

BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUÉ SERIAL II. NO.17.1 PRINCIPLES



WIDEN YOUR WORLD



01 JANUARY – 31 DECEMBER 2014

BOARD OPERATIONAL REPORT



**Akis Bağımsız Denetim ve Serbest
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**CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT AUDITORS'
REPORT RELATED TO BOARD OF DIRECTORS OPERATIONAL REPORT
ORIGINALLY ISSUED IN TURKISH**

To the Board of Directors of Türk Hava Yolları Anonim Ortaklığı,

**Report On The Audit Of Board Of Directors' Operational Report Based On The Standards On
Auditing Which Is A Component Of The Turkish Auditing Standards Published By The Public
Oversight Accounting And Auditing Standards Authority ("POA")**

We have audited the accompanying operational report of Türk Hava Yolları Anonim Ortaklığı ("the Company") and its subsidiaries (collectively referred to as "the Group"), for the year ended 31 December 2014.

Board of Directors' Responsibility for the Operational Report

Pursuant to the article 514 of the Turkish Commercial Code numbered 6102 ("TCC") and Communiqué on the Principles of Financial Reporting In Capital Markets numbered II – 14.1 ("Communiqué"), management is responsible for the preparation of the operational report fairly and consistent with the consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of such operational report.

Auditor's Responsibility

Our responsibility is to express an opinion on the Group's operational report based on our audit in accordance with article 397 of the TCC and Communiqué whether the financial information included in the accompanying operational report is consistent with the audited consolidated financial statements expressed in the auditor's report of the Group dated 24 February 2015 and provides fair presentation.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the POA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the operational report is consistent with the consolidated financial statements and provide fair presentation. An audit also includes performing audit procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial information included in the operational report is consistent, in all material respects, with the audited consolidated financial statements and provides a fair presentation.

Report on Other Regulatory Requirements

In accordance with the third clause of the article 402 of TCC, no material issue has come to our attention that shall be reported about the Group's ability to continue as a going concern in accordance with TAS 570 Going Concern.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Hatice Nesrin Tuncer, SMMM
Partner
24 February 2015
İstanbul, TÜRKİYE

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUÉ SERIAL II. NO.17.1 PRINCIPLES****Message from Chairman of the Board****Esteemed stakeholders, customers, business partners and employees,**

In 1933, we set off on our journey with a total of 24 personnel, five aircraft and a passenger seating capacity of 28. In 2014, with 81 years now behind us, we hosted 54.7 million passengers with our nearly 20,000 personnel and 261 aircraft. Sixty-seven years have passed since our first international flight to Athens in 1947. As of 2014, we became the world's leading airline with 219 flight destinations in 108 countries.

We worked very hard to achieve our current position. A challenging, but exciting 81 years have passed, where each step forward was meticulously planned. Today, at the point we have reached, our plans are ready and our route is set: We are aiming for 2023. In 2023, we target serving 135 million passengers with quality service, and with a 450-aircraft fleet. We also plan to increase our global market share from 1.8% today to 5.0% by 2023. Finalizing construction of Istanbul's third airport, which is one of the world's largest civil aviation projects today, will play a major role in helping us realize our goal. We maintain our steadfast commitment, which has brought us to the present-day, and our determination, which will take us forward to our 2023 goals, as we move steadily toward achieving our targets.

We continued to create value for our shareholders in 2014.

Since the airline industry is a capital-intensive one, economic growth and stability are extremely important. In 2014, the world's economy was largely driven by the Federal Reserve's decisions. During the year, the global economy grew 3.3%, while the Turkish economy followed a relatively stable course. Rising infrastructure investment and declining oil prices positively impacted the aviation industry overall. These positive developments in turn laid a solid foundation for Turkish Airlines' achievements in 2014.

Turkish Airlines carried some 54.7 million passengers in 2014. The Company recorded a 13.3% rise in passenger numbers, a 16.3% increase in available seat kilometers (ASK) and 16.1% growth in revenue per passenger. For the year, the passenger load factor amounted to 78.9%. International transfer passenger numbers increased 20% over the previous year while its share of total international passengers climbed to 25.5%. Turkish Cargo, one of the fastest growing air cargo brands worldwide, expanded its cargo transport volume to 668 thousand tons, up 18.1% over the prior year.

Gross profit in 2014 increased 28.7% year-over-year. During the same period, our net profit amounted to 1,819 million TRY. While maintaining a healthy capital structure, achieving profitable growth ranks among our top priorities. Our fleet undoubtedly plays a significant role in this success.

The Turkish Airlines fleet, one of Europe's youngest, consists of 261 aircraft - 197 narrow bodies, 55 wide bodies and 9 cargo planes. In line with our goal of becoming one of the world's leading airlines, investment in our fleet is of paramount importance. To expand both direct and transit passenger potential, we aim to continue our success of offering flight service with the most comprehensive transport network and maintaining our market position as one of the world's most preferred airlines. To these ends, we updated our fleet plans in 2014. With the 203 narrow body aircraft that will join our fleet from 2015 and subsequently coupled with aircraft whose lease term is due to expire by end-2020, the Turkish Airlines fleet is expected to expand to 428 aircraft, including cargo planes. The age of the fleet, which is 7.2 years at present, is anticipated to fall below seven years after the addition of the new aircraft.

In addition to our fleet expansion plan, our effective and innovative financing models were among our other strategic priorities in 2014. As a matter of fact, our efforts have paid off and we have been globally recognized

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with the “Tax Lease Deal of the Year 2013” award from Airfinance Journal in 2014. Furthermore, we won the Bonds & Loans Award for the “Structured Finance Deal of the Year” in the aircraft-financing category. These awards demonstrate our commitment to going beyond the current path of success, where our Company performs outstandingly in all areas of aviation.

We continued to create value for our customers in 2014.

In pursuit of our aim of becoming the world’s leading airline and a five star carrier, we stepped up our efforts to improve our service quality and build a young and powerful fleet. All these initiatives made Turkish Airlines the well-respected global brand it is today. By the end of 2014, Turkish Airlines served a total of 264 flight destinations (45 domestic and 219 international), in 261 cities and 108 countries. We operate the world’s most comprehensive air passenger transport network in terms of country coverage. We are also the largest carrier worldwide in terms of international flight destinations. Furthermore, Turkish Airlines ranks fourth in total flight destinations globally.

Each day, we work to further strengthen our current flight network, which consists of 33 destinations in the Middle East, 42 in Africa and 31 in the Far East.

In 2014, we adopted the slogan “Widen Your World,” as we added 18 new destinations and two new countries to our flight network. With these additions, we provide our passengers with serve a total of 108 country and 261 destination options.

In order to offer our valued customers a unique travel experience, while ever expanding our flight network, we continued to create value by implementing various new customer-related initiatives to several ongoing projects in 2014. Among these key innovations, our private airline lounges are of prime importance.

The Turkish Airlines Lounge Istanbul, a private lounge at Istanbul Atatürk Airport was refurbished, expanded and put into service for our passengers. Frequently listed among the world’s top 10 private passenger lounges, Turkish Airlines Lounge Istanbul combines both modern and traditional design and is expected to be the strongest candidate to top future rankings with the newly added sections.

In 2014, we launched private lounges in both the domestic and international terminals at Sabiha Gökçen Airport, where currently 15 private lounges operate. In addition, Lounge Istanbul-Moscow, Turkish Airlines’ first private lounge outside the Istanbul hub, opened in 2014.

However, our customers do not consist only of our passengers.

Turkish Cargo, a sub-brand of Turkish Airlines, posted above sector average growth and carried 667 thousand tons of cargo and mail in 2014. With the goal of providing our clients with the best connections to manufacturing and commercial centers worldwide, we continued to accelerate our investments in 2014, expanding both our cargo fleet and cargo network. With the new cargo terminal, which went into operation at end-2014, we more than doubled our facility capacity.

As a result of innovative and ongoing investment in customer satisfaction initiatives, we were once again named the "Best Airline in Europe," after receiving the same distinction in 2011, 2012 and 2013. Based on 2014 Skytrax passenger survey results, Turkish Airlines was presented with the "Best Airline in Europe," "Best Business Class Onboard Catering," "Best Business Class Lounge Dining" and "Best Airline in Southern Europe" awards. Turkish Cargo, meanwhile, was named “Overall Carrier of the Year” and "Combination Carrier of the Year” at the Payload Asia Awards 2014.

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We continued to create value for our business partners in 2014.

During the year, we continued to create value for our business partners by using our competitive advantages of geographic position, flight network, and low cost structure in the most effective way. Our subsidiary corporate structure, which helped transform Turkish Airlines into a flagship carrier and industry-shaping leader, as well as our collaborations within “Star Alliance,” which counts us as an active member, continued to expand in 2014.

We opened a new chapter in Turkish civil aviation history in 2014 with “HABOM” Aviation Maintenance Repair and Modification Center starting up operations during the year. Fully funded by equity capital, we are very proud to introduce this maintenance and repair provider not only to Turkey but also to the regional aviation industry. HABOM was established to serve as an important aviation maintenance, repair, and revision and modification center for the region. HABOM will serve Turkish Airlines as well as more than 100 domestic and international airlines, delivering maintenance, repair and technical support. With the new HABOM facilities, Turkish Technic’s narrow body aircraft maintenance capacity has increased 57%, wide body aircraft maintenance capacity rose 43%, and closed area capacity expanded 193%.

At the end of 2013, we started to produce Turkey’s first 100% local aircraft seat with one of our subsidiaries, Turkish Seat Industries (TSI). In 2014, we launched our first manufactured economy class seat. In the coming period, we plan to provide seat design and production, spare parts manufacture, modification and sales services to several airline companies.

With our Do&Co subsidiary providing catering services to more than 60 domestic and international airlines, while operating passenger lounges as well, we further improve the quality of customer experience on offer each day. We also completed the transition to a new catering concept for all passenger classes in the first months of 2014.

Our renewed catering concept for our valued customers consists of choices that include both traditional Turkish and world cuisine, which were rarely offered in airline catering until today. Our “Flying Chef” service was expanded in 2014 as well.

During the year, we set up a new subsidiary under the name “Tax Refund,” which will mediate the value added tax (VAT) refund applications of customers who live outside Turkey, for the goods they have purchased in-country and will take abroad.

We continued to create value for our employees in 2014.

At Turkish Airlines, with our extensive range of business operations and multicultural organization, we offer a truly unique career opportunity in the aviation industry. With its myriad subsidiaries, Turkish Airlines today is a big, extended family with 42 thousand employees. As part of this great family, with the training opportunities offered to our personnel, we are helping to advance their careers while they in turn are contributing to our Company’s growing brand recognition and reputation. Turkish Airlines Aviation Academy plays an important role in achieving this mission.

Meeting the training needs of Turkish Airlines and its subsidiaries as well as aviation companies operating domestically and abroad since 1982, Turkish Airlines Aviation Academy has become one of the leading and most respected aviation training providers, both in Turkey and in Europe, Middle East and Africa. The Academy stepped up its activities in 2014, increasing the number of trainings and diversifying the areas covered as well. While bolstering its leadership position in Turkey with the range of projects executed, Turkish Airlines Aviation Academy continues to meet the industry’s evolving needs and works to further improve the instructional quality it offers.

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Esteemed stakeholders,

All of these many achievements that we realized in 2014 and that I have summarized above are based on our core values and operating principles, which have served us very well thus far. These principles, which include honesty and fairness, customer satisfaction and innovation at the top of the list, will continue to guide us in the coming period as well.

We are firmly dedicated to continuing our track record of success, without sacrificing our core values and principles, in 2015. Our fleet capacity is planned to include 293 aircraft in total (214 narrow body, 68 wide body and 11 cargo) at the end of the coming year. In 2015, we expect to reach 156 billion ASK with a 16% passenger capacity increase and a forecast passenger load factor of 80.3%. This coming year we aim to carry 26.1 million domestic and 36 million international passengers, including charters and pilgrimage flights, 63.2 million passengers in total.

We extend sincere thanks to all of our stakeholders, who have contributed to our transition from “The State Airlines Administration” to Turkey’s national airline company, for your unwavering support to us thus far. We hope once again to share with you successful results in 2015, and beyond.

Hamdi Topçu
Chairman of the Board, Chairman of the Executive Committee

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1. COMPANY ORGANIZATIONS AND OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. The Company’s main fields of activity are all types of domestic and international passenger and cargo air transportation.

The Company is registered in İstanbul, Turkey and its head office address is Türk Hava Yolları A.O. Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL. The Company’s stocks are traded on Borsa İstanbul since 1990.

As of 31 December 2014, the shareholders and their respective shareholdings in the Company are as follows:

	<u>31 December 2014</u>
Republic of Turkey Prime Ministry Privatization Administration	% 49.12
Other (publicly held)	% 50.88
Total	% 100.00

The registered capital of the Company is 2,000,000,000 (twobillion) Turkish Lira, while the nominal value of the issued share capital is 1 (one) Kurus which 138,000,000,000 (hundredandthirtyeightbillion) divided into 1,380,000,000 (onebillionthreehundredandeightymillion) shares is fully paid in Turkish Lira.

Shares are divided into two groups, the distribution of share groups of the issued capital is as follows.

<u>Group</u>	<u>Amount of Capital (TRY)</u>	<u>Type</u>	<u>Number of Shares</u>
A	1,379,999,999.99	Registered	137,999,999,999
C	0.01	Registered	1
TOTAL	1,380,000,000.00		138,000,000,000

C shares belong to Republic of Turkey Prime Ministry Privatization Administration and concessions granted to C shares are defined in the Company’s Articles of Association.

The table below sets out the consolidated subsidiaries and participation rate of the Group in these joint ventures as of 31 December 2014:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Country of Registration</u>
THY Teknik A.Ş.	Aircraft Maintenance Service	100%	Turkey
THY Habom A.Ş.	Aircraft Maintenance Service	100%	Turkey
THY Aydın Çıldır Havalimanı İşletme A.Ş.	Training & Airport Operations	100%	Turkey

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THY Teknik A.Ş.

Turkish Technic offers maintenance, repair and technical support to Turkish Airlines, as well as to more than 100 domestic and international airlines. Established in May 2006, the Company is a wholly-owned subsidiary of Turkish Airlines. With its subsidiary operations and 4,395 employees as of 31 December 2014, Turkish Technic conducts its activities with the goal of becoming an important regional air transport technical maintenance base by supplying the full range of maintenance, repair, and technical and infrastructure support the aviation industry requires.

THY Havacılık Ağır Bakım Onarım Merkezi A.Ş.

HABOM Aviation Maintenance, Repair and Modification Center; established in Kurtköy Sabiha Gökçen International Airport, aims to become the largest center in the region, providing the services of maintenance, repair and modification. HABOM A.Ş. (established in 2011 as a wholly-owned subsidiary of Turkish Airlines) and MNG Teknik A.Ş., (acquired by Turkish Airlines in May 2013) merged under one roof in September 2013. The Company provides aviation maintenance and repair services at Atatürk Airport. With HABOM facility and acquired MNG Teknik A.Ş. in Atatürk Airport, the Company aims to become the leading maintenance, repair and modification center in the region. As of 31 December 2014, 819 employees are working for the Company.

THY Aydın Çıldır Havalimanı İşletme A.Ş.

The company was established on 21 June 2012 as a wholly-owned subsidiary of Turkish Airlines. Yet to commence operations, it was established to operate Aydın Çıldır Airport, provide aviation training, organize sports-training flights and conduct all activities related to the transportation of passengers with aircraft types appropriate to prevailing runway length. As of 31 December 2014, 1 employee is working for the Company.

The Group has ten joint ventures. These joint ventures are economical activities that decisions about strategic finance and operating policy are jointly controlled by the consensus of the Group and other participants. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

The table below sets out consolidated joint ventures and indicates the proportion of ownership interest of the Company in these joint ventures as of 31 December 2014:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Indirect Participation Rate</u>	<u>Country of Registration</u>
Güneş Express Havacılık A.Ş.	Aircraft Transportation	50%	-	Turkey
THY DO&CO İkrım Hizmetleri A.Ş.	Catering Services	50%	-	Turkey
TGS Yer Hizmetleri A.Ş.	Ground Services	50%	-	Turkey
THY OPET Havacılık Yakıtları A.Ş.	Aviation Fuel	50%	-	Turkey
Uçak Koltuk Üretimi San. ve Tic. A.Ş.	Cabin Interior	45%	5%	Turkey
TCI Kabin İçi Sistemleri San. ve Tic. A.Ş.	Cabin Interior	30%	20%	Turkey
P&W T.T. Uçak Bakım Merkezi Ltd. Şti.	Maintenance	-	49%	Turkey

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Goodrich T.T. Servis Merkezi Ltd. Şti.	Maintenance	-	40%	Turkey
Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş.	Maintenance	-	50%	Turkey
Vergi İade Aracılık A.Ş.	VAT Return and Consultancy	30%	-	Turkey

Güneş Express Havacılık A.Ş. (SunExpress)

Founded in 1989, SunExpress is a joint venture of Turkish Airlines and Lufthansa, in which each holds a 50% stake. Having inaugurated flights in 1990, the Company has served the charter market for many years. In 2001 it began flying the Antalya-Frankfurt route as the first privately owned airline in Turkey to operate regularly scheduled international flights. The company, wetleasing 29 of its aircraft to THY, has a fleet of 52 aircraft and serves its customers with 2,463 employees as of 31 December 2014. SunExpress flies to 26 domestic and 43 international destinations, which brings the total number to 69 destinations. In 2011, SunExpress Germany was founded as a joint venture of Stiftung and SunExpress, in which each holds %50-50 stake. As of 31 December 2014, the Company has 11 Boeing 737-800 passenger aircraft.

THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO)

The Company provides catering services to Turkish Airlines and to more than 60 other domestic and international airlines. Commencing operations in 2007, Turkish DO&CO is a joint venture of Turkish Airlines and DO&CO Restaurants & Catering AG, in which each holds a 50% stake. Turkish DO&CO has been responsible for substantial improvements in catering service quality aboard Turkish Airlines aircraft and received (and continues to receive) many international awards for its performance with 5,527 employees as of 31 December 2014.

TGS Yer Hizmetleri A.Ş.

The company provides ground handling services at Istanbul Atatürk Airport, Sabiha Gökçen Airport, as well as other major airports in Turkey to many domestic and international airlines. Established in 2009 as a joint venture of Turkish Airlines and HAVAŞ Havaalanları Yer Hizmetleri A.Ş. in which each holds a 50% stake, TGS (Turkish Ground Services) has been in operation since the beginning of 2010. TGS is employing 8,541 personnel as of 31 December 2014.

THY OPET Havacılık Yakıtları A.Ş.

Turkish Opet Aviation Fuels, established in 2009, is a joint venture of Turkish Airlines and OPET Petrolcülük A.Ş., in which each holds an equal stake. It provides jet fuel storage and supply services at Istanbul Atatürk Airport and other airports in Turkey. The Company commenced operations on 1 July 2010. In addition to aviation fuels of every kind, it also engages in the domestic and international sale, importation, exportation, distribution, and transport of chemicals, lubricants, and paints. Kuzey Tankercilik A.Ş. and Güney Tankercilik A.Ş., were established on 1 November 2012, as wholly owned subsidiaries of THY Opet Havacılık Yakıtları A.Ş. in order to provide transportation of petroleum and petroleum products. Turkish-Opet has the largest jet fuel integrated facility in Turkey. As of 31 December 2014, the Company has 230 employees.

Uçak Koltuk Üretimi San. ve Tic. A.Ş.

A joint venture with the Assan Hanil Group, the company was set up to design and manufacture airline seats, and to make, modify, market, and sell spare parts to Turkish Airlines and other international airline companies. Formed on 27 May 2011, stakes of 50%, 45%, 5% are respectively held by Assan Hanil Group, Turkish Airlines, and Turkish Tecnic. As of 31 December 2014, 39 employees are working for the company.

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Established on 9 May 2011, stakes of 30%, 21% and 49% are held respectively by Turkish Airlines, Turkish Technic and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ – TAI). TCI's objective is to undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components, and aims to become one of the leading manufacturers in the industry. As of 31 December 2014, the Company has 130employees.

Pratt & Whitney THY Teknik Uçak Motoru Bakım Merkezi Ltd. Şti. (TEC-Turkish Engine Center)

The company provides aircraft engine maintenance, repair, and overhaul services to customers in Turkey and its hinterland. Established on 10 October 2008, stakes of %49 and %51 are held respectively by United Technologies, a subsidiary of Pratt&Whitney, and Turkish Airlines. Operating out of a high-tech, environmentally-friendly maintenance center with an area of around 25,000 m² at Istanbul Sabiha Gökçen International Airport, TEC has the capacity to perform maintenance on more than 200 aircraft engines a year with 257 employees as of 31 December 2014.

Goodrich THY Teknik Servis Merkezi Ltd. Şti.

At the Gebze facilities, high quality services for maintenance and repair of nacelles, thrust reversers, related parts and rotatable support is provided. Established in 2010, the Goodrich Turkish Airlines Technical Service Center is a joint venture of Turkish Technic (40%) and TSA-Rina Holdings (60%), the latter a subsidiary of Goodrich Corporation. The Goodrich Turkish Airlines Technical Service Center aims to be an important player in the industry by providing maintenance and repair services meeting international standards to Turkish Airlines and other international airline companies, underpinned by technical certification. As of 31 December 2014, the Company has 31 employees.

Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş.

Established on 28 June 2011, as a joint venture of Turkish Technic and Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri A.Ş., in which each holds a 50% stake, in order to provide maintenance, repair and overhaul services for gas turbines and industrial gas turbines. As of 31 December 2014, 14 employees are working for the company.

Vergi İade Aracılık A.Ş.

The Company is established on 01 September 2014 as a joint venture of THY (30%), Maslak Oto (45%) and VK Holding (25%) to carry out brokerage operations of value added tax return regarding the goods bought in Turkey by non-residents. As of 31 December 2014, 5 employees are working for the company.

The Parent Company is responsible for the full and joint control over subsidiaries and affiliates through Board of Directors. In addition, operations of subsidiaries and affiliates are monitored by Senior Vice President of Subsidiaries located within the means of the Parent Company. The internal audit and control functions in the Parent Company are carried out by SVP of Inspection Board, SVP of Quality Assurance and other relevant expertise and financial departments.

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Related party transactions and balances are as follows:

The joint ventures accounted for using the equity method (TRY):

	<u>31 December 2014</u>	<u>31 December 2013</u>
Sun Express	140,564,167	76,197,771
Turkish DO&CO	119,468,390	90,923,583
TGS	98,293,507	83,543,135
THY Opet	93,244,646	74,931,561
TEC	51,646,819	46,355,553
TCI	9,744,308	4,189,363
Türkbine Teknik	8,283,911	8,632,676
Uçak Koltuk	3,104,726	4,142,150
Goodrich	968,231	758,407
Vergi İade Aracılık	263,874	-
	<u>525,582,579</u>	<u>389,674,199</u>

Share of investments' profit/(loss) accounted by using to equity method (TRY):

	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Sun Express	62,550,798	56,637,482
Turkish DO&CO	36,451,835	31,365,384
TGS	27,262,567	18,515,052
THY Opet	38,282,204	22,655,086
TEC	1,209,462	(16,525,033)
TCI	(3,032,809)	(2,273,796)
Türkbine Teknik	(1,033,552)	(181,916)
Uçak Koltuk	(1,016,728)	(673,057)
Goodrich	136,080	(545,690)
Vergi İade Aracılık	(36,126)	-
	<u>160,773,731</u>	<u>108,973,512</u>

Short-term trade receivables from related parties that are accounted by using the equity method (TRY):

	<u>31 December 2014</u>	<u>31 December 2013</u>
TCI	628,622	382,750

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Other short-term receivables from related parties (TRY):

	<u>31 December 2014</u>	<u>31 December 2013</u>
Turkish DO&CO	7,500,000	-
TCI	5,738	4,087,847
	<u>7,505,738</u>	<u>4,087,847</u>

Short-term trade payables to related parties that are accounted by using the equity method (TRY):

	<u>31 December 2014</u>	<u>31 December 2013</u>
THY Opet	189,943,919	184,980,253
Turkish DO&CO	61,772,316	67,793,993
TGS	34,633,137	33,853,908
Sun Express	32,490,009	54,322,677
TEC	23,831,376	31,294,411
Goodrich	368,915	2,361,168
	<u>343,039,672</u>	<u>374,606,410</u>

Transactions with related parties for the year ended as of 31 December 2014 are as follows:

Sales (TRY)

	<u>31 December 2014</u>	<u>31 December 2013</u>
Sun Express	150,658,677	103,190,861
TGS	34,531,241	22,565,735
TEC	30,040,412	12,334,619
Turkish DO&CO	2,821,063	3,452,065
Türkbine Teknik	2,044,846	6,092
THY Opet	1,991,046	2,527,532
TCI	591,501	201,288
Goodrich	274,336	147,218
Sun Express Deut.	8,238	38,231
	<u>222,961,360</u>	<u>144,463,641</u>

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Purchases (TRY)

	31 December 2014	31 December 2013
THY Opet	4,958,251,802	3,926,534,933
Turkish DO&CO	726,291,122	531,694,324
Sun Express	693,130,107	442,689,324
TGS	469,453,807	385,772,288
TEC	394,632,382	191,381,580
Star Alliance GMBH	578,836	639,882
TCI	69,806	64,901
UATP	70,590	-
Goodrich	-	322,628
	7,242,478,452	5,479,099,860

Within the scope of II-17.1 Communiqué on Corporate Governance, the scope of the common and continuous transactions between the corporations, traded on Borsa İstanbul, and subsidiaries thereof with their related parties and the conditions as to these transactions shall be resolved by the board of directors. In case a significant amendment is made within the scope and the conditions of these transactions, a new resolution of board of directors shall be taken. In cases where it has been foreseen that the rate of the amount of common and continuous transactions between the corporations and subsidiaries thereof with their related parties within an account period, for purchases, the cost of sales in the latest annual financial statements disclosed to public exceed 10%, the board of directors of the corporation shall, in addition to its resolution, issue a report regarding the conditions of the transactions and comparison thereof with the market conditions and the entire report or its result only shall be disclosed at the PDP.

The Incorporation purchases jet fuel, costs 4,958 million Turkish Liras, from THY-OPET Havacılık Yakıtları A.Ş. during the year 2014. The rate of jet fuel expense to total expense of the Incorporation is %22. This amount is paid for the purchases on domestic airports and two international airports.

2. INDUSTRY DEVELOPMENTS AND TURKISH AIRLINES

Strategicly important and high value-added airline industry, which is a key factor in development and competitiveness of countries, has been developing in parallel economic growth in the whole world, growing urban population, growing middle class population, globalization and liberalization. For 2015, rate of total passenger growth forecast of The International Air Transport Association (IATA) is 7%.

Annual Average Growth Forecast (2014-2033)

World Economy (GDP)	3.2%
World Trade	4.3%
Airline Traffic (RPK)	5.2%
Cargo Traffic (RTK)	4.5%

Comparison of Turkish Airlines traffic development vs. IATA member airlines, as of December 2014 compared to the same period of last year, is as follows:

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	<u>IATA</u>	<u>THY</u>
Available Seat*Km Change	5.6%	16.3%
Revenue Passenger*Km Change	5.9%	16.1%
Revenue Ton*Km Change	4.5%	15.8%

As of December 2014, Turkish Airlines ranks second, with 14.5% market share in terms of passengers carried, ranks fourth with 12% market share in terms of Revenue Passenger Km (RPK), ranks fourth with 12.3% market share in terms of Available Seat Km (ASK), among AEA member airlines.

Comparison of Turkish Airlines traffic development vs. AEA member airlines, as of December 2014 compared to the same period of last year, is as follows:

	<u>AEA</u>	<u>THY</u>
Available Seat*Km Change	3.6%	16.3%
Revenue Passenger*Km Change	4.1%	16.1%
Load Factor	80.6%	78.9%
Passenger Load Factor Change	0.3 p.	-0.1 p.
Revenue Ton*Km Change	2.1%	15.8%

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015(*)</u>
<u>System-wide global commercial airlines</u>							
REVENUES (\$ billion)	476	564	642	706	717	751	783
Passenger Revenue	374	445	500	541	571	598	623
Cargo Revenue	48	66	67	64	61	62	63
Traffic							
Passenger Growth (RPK) %	-1.1	7.9	6.3	5.1	5.4	5.7	7.0
Cargo Growth (FTK) %	-8.8	19.4	0.4	-0.9	0.6	4.3	4.5
EXPENSES (\$ billion)	474	536	623	687	692	713	736
Fuel	123	138	174	208	208	204	192
% of expenses	26	26	28	30	30	29	26
Non-fuel	351	398	449	479	484	509	544
OPERATING PROFIT (\$ billion)	1.9	27.6	19.8	18.4	25.3	38.3	46.8
% margin	0.4	4.9	3.1	2.6	3.5	5.1	6.0
NET PROFIT(\$ billion)	-4.6	17.3	8.3	6.1	10.6	19.9	25
% margin	-1.0	3.1	1.3	0.9	1.5	2.7	3.2

(*) Annual forecast published by IATA.

(Source: IATA Airline Industry Economic Performance, Dec 2014)

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3. ORGANIZATIONAL STRUCTURE

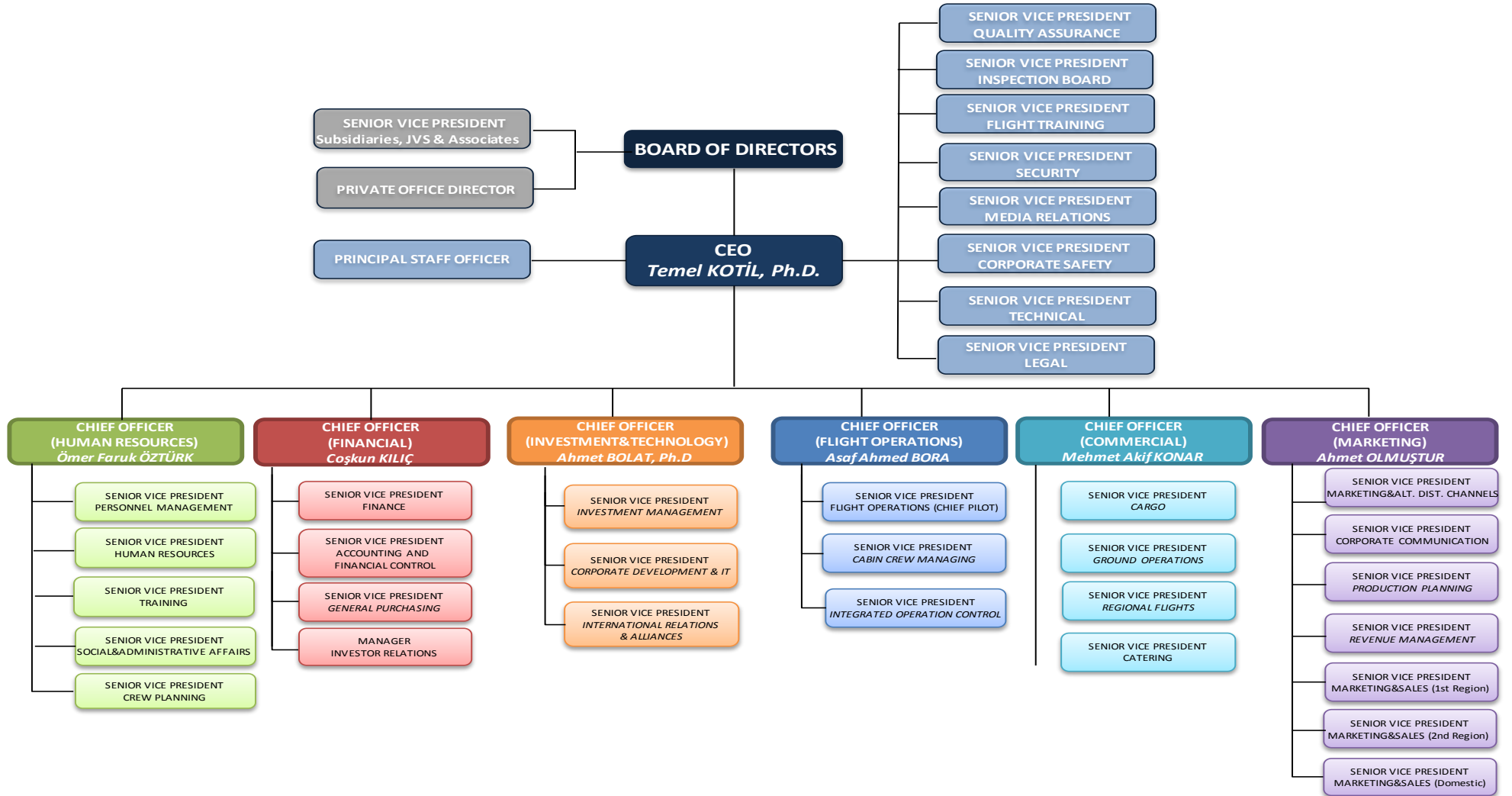


The table below sets out Turkish Airlines' network on a country-city-airport basis as of 31 December 2014:

	<u>COUNTRY</u>	<u>CITY</u>	<u>AIRPORT</u>
DOMESTIC	1	43	45
INTERNATIONAL	107	218	219
Europe	42	102	103
Far East	21	31	31
Middle East	13	33	33
Africa	27	42	42
America	4	10	10
TOTAL	108	261	264

General Management and all central units are gathered around Istanbul Ataturk Airport. Current organization chart of Turkish Airlines is shown on the next page.

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**BOARD OPERATIONAL REPORT
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Members of the Board who were on duty as of 31.12.2014 are listed below:

Hamdi TOPÇU 01.04.2003- 22.04.2005-31.12.2009 12.10.2006-31.12.2009 01.01.2010-	: Chairman of the Board and the Executive Committee : Türk Hava Yolları A.O. Member of the Board : Türk Hava Yolları A.O. Vice Chairman of the Board of Directors : Türk Hava Yolları A.O. Vice Chairman of the Executive Committee : Türk Hava Yolları A.O. Chairman of the Board and the Executive Committee
Mecit EŞ, Prof. Dr. 20.09.2012-29.03.2013 29.03.2013-04.04.2014 04.04.2014-	: Vice Chairman of the Board and the Executive Committee : Türk Hava Yolları A.O. Member of the Audit Board : Türk Hava Yolları A.O. Member of the Board : Vice Chairman of the Board and the Executive Committee
Temel KOTİL, Ph.D. 27.03.2003-26.04.2005 26.04.2005- 27.04.2005- 12.10.2006-	: CEO, Member of the Board and the Executive Committee : Türk Hava Yolları A.O. Chief (Technic) Officer : Türk Hava Yolları A.O. Member of the Board : Türk Hava Yolları A.O. Chief Executive Officer : Türk Hava Yolları A.O. Member of the Executive Committee
İsmail GERÇEK 01.04.2003-08.04.2011 08.04.2011-	: Member of the Board, Member of the Corporate Governance Committee : Türk Hava Yolları A.O. Member of the Audit Board : Türk Hava Yolları A.O. Member of the Board
Muzaffer AKPINAR 24.04.2007-	: Independent Board Member, Chairman of the Audit Committee : Türk Hava Yolları A.O. Independent Board Member
Mehmet BÜYÜKEKŞİ 01.04.2003-19.01.2004 03.03.2004-	: Member of the Board, Member of the Corporate Governance Committee : Türk Hava Yolları A.O. Member of the Board : Türk Hava Yolları A.O. Member of the Board
Naci AĞBAL 08.05.2006-10.10.2012 10.10.2012-	: Member of the Board and the Early Identification of Risks Committee : Türk Hava Yolları A.O. Member of the Audit Board : Türk Hava Yolları A.O. Member of the Board
M. İlker AYCI 04.04.2014-	: Independent Board Member, Member of the Audit Committee Chairman of the Early Identification of Risks Committee
Arzu AKALIN 04.04.2014-	: Independent Board Member, Chairman of the Corporate Governance Committee

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Board members who resigned from their duties during the year 2014 are listed below:

Cemal ŞANLI, Prof. Dr. : Vice Chairman of the Board and the Executive Committee
01.04.2003-28.03.2014 : Türk Hava Yolları A.O. Member of the Board
01.01.2010-28.03.2014 : Türk Hava Yolları A.O. Vice Chairman of the Board and the Executive Committee

Mehmet Nuri YAZICI : Member of the Board, Chairman of the Corporate Governance Committee
10.10.2012- 28.03.2014 : Türk Hava Yolları A.O. Member of the Board

BOARD OF DIRECTORS

The Board of Directors is comprised of nine members, out of 3 independent, elected by the General Assembly. The Board of Directors shall approve the strategic targets, continuously and effectively monitor these targets, as well as the activities of the Incorporation and its' past performance. In doing so, the Board shall strive to ensure compliance with international standards, and whenever necessary, take preemptive action to potential problems. During the fiscal year 2014, The Board of Directors met 33 times and took 222 resolutions.

Brief resumes of our Board of Directors are presented below:

Hamdi Topçu

Chairman of the Board and the Executive Committee

Mr. Topçu was born in Çayeli, Rize in 1964. He graduated from Marmara University Faculty of Economics and Administrative Sciences in 1986. He is a certified financial advisor. Mr. Topçu retains his positions as the Chairman of the Turkish Football Federation Auditing Committee and Board Member of TUSAŞ, as well as the Chairman of the Board of Directors of the Company's subsidiaries; THY Turkish Technic, THY DO&CO Catering Services, TGS Ground Services, THY Opet Aviation Fuels, HABOM Aviation Maintenance Repair and Modification Center and THY Aydın Çıldır Airport Management. Mr. Topçu is married and a father of four children.

Mecit Eş, Prof. Dr.

Vice Chairman of the Board and the Executive Committee

Prof. Dr. Mecit Eş, born in 1953 in Samsun; received his degree from the Istanbul University School of Economics in 1974. Having held several offices, he commenced his academic projects and received his Doctorate in 1985. He became Associate Professor in 1990 and Professor in 1986. And having then worked at Dumlupınar University from 1992 and 2012, Mr. Eş continues his academic studies as a Professor of the Academy of Commercial Sciences at Istanbul Commerce University. He has published many books and articles, and is married with three children.

Temel Kotil, Ph.D.

CEO, Member of the Board and the Executive Committee

Mr. Kotil was born in Rize in 1959. In 1983, he graduated from the Aeronautical Engineering Department at Istanbul Technical University (ITU). In 1986, he received his first Master's degree in the United States from the Aircraft Engineering Department of Michigan University in Ann Arbor, followed in 1987 by his second Master's degree in Mechanical Engineering, and his Doctorate in Mechanical Engineering in 1991 at the same university. From 1991-93 Kotil established and managed the Aviation and Advanced Composite Laboratories of ITU's Faculty of Aeronautics and Astronautics, where he also served as Assistant Professor and Associate Professor.

From 1993-94 he served as Department Faculty Vice President and as Faculty Assistant Dean. Mr. Kotil also

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.17.1 PRINCIPLES**

served as Head of the Research, Planning and Coordination Department of the Istanbul Metropolitan Municipality. He then served as a guest professor at Illinois University, and then as Department Head at the Research and Engineering Department of AIT Inc. New York. In 2003 he began his career with Turkish Airlines as Vice President of the Technical Department. In 2005 Mr. Kotil was appointed as General Manager. And in 2006, he was elected as a member of the IATA Board of Directors. In 2010, he was appointed as a Board Member of the Association of European Airlines and as Vice President between 2012 and 2013 and as the Chairman in 2014. Mr. Kotil, married with four children, has authored many articles and publications.

İsmail Gerçek

Member of the Board, Member of the Corporate Governance Committee

Born in Çan, Çanakkale in 1963, Mr. Gerçek graduated from Ankara University, Faculty of Political Sciences, Public Administration department in 1985. He studied economics and received his MA studies in money & banking in USA between 1992 and 1994. He still continues his Doctorate thesis studies in Istanbul University in Financial Law. His career began in the position of assistant inspector at the Ministry of Finance Review Committee in 1985. Until 1998 he worked as a finance inspector and finance inspector general. From 1995-1997 Mr. Gerçek was deputy assistant District Treasurer in Istanbul. He also served as a member of the Audit Committee in TEKEL and Joint Funds Bank Inc. Pursuing his career as a chartered accountant and Independent Auditor, Mr. Gerçek is a member of the Audit Committee of Participation Banks Association of Turkey and Turkish Football Federation and Chairman of the Board of Trustees at Fatih Sultan Mehmet Foundation University.

Muzaffer Akpınar

Independent Board Member, Chairman of the Audit Committee

Born in 1962, Mr. Akpınar graduated from Saint-Michel French High School and the Bosphorus University Department of Management Science. His professional career commenced in 1986 when he became the founder shareholder of Penta Textile. In 1993 he was appointed CEO of KVK Mobil Telefon Hizmetleri A.Ş.. Subsequently, Mr. Akpınar served as the CEO of MV Holding A.Ş. and played an active role in the creation of Fintur Holding BV. Between the years of 2002 and 2006, Mr. Akpınar served as the CEO of Turkcell. He remains an entrepreneur and investor in the fields of renewable energy, technology, chemicals and construction. Mr. Akpınar is married and has two children.

Mehmet Büyükeksi

Member of the Board, Member of the Corporate Governance Committee

Born in Gaziantep in 1961, Mr. Büyükeksi graduated from the Faculty of Architecture at Yıldız Technical University in 1984. He attended Business Administration courses at the Marmara University and Business Administration and English courses in the UK in 1988. In addition to being a Board Member of Turkish Airlines, Mr. Büyükeksi is the President of the Turkish Exporters' Assembly (TİM), member of the Board of Directors of Türk Eximbank, Vice President and Member of the Executive Committee of Foreign Economic Relations Board of Turkey (DEİK), a member of the Executive Council of B20, council member of Istanbul Chamber of Industry (ISO), a member of the Board of Directors of Istanbul Development Agency. He was the president of the Turkish Association of Footwear Manufacