts Services or Other

Total Operating Revenues

Operating Expenses

Salaries and related costs

Aircraft fuel

Depreciation and amortization

Other selling expenses

Passenger commissions

Contracted services

Landing fees and other rents

Aircraft rent

Aircraft maintenance materials and outside repairs

Passenger service

Asset writedowns and other nonrecurring items

Food and beverages

Personnel expenses

Advertising & Promotion

Other

Total operating expenses

Operating Income (Loss)

Other Income (Loss)

Interest expense, net

Net gain from sale of investments

Interest capitalized

Interest income

Miscellaneous income (expense), net

Total other income (expense)

Earning (Loss) Before Income Tax

Provision (Credit) for Income Tax

Net Earnings (Loss)

Net Earnings (Loss) Per Share

7.2. Airline's Financial Highlights & Operating Statistics

FINANCIAL HIGHLIGHTS

Operating Revenues

Operating Expenses

Earnings (Loss) from Operations

Net Earnings (Loss)

Net Earnings (Loss) per Share

Average Number of Common Share

OPERATING STATISTICS

Revenue Passengers

Revenue Passenger Miles (RPMs)

Available Seat Miles (ASMs)

Passenger Load Factor

Break-even Passenger Load Factor

Revenue per Passenger Mile

Cost per Available Seat Mile

Revenue Ton Miles (RTMs)

Available Ton Miles (ATMs)

Cargo Load Factor

Average Fuel Price per Gallon

7.3. Balance Sheet in Airlines (According to General Use)

Balance sheet is a statement of the firm's financial position at a specific point in time. (Weston, Brigham 1993). Airlines are generally organized their balance sheet as follows.

ASSETS

Cash and Cash Equivalents

Short-Term Investments

Receivables, Less Allowance for Bad Debt

Aircraft Fuel, Spare Parts, Less Obsolescence

Allowance

Refundable Income Taxes

Prepaid Expenses

TOTAL CURRENT ASSETS

OPERATING PROPERTY AND EQUIPMENT

Flight Equipment

Advances on Flight Equipment Purchases

Other Property and Equipment

TOTAL

Accumulated Depreciation and Amortization

TOTAL EQUIPMENT LESS DEPRECIATION

Capital Leases

Flight Equipment

Other Property and Equipment

TOTAL LEASEHOLD

Accumulated Amortization

TOTAL NET LEASE VALUE

OTHER ASSETS

Intangibles, Less Accumulated Amortization

Deferred Income Taxes

Other

TOTAL OTHER ASSETS

TOTAL ASSETS

LIABILITIES/OWNERS EQUITY

LIABILITIES AND SHAREHOLDER EQUITY

Current Liabilities

Short-Term

Long-Term Debt Maturing During Year

Current Obligations Under Capital Leases

Advanced Ticket Sales Obligations

Accounts Payable

Accrued Salaries and Wages

Accrued Aircraft Rent

Accrued Income Taxes Payable

Other Accrued Liabilities

TOTAL CURRENT LIABILITIES

Long -Term Debt

Long-Term Obligations-Capital Leases

Other Liabilities and Deferred Credits

Deferred Pension Liability

Deferred Gains

Other

TOTAL LONG-TERM DEBT

TOTAL LIABILITIES

OWNER' S EQUITY

Preferred Stock

Common Stock

Excess Paid in Capital

Retained Earnings

Unearned Compensation

Common Stock Held in Treasury

TOTAL EQUITY

TOTAL LIABILITIES AND EQUITY

(Kaps, 2000)

AN EXAMPLE OF INCOME STATEMENT IN AIRLINE SECTOR:

STATEMENTS OF CONSOLIDATED OPERATIONS OF UNITED AIRLINES CORPORATION AND SUBSIDIARY COMPANIES

(Debtor and Debtor-In-Possession) (in millions, except per share) (USD)

	Year-Ended December 31		
Operating revenues:	**2003**	**2002**	**2001**
Passenger-United Airlines	11.134	11.872	13.788
Passenger-Regional Affiliates	508	-	-
Cargo	630	673	704
Other operating revenues	1.452	1.741	1.646

