

# ***NEAR EAST UNIVERSITY***

**FACULTY OF ECONOMICS AND ADMINISTRATION**

**BUSINESS DEPARTMENT**

## **Cyprus Turkish Airlines**

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**2001**

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## I. INTRODUCTION

Cyprus Turkish Airlines was selected as a graduation project for MAN 400 course. Reason for selecting this firm was that it is a fairly large organization and an important organization in TRNC. Another reason for selecting CTA is the greater chance to collect information about the firm. This is important that i needed some information about the firm in order to prepare the project.

I will approach the project in step by step. After some introduction to whole project, there will be a brief looking at the theoretical approaches to the case studies. After the theory, there will be a brief explanation about the background of CTA. After this we will set the aims of CTA. This part will include objectives. This will be followed by the situational overview. This section will be about the market review. After the findings i will aim to set new strategies and find ways to select an appropriate growth strategy. Followings will be the steps in my study:

- *Literature search*: my main sources of data are the interviews and printed materials.
- *Use of the knowledge from the lecture*: i will use the methods and carry out work such as the following.
  - *PLC*: At what stage is the firm in respect of Product Life Cycle?
  - *Gap Analysis*: Is there a gap between the expectations and the actual performance?
  - *Porters Model*: Can the firm attain a cost leadership?
  - *Boston Matrix*: Where does the firm stand? Should we pull out or make new investments?
  - *Competitive Force*: How much is it competitive in its business?

### 1.1 Airlines Industry In The World

Air travel is the most modern form of travelling in the world. Airlines are firms of people, airplanes, equipment and buildings for

transporting passengers, freight and mail by air between specified points. The airliner is as significant economically and socially like train, bus, truck or ship.

In many industrialized countries, intercity air traffic has been growing at a far greater rate than that of either railroads or highways. International air travel is so extensive that it is possible to reach almost any main city in less than a day on one of the more than 350 airlines operating throughout the world. USA has the largest air transportation system. It includes more than 60 commercial airlines that carry more than half of the world's air passengers and cargo.

Airliners travel along designated airways or routes, in controlled airspace. The routes that are numbered like highways on the land, are set by radio beams sent out by navigation stations along the routes. Air traffic controllers are responsible for directing traffic on these routes. They follow international guidelines to ensure that aircrafts on a specific route are separated by at least ten minutes or a safe vertical distance.

Most flights are routed with the help of computers. The computer is provided with data about the freight, baggage, fuel, number of passengers and weather. It then prints out several possible routes and designates one as the most desirable; taking into account distance, time and cost. Long distance flights often follow the great circle route that is the shortest distance on the Earth's surface between two points. All routes begin and finish at air traffic hubs. The term hub is used to designate cities and areas that require aviation services.

Airlines are classified by their routes and by their schedules. The two main classifications are domestic airlines and international airlines. Domestic airlines provide services within a country. International airlines operate between two or more countries. The International Civil Aviation Organization ICAO also distinguishes between scheduled and nonscheduled operators. Nonscheduled airlines offer either domestic or international air transportation services but they do not maintain definite departure or arrival times.

Many countries have established various classes of air carriers. These categories often include local service airlines, trunk airlines that service large hubs, international airlines, all-cargo lines and charter services.

## **1.2 Passenger Services**

Passenger service is the most important aspect of air transport. By far the largest source of revenue for airlines in the second half of the 20th century has been transporting passengers. Competing airlines offer attractive fares and various services to entice travelers to fly on their individual planes. Special discounts including family plans, student or youth fares, round trip excursion rates, night flights and other promotional schemes can lower the cost of air travel. In general, the more flexible arrangements will almost certainly cost more. These include plans that allow the passenger the choice of buying an open-date ticket or making a firm reservation, stopovers at intermediate airports or even failing to show up with no penalty.

Traditionally, first-class service has been more luxurious than bus and other services with fewer and wider seats, more elaborate meals and generally more flight personnel attending passengers. Bus service is less expensive with cabins of a larger seating capacity and so more crowded conditions and usually less attentive service. Depending on the type of fare and the length of trip, passenger services often include music, magazines and movies.