	13.724	**14.286**	**16.138**
Operating expenses:			
Salaries and related costs	5.264	7.029	7.080
Curtailment charge	152	-	-
Aircraft fuel	2.072	1.921	2.476
Purchased services	1.301	1.411	1.650
Landing fees and other rent	930	1.021	1.009
Aircraft rent	612	851	827
Depreciation and amortization	968	960	1.026
Aircraft maintenance	572	560	701
Commissions	277	416	710
Regional affiliates	634	-	-
Cost of sales	1.003	1.240	1.280
Other operating expenses	1.273	1.565	1.722
Special charges	26	149	1.428
Loss from operation			
Other income(expense)			
Interest expense	(527)	(590)	(525)
Interest capitalized	3	25	79
Interest income	55	60	105
Equity in losses of affilitites	(4)	(7)	(23)
Gain on sale of investments	135	46	261
Gain on sale ofaffiliate's stock	23	-	-
Non-operating special charges	(251)	-	(49)
Government compensation	300	130	652
Reorganization items, net	(1,173)	(10)	-
Miscellaneous, net	(9)	(22)	(86)
	(1,448)	**(368)**	**414**
Loss before income taxes, distributions on preferred securities and cumulative effect of accounting change	(2,808)	(3,205)	(3,357)
Provision (credit) for income taxes	-	-	(1,226)
Loss before distributions on preferred securities and cumulative effect of accounting change	(2,808)	(3,205)	(2,131)
Distributions on preferred securities, net of tax	-	(7)	(6)
Loss before cumulative effect of accounting change	(2,808)	(3,212)	(2,137)
Cumulative effect of accounting change, net of tax	-	-	(8)
Net loss	**(2,808)**	**(3,212)**	**(2,415)**
Per share, basic and diluted:			
Loss before cumulative effect of accounting change	(27.36)	(53.55)	(39.90)
Cumulative effect of accounting change, net of tax	-	-	(0.14)
Net loss	**(27.36)**	**(53.55)**	**(40.04)**

(http://media.corporate-ir.net/media_files/NYS/UAL/reports/UAL10K2003.pdf)

8. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS IN TURKISH AIRLINES

Turkish Airlines has been publishing financial statements proper to IFRS and US GAAP. Airlines' independent auditor has determined the important points of reporting in the annual report 2004 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 ("IFRS"). On 15 November 2003, CMB published Communiqué No: 25 of Series XI, "Communiqué on Capital Market Accounting Standards". The Communiqué is applicable to the first interim financial statements ending after 1 January 2005 and is effective from the date of publishing. However, companies may choose to adopt Communiqué No: 25 of Series XI, for years or interim periods ending on or after 31 December 2003. As explained in the first tentative clause of Article 34 of the foresaid Communiqué – General Provisions related with financial statements obligations, preparation and public announcement of financial statements in accordance with IFRS until the beginning of that period in which application Communiqué No: 25 of Series XI becomes enforceable, is counted for fulfillment of provisions of preparation of financial statements and public announcement in accordance with that Communiqué. Consequently, the Company prepared and publicly announced its financial statements as of 31 December 2003 in accordance with IFRS. The companies which choose to apply Communiqué No: 25 of Series XI or IFRS as of 31 December 2003 are not required to report in accordance with CMB Communiqué No: 1 of Series XI"Rules and Principles Relating to Financial Statements and Reports in Capital Markets" , Communiqué No: 20 of Series XI"Rules and Principles Relating to Adjustment of Financial Statements in Hyperinflationary Periods" and Communiqué No: 21 of Series XI"Rules and Principles Relating to Consolidated Financial Statements and Accounting For Equity Participations". The basis of the financial statements used in the preparation of the accompanying financial statements are set out below and in Note 4.

Inflation Accounting

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

hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29 restatement, is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey is 181 % for the three years ended 31 December 2003 based on the wholesale price index announced by the Turkish State Institute of Statistics. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index ("WIP") published by the State Institute of Statistics (with the index beginning in 1994 at 100).

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. (http://www.thy.com.tr/tr/thy/2.pdf)

9.FINANCIAL AND OPERATIONAL STATEMENTS SUBMISSION TO IATA

IATA, a voluntary organization of international airlines, was established in 1946 to negotiate international fares, cargo rates, conditions of service, and ancillary matters. Airlines fill up 5 different forms for IATA which most importants one as follows.

FORM 9.1: IATA QUARTERLY FINANCIAL SURVEY) (.....month – .....year)

Member airlines are submitted following report quarterly. In this form; international and systemwide available ton kilometres, revenue ton kilometres and also unit cost, traffic and capacity are declared to IATA.

Airline	Code:	
Salut	First Name:	Last Name:
Job Title		
Department	E-mail:	
Tel	Fax:	

INFO

Reporting Period (please enter)		
Traffic .....(year) (Systemwide RTKs)		
Capacity .....(year) (Systemwide ATKs)		
Traffic .....(year) (International Scheduled RTKs)		
Capacity 2000 (International Scheduled ATKs)		

A) SYSTEMWIDE AIR TRANSPORT OPERATIONS

Data to be input (please enter)	Traffic				
	Capacity				
	Yield				
	Unit Cost				
	Interest				
	Exchange Rate				
	Control Total				

B) INTERNATIONAL SCHEDULED SERVICES

Data to be	Capacity				
	Yield				
	Unit cost				

input (please enter)				
Interest				
Exchange rate				
Control total				

AIRLINE COMMENTS:

FORM 9.2: AIRLINE ECONOMIC TASK FORCE INPUT 1

This form is sent to IATA annually. After January-July operation season has finished, Airline Economic Task Force Input 1, is sent to IATA in June. There are four types different forms must be based on revenues, expenses, traffic information, regional and aircraft type. By this form, some selected assets and liabilities in balance and also inflation rate information are submitted to IATA.

RESULTS AND DISCUSSION

Civil aviation is an outstanding sector because of its rapid changing dynamics and widely range interesting on international law, accounting and auditing. An airline may fly from one continent to another from different direction by carrying a lot of different passport holding passengers. During the flight, passenger may cancel his flight or wants to upgrade or downgrade. A new ticket may issue during travel time because of delays. Tickets are submitted to the accounting office for preparing financial statements. At the end, airline accountant/auditor has to evaluate these billions of tickets for arranging financial statements for the different institutions. Passenger, cargo, mail revenues and technical consultancy are the most important revenue types of airlines. End of the terms, these revenues are classified by forms to understand results clearly. A specific term operational results are given in formal forms are called financial statements. Airlines, like the other industries, have to declare their operational results periodically to the related parties and related institutions; like shareholders, governmental financial departments.

Airlines have to submit their financial statements which are prepared properly to International Accounting Standards (IAS) and audited by an independent auditing firm to Security and Exchange Commission (SEC) of their country (if the airline is a public held company) and the other interested institutions. In Turkey, Turkish Airline is the only one public held airline and has to submit audited balance sheet and income statements to Security and Exchange Commission of

Turkey. Additionally Turkish Airlines prepare financial reports for US GAAP and IFRS. Auditor assures that airline's financial statements have been prepared properly to Standards of Accounting Statements and International Accounting Standards. During auditing process, auditor needs to use following international accounting and auditing standards;

- IAS 1: Presentation of Financial Statements,
- IAS 18: Revenue,
- IAS 29: Financial Reporting in Hyperinflationary Economics,
- SAS No.55, Considering of Internal Control in a Financial Statement Audit, as amended by SAS No.78,
- SAS No.65, The Auditor' s Consideration of the Internal Audit Function in an Audit of Financial
  Statements,
- SAS No.80, Amendment to Statement on Auditing Standards No.31, Evidential Matter,
- SAS No.56, Analytical Procedures.

Operational results forms are also submitted to following institutions;

1. International Air Traffic Association (IATA): Quarterly Financial Survey, Airline Economic Task Force Reports.
2. Association of European Airlines (AEA): RB8 Forms, Financial Survey, RB1 Form.
3. International Civil Aviation Organization: Financial data, questionnaire on costs and revenues.

Some aviation specific results like available seat miles (ASMs), available ton miles (ATMs), average fight segment length, block-to-block aircraft hours, break-even load factor, cargo ton miles (CTMs), load factor, mail ton miles, revenue passengers, revenue passengers miles (RPMs), revenue and operating cost per available seat mile, yield are important summarized results for institutions to compare airlines performance. The aim of these institutions is to control economic development in civil aviation sector on airline basis and declare statistics and new regulations to develop sector. Besides the financial results, they need to have been informed many operational results by the airlines to compare airlines and have overlooking on sector.

In aviation sector, Turkish Airlines has a remarkable place with its young fleet and educated staff. Additionally, as a member of IATA, ICAO, AEA, airline follows recent developments in financial and accounting world. Turkish Airlines are being applied IFRS in financial statements that Turkish firms are going to have to use after 2007. But, because the aviation sector is performed in the nature, Turkish Airlines would be better preparing social reports on

environment for stakeholders. Because, in new trend, investors want to be sure investing companies' ethical and social performance.

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