Lower cost charter service is usually available for organized groups at lower rates than those provided by scheduled passenger flights. Charter flights which have contributed significantly to the growth of world tourism since the 1960s, are an outgrowth of the post-World War II expansion of small airlines. These airlines acquired long haul jets by the mid 1960s and developed group charters agreements by which an aircraft's capacity was leased to a club or organization for the use of its members.

### 1.3 Cargo Services

Cargo service is another important part in air transport. Air cargo is used where the transport cost is a secondary issue. Because scheduled flights are sometimes underbooked, airlines rely on the carrying of cargo to be sure of making a profit. Air cargo is the load carried by airliners in addition to passengers and their baggage. All aircrafts used by airlines have space available for carrying freight and mail. Some airlines fly special convertible versions of standard jet airliners. The convertible airliners can be outfitted rather quickly to carry cargo only, passengers only, or both cargo and passengers together.

All cargo airlines and all cargo aircrafts offering specialized facilities and services exist throughout the world. All cargo aircrafts have special features geared to facilitate efficient loading, storage, and delivery. For example, Boeing 747-200 F can carry a load of 91,000 kilograms more than 8,000 kilometers without stopping to refuel. This aircraft has a hinged nose which facilitates the loading of cargo.

Cargo and luggage usually are carried in compartments in the lower part of the fuselage the main body of the airplane that accommodates the crew and passengers. Cargo is generally assembled on large pallets that are loaded into the fuselage from the ground through doors and hatches and secured by stout netting to prevent movement during flight.

Airport cargo terminals are often similar to post office sorting offices. They are automated with a minimum of human supervision and organized to process freight by computer. These facilities are capable of storing materials that require special treatment. They provide cages for animals, lead-lined rooms for radioactive chemicals and vaults for valuables. The bulk of airfreight shipments involves engineering

goods, chemical and pharmaceutical products, textiles, paper products, livestock and commercial samples of all kinds.

Air cargo services are especially valuable in areas where surface transportation is difficult like the frozen parts of poles and the mountainous areas like Himalayas. This means of transport is also used in torrid areas like deserts where heat causes spoilage of perishable goods unless they are transported speedily or in refrigerated vehicles.



## **II. STRATEGIC ANALYSIS OF CTA**

### **2.1 Air Transport in TRNC**

TRNC is an island state. Transport is one of the most important factors affecting the economy of the islands. To compete with the other states the first thing they should organize is a good transportation system. Since they do not have the advantages of land transport; they have to design a convenient way of transportation by sea and by air, in order to export their produce with competitive transportation cost and attract tourists at reasonable cost. One of the biggest challenge for the island economies is establishment of transport system to minimize the extra cost of transportation with respect to continental states.

Being an island is not the only problem for TRNC. It has another big disadvantage that is being recognized as a legitimate state and worse than that sea ports and air ports are considered as illegal. With all these negative aspects, TRNC has come a long way in its economy and CTA has a very big role in the economy of TRNC.

### **2.2 Cyprus Turkish Airlines (CTA)**

Official airlines firm of TRNC is Cyprus Turkish Airlines. It was established immediately after the 1974 peace operation. The only way opening to the outside world was through Turkey. There was only one ferryboat sailing from Gazimağusa and Mersin in those days. Timbu Airport, an ex-British air base was quickly repaired and arranged for small aircraft landing. Barracks of around 100 sq. meters were used as terminal buildings.

The first planes that CTA used, was F-28 aircraft that could only take about 50 passengers. But it did not take long to prepare the present apron and the terminal buildings. CTA is one of the very few organizations that is continuously growing. As will be seen from the

figures, it usually satisfied its aims and in many cases it had been able to exceed the expectations.

Today CTA operates with the most modern aircrafts like Airbus and along with some private firms they give service to most parts of Europe.

The biggest shareholder of CTA is Turkish Airlines of Turkey. It holds 51% of the shares. This sometimes causes problem since the politicians of TRNC considers CTA as the national airlines of the country but they usually find themselves out of control because the last word belongs to Turkish Airlines.

CTA has its head offices in Lefkoşa. They have branches in every main cities in Turkey and also in London. They actually own three Airbus planes. There are more than five hundred staff working for CTA.

CTA is a multinational organization. Biggest shareholder is Turkish Airlines. The firm has a Board of Directors. Board of Directors has a president who is usually from Turkish Airlines. CTA is run by managerial staff that consists of General Manager and sub managers looking for different parts like trade, cargo, services, external affairs, etc.

### **2.3 Mission of CTA**

Principle mission of the CTA is to meet the air transport needs of TRNC. The firm is a bridge between the world and TRNC. As an improving and growing firm, it aims to serve to bigger markets. CTA now only fly to and from TRNC. They can do better than that. They can have planes operating from Istanbul to any other part of the world. There are possibilities and opportunities in operating outside TRNC as well.

The mission of CTA is;  
to attain sustainable growth,

justify the allocation of resources to the organization,  
create value for the public at large.

Mission and aims are interrelated and both must be in mind when planning. We must always keep in mind the mission to set our aim. Aim setting needs careful thinking and calculation. Sometimes when the aim is set at a very high level, it is likely to have failure. If the aim is set too low then the firm will harvest only the portion of what it could normally do.

### **Proposals**

1. To procure the transportation of TRNC with Turkey and foreign countries for the improvement of trade.
2. Satisfaction of workers is very important to secure a high efficiency level by motivating them with rewards and promotions.
3. Satisfaction of customers is also very important for advertisement and good popularity of the firm.
4. Indirect support for the society is a sensitive duty of CTA coming from the existence struggle of Turkish Cypriots.

## **2.4 ORGANIZATION OF CTA**

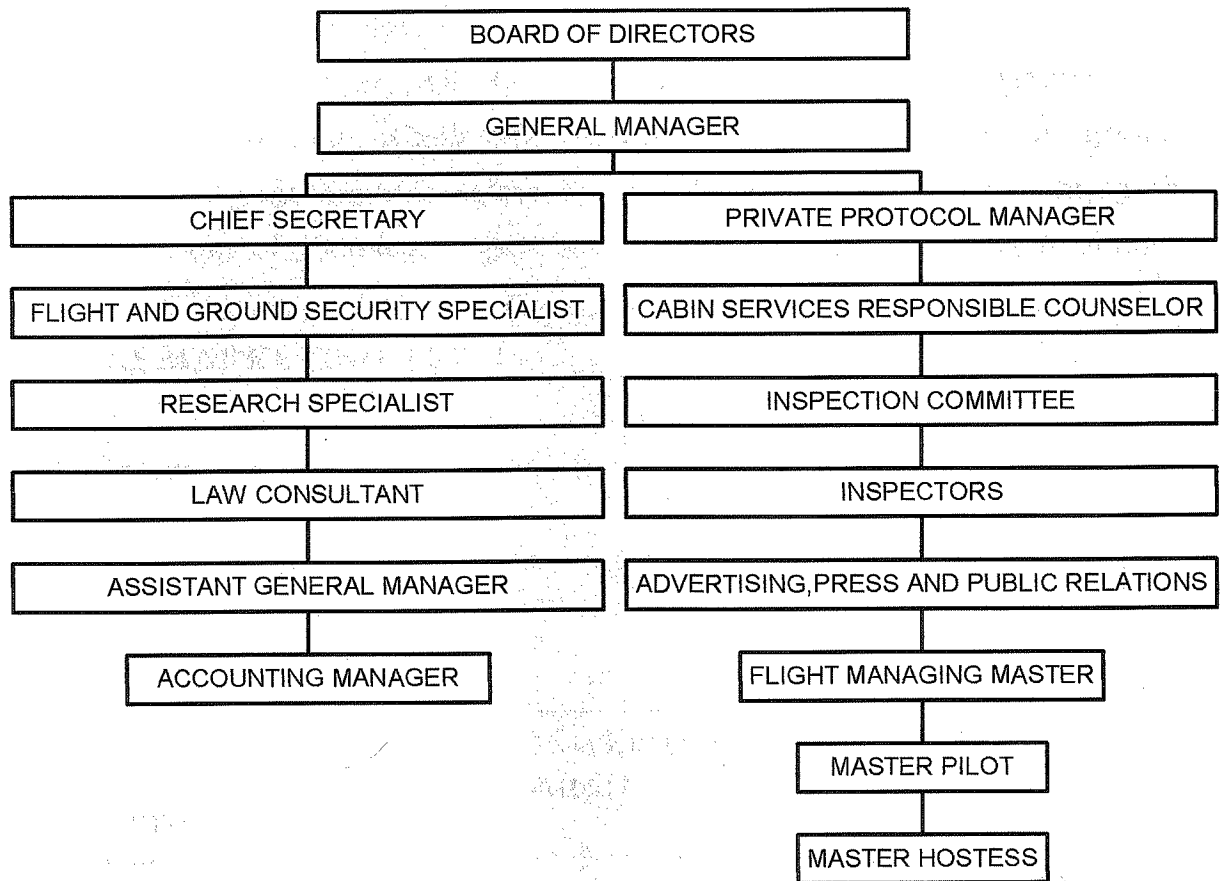
The individuals and the groups put together make the organization. Success of the organization depends on many things at many different levels. Like individuals the organization also has a mission and an aim. To achieve the set aim, the organization must have a strategy. In order to develop an effective strategy, organizations first seek to identify opportunities in the economic system. Then we define the organization's mission in society; what it will contribute to society. This purpose is the organization's reason for existing, its mission. Once an organization's mission has been decided, each functional area within the firm determines its supporting mission.

By "functional area" i mean the major disciplines required by the firm, like marketing, finance, accounting, production and operations. Purposes for each function are developed to support the firm's overall mission.

We achieve missions via strategies. A strategy is a plan designed to achieve a mission. Each functional area has a strategy for achieving its mission and for helping the firm reach the whole mission. In the following section, i will describe how mission and strategies are developed.

To ensure a focus on a common purpose, a mission is established. A mission should be established in light of the threats and opportunities in the environment and the strengths and weaknesses of the firm. The mission is the concept around which the firm can rally. The mission states the rational for the firm's existence. Developing a good strategy is difficult but easier if the mission has been well defined. The mission can also be thought of as the intent of the strategy, what the strategy is to achieve.

## ORGANIZATIONAL CHART OF CTA



### Reference : CTA GRAFFIC

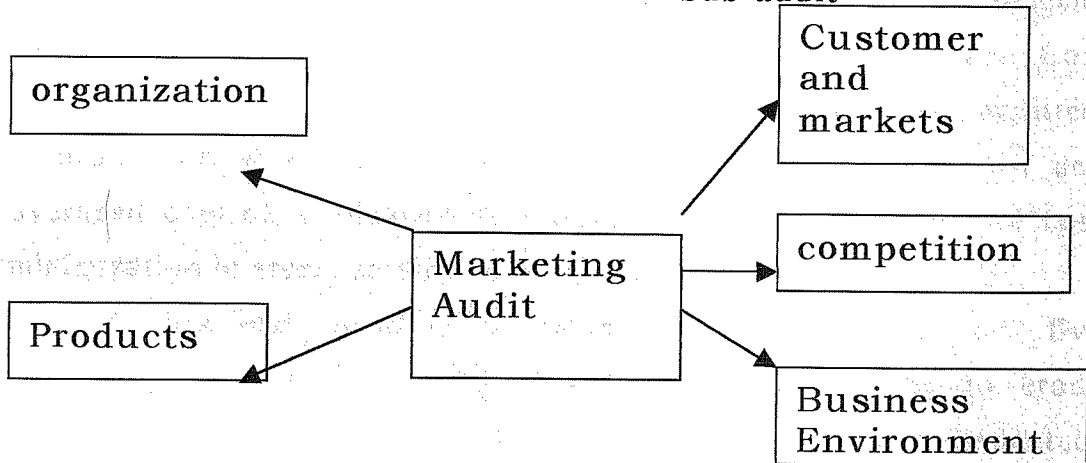
There are plannings at many levels of the firms. Strategic Planning is a long term planning. Usually the top managerial level, the board of directors takes the responsibility of the strategic planning. This is a planning for the period of more than two years. Although corporate strategic planning is performed at the upper levels of management; operations management has an important functional planning role in the development of competitive advantages. Operations managers in CTA are the representative offices, ticketing catering, cargo and forwarding departments and also the maintenance departments. Operations managers are taking an ever increasing role in choosing strategic planning alternatives to achieve corporate strategic objectives.

Tactical plans are done by the managers of the abroad representative offices on Ground Department, off-ground operations department and Services Department.

Management of CTA aims to design and maintain an environment in which individuals, working together in groups, efficiently accomplish selected aims. Managers at all level, bring the functions of planning, organizing, employing, leading and controlling.

## 2.5 MARKETING AUDIT

### Internal Audit



### 2.5.1 Customer And Markets

There are discounts for students, soldiers, diplomats, politicians and group travels beside normal tariffs. Sales policy is divided in to two as winter and summer seasons. Ticket prices are higher in summer because of demands and supply relates. There is discount in weekend charter flights in Ercan-Istanbul-Ercan (90\$) and in Ercan-London-Ercan (169).

- Own market is TRNC and Turkey markets,
- They serve to the general public with mostly young students as well as the business people,
- They are perceived as a good firm by the customers
- Customers do not have much alternative but to travel with CTA.

### **2.5.2 Nature Intensity of Competition**

CTA is the only airlines firm in the country. The main competitors of CTA is Turkish Airlines. Both operate from the same airport, Ercan to the many different destinations around the world. Turkish Airlines is very much larger than CTA.

### **2.5.3 Competitive Forces Model—Michael Porter—**

Competitive advantages of a company are measured in different ways. The first basic advantage is the cost advantage. If the company can produce at a lower price, the company becomes cost leader. Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas, service, sales force, advertising.

A low-cost position protects the firm against all five competitive forces because bargaining can only continue to erode profits until those of the next most efficient competitor are eliminated, and because the less efficient competitors will suffer first in the face of competitive pressures.

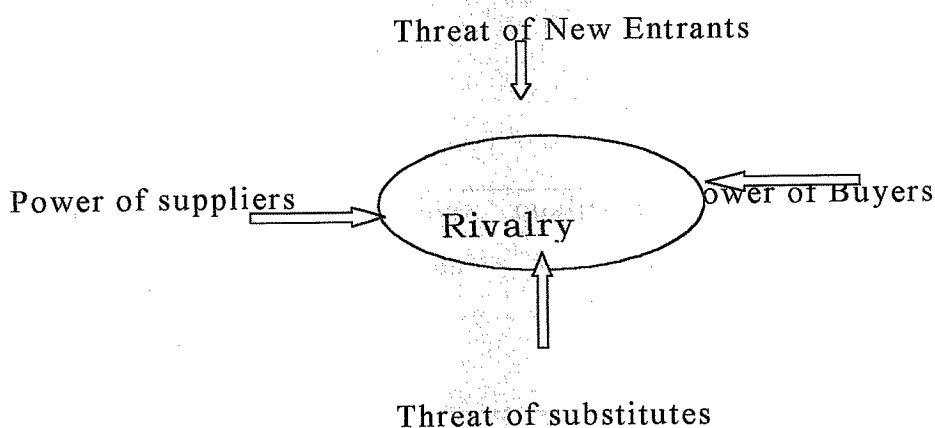
Once achieved, the low-cost position provides high margins that can be reinvested in new equipment and modern facilities in order to maintain cost leadership.

The second way to become more competitive is to produce products that are far better value for the consumers. Differentiating the product or service offering of the firm, creating something that is perceived industry wide as being unique.

Achieving differentiation can sometimes preclude gaining a high market share. It often requires a perception of exclusivity that is incompatible with high market share. More commonly achieving differentiation will imply a trade-off with cost position if the activities required in creating it are inherently costly.

In order to best realize the competition situation, we can use the Competitive Forces Model of Michael Porter. This is a tool of management use in analyzing the structure of an industry in relation to its nature and intensity of competition. The model assumes 5 forces affecting competition.

Michael Porter suggested a tool for management to use in analyzing the structure of an industry in relation to its nature and intensity of competition. The model assumes 5 forces affecting competition.



Of the five variables, one of the most important fears for CTA is the new entries into the market. The firm can also be affected by the buyers power since it is the buyer that determine the shape of the products. The management should look for the buyers' needs and develop their products suitably.

The competitors of CTA can have some advantages as they are bigger and they buy many more airplanes than the CTA. In such a case the suppliers can make life difficult for CTA.

### Business Environment

Factor	Favorable		Unfavorable		Comment
	conditions	conditions	conditions	conditions	
Competition	New	in	the	Big competitors	Use the benefit of



	market, new product	very well known	being small. Higher maneuvering ability.
Customer	Younger generation and business people	Imaged as a new company with only young people as customer segment	Should improve image
Publics	Good public relations	Need to increase the awareness of larger of larger masses.	
Suppliers	Ordering quality airplanes	Competitors are larger buyers	Should increase buying power by placing long term orders

## 2.6 PEST

Factor	Favorable conditions	Unfavorable conditions	Comment
Political/Legal	Government supports CTA since it is the national airlines	Turkish Airlines is stronger since it has the backing of the Turkish government	They should establish closer links with the political authority.
Economic demographic	As globalization continues the number of passengers are increasing	There are many new airlines in the world	

Social Cultural	Scope to create new segments		Should offer discounts to international cultural and sports events.
Technology	New planes		

## 2.7 SWOT

STRENGTHS	WEAKNESS
1- Good management: Management team is acquired from internationally experienced people.	1- Smaller than competitors: the size of the company and budget is lower than the competitors.
2-Sound financial position: Company makes about six million dollars profit every year on average.	2- Less known than competitors: The company is not very well known in international markets.
3-Very good public relations: Company has regular magazines that they issue every month. They also have web pages on internet	3- Smaller air fleet: Number of the aircrafts are limited.
4- Quality services for money: Price of the tickets are reasonable compared with the prices in the other countries for the same distances.	4-The plains of CTA are generally old type because of the economic situation and less incomes than competitors.
5-Very good on ground services as well as off ground services: VIP and CIP services are available.	

<b>OPPORTUNITIES</b>	<b>THREATS</b>
1-Growing number of passengers in air travel	1-Government supports on National Airlines industry because of technology.
2-Increasing need for new flights to new places.	2-Excessive competition in modern meaning for the best one.
3-Globalization of the world like a village which offers maximum transportation in the village.	3-National Airlines against Private airlines in a hard competition.
4- Many airlines are likely to close down due to losses.	4-There is a wild competition which forces increase in quality and better services with high costs.

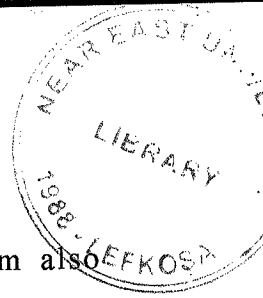
## 2.8 Organization Audit

CTA is a customer oriented firm. Its priority is the satisfaction of the customer. Its aim is to provide value-for-money flights. Recently, to make sure that they meet the customer's needs they ask the passengers to fill out questionnaires so that they can make changes to meet the passengers needs.

## 2.9 Value Chain

CTA activities start at the reservation department. Prospective passengers apply to the travel agents to attain tickets for flights. Once tickets are obtained the services start. The services of the firm start at the airport on the ground. After the passenger check in services continues at the plane. One small service that earns money for the firm is the duty free sale. Value Chain also includes the activities which offers customer satisfaction. Beside increasing satisfaction and

service quality the incomes from that Value Chain of the firm also increases.



## **2.10 Growth Strategies**

Growth proposal of CTA is to attain growth by establishing flights to new routes and also to increase number of seats. For example, two MD-290 and one A-310 planes sent back to Turkish Airlines which are not efficient. Instead of them, three brand new B-737/800 planes and one A-310 bought from Turkish Airlines. And, two B-727 planes retired because of oldness and difficulties in repairs.

## **2.11 Generic Strategies**

### **a- Product differentiation**

The firm should continue to provide more comfortable traveling arrangements at minimum cost. They should improve entertainment facilities on board. They should make arrangements to allow use of computers electronic games and other electronic equipments that are forbidden in the other airlines.

### **b- Cost Leadership**

CTA will target always to fly with full capacity and reduce the cost of flights. By running efficiently, they can sell their tickets at lower prices.

## **2.12 Target Market**

The main target of the CTA is the business class travelers. These are usually from middle to high wealth people who have sufficient income to fly at more comfortable seats than the economy seats but they can not afford high class seats. CTA also serves to ordinary customers who fly at economic class. But the economic class of CTA

is much more luxurious than the other airlines. High class of CTA is far more luxurious than any other airlines. In all CTA, has seats for everybody at better conditions. As the opening of the route to Manchester and then later Frankfurt, a good satisfaction of the customer occurred with good service. So, a route of ERCAN-GLASGOW-ERCAN is being planning to be opened. The real aim is to make flights to the major vocational and business places of Europe.

### **2.13 Critical Success Factors**

- More comfortable seating arrangements
- Lower prices
- More entertainment

### **2.14 CTA's Positioning (marketing mix)**

#### **2.14.1 Product**

Larger seats will be placed with more space from the front row. More entertainment will be provided. Passengers will be able to make shopping while flying. The aircraft fleet includes four B-727 (two of them are grounded), three B-737/800 and two A-310 planes. B-727 can involve 166, B-737/800 can involve 177 and A-310 can involve 246 passengers. Total seat capacity is 1355.

#### **2.14.2 Price**

The flights will be made at full capacity so that the running costs are low. Ticket prices should be kept as low as possible.

### **2.14.3 Place**

CTA should make much growing at the on-ground services. They should also get involved in ticketing and travel agency activities. They should open shops at prime positions in the cities.

### **2.14.4 Promotion**

The best promotion in this business is the quality services. By giving good services frequent travelers will spread the word of quality and everybody will be aware of CTA. Also there is a special program for passengers who fly abroad frequently that is called Frequent Flyer Program.

### **2.15 Control Evaluation**

- Budget

- Management monitoring form

#### **-Budget**

The firm should use at least %10 of their revenues for implementing the strategic plan. This means that they will have about 50 million dollars to spend. The most important outcomes are new plane buying, technics and the internal training activities including all the workers beside the change in General Managerity in 1997.

I could not reach the complete total budget inventory documents because CTA is a Public Economical Enterprise. But I was able to learn that the profit of CTA was about 6 million \$ (for 2000 year) except from taxation in my interview with Mr. İnanç Karagözlü.

Objective	Strategy	Action	Cost
Increase profits to 20%	Increase productivity	Electronic reservation system	£1million
Increase Turnover to £500m	Growth	Purchase new planes	£2million
Increase passenger capacity by 20%	Market Penetration	Promotional activities	£2m.

### III.CONCLUSION AND RECOMMENDATIONS

The above work was brought using mainly the learning at the lectures of marketing class. The steps of strategic marketing is followed in order to find out the situation of the firm in order to propose new strategies for growing. Porter's five forces model was particularly interesting to identify the competition environment. Another important tool that helped for this work was SWOT analysis. Overall the lecture notes were sufficient enough for us to make this work.

As the tourism and education sector is growing, demand is growing for air travel. Although there are rooms for growth, CTA can be considered as successful in meeting the demands. Despite the embargo on TRNC, mainly forbidding CTA to make direct flights to European destinations; they have been able organize flights with technical touch down at Turkey's airports. Price of tickets is reasonable and services are at a good level.

Another important role of CTA extra to carrying passengers is cargo services. Main exports of TRNC are garments. Material and trimmings for the garments are usually send to TRNC from UK by air and finished products are then send back again by plains. CTA handles almost all of the cargoes to and from TRNC.

Following are the immediate needs of CTA to improve for a better quality management.

- Training of personnel to upgrade the standard of services both off the plane and on board the train.
- Arrange flights to new destinations even if it has no link to TRNC.
- Make a strategic plan to renew all the planes and get new more modern air fleet
- Improve the relations with the tour operators in the various countries with potential customers.
- Adopt Total Quality Management Concept as a system of quality.



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[www.kthy.net](http://www.kthy.net)

## APPENDIX I

### Main Routes of CTA

*CTA has the following flights available for the passengers:*

#### **ERCAN-LONDON-ERCAN**

In the early days of the firm, flights at this route were made by DC9 or DC10 aircrafts. But today Airbus 300 series are used which are considered to be the best plains available these days. CTA planes has flights to both Heathrow and Stansted airports.

#### **ERCAN-MANCHESTER-ERCAN**

There is 80% fullness on this route. Mostly tourists use this route that means good income for the country because planes fly via Dalaman. B-737/800 and A-310 aircrafts are on duty through that route

#### **ERCAN - ISTANBUL - ERCAN**

This is by far the most popular route of all. This route is usually favored by businessmen, tourists and students. There are 26 flights on this route but only 6 of them are stable others are changeable in winter seasons. B-727 and B-737/800 and A-310 aircrafts are on duty here.

#### **ERCAN -ANKARA-ERCAN**

This route is between the capitals of the two countries. We can call this 'diplomatic line'. Officials, students and people for health reasons are the ones who make use of this line. There are 11 flights in

a week in which 8 of them are stable and rest 3 are changeable in winter seasons.

#### **ERCAN -ADANA-ERCAN**

Adana at the southern coast of Turkey is only about half an hour away from Ercan. Since there are ferryboat service from Gazimağusa to Mersin; flying to Adana is not the only choice to go to south parts of Turkey. Traveling by sea is usually favored since it usually cost less. There are 6 flights in a week in which 4 of them are stable and rest 2 are changeable in winter seasons.

#### **ERCAN-IZMIR-ERCAN**

Izmir is a very important place for CTA that most of the flights to London are made via Izmir. The actual passenger traffic between Izmir and Ercan is not very high. There are 11 flights on this route in a week. B-727 and B-737/800 and A-310 aircrafts are on duty.

#### **ERCAN-DALAMAN-ERCAN**

There are 4 flights in a week to Dalaman. This route is completely touristic and suitable for use only in summer seasons. B-737/800 and A-310 aircrafts are on duty here.

#### **ERCAN-ANTALYA-ERCAN**

This route is only used seasonally at the tourism period. There are 9 flights in a week in which 3 of them are stable and rest 6 are changeable in winter seasons.

### **ERCAN-FRANKFURT-ERCAN**

This route is via Istanbul on three days in the week and one day via Izmir in the week, totally four flights. B-737/800 aircrafts are also on duty.

### **Charter Flights**

### **ERCAN-ANTALYA-TEL AVIV-ANTALYA-ERCAN**

This route completely depends on tourism especially gambling tourism and there is only 1 flight in a week.

## APPENDIX II

### VI. Financial Summary

#### Past Performance

Financial Year	Turnover	Profit	Profit margin
1985	106.7	8.4	% 8
1986	208.7	8.5	% 4.07
1997	382.9	6.1	% 1.593
1998	356.9	14.5	% 4.062
1999	404.7	0.4	% 0.0988

$$\text{Profit margin} = \frac{\text{Profit}}{\text{Turnover}} \times 100$$

#### 6.2 Future Projections

The reporting year ends on 31 July until 1998, and on 31 October as of 1999. Projection is done until 2005.

Financial Year	Turnover	Profit	Profit margin
2001	450.	8.5	% 18
2002	470	9.0	% 19
2003	483	9	%18
2004	496	10	% 20
2005	500	10	% 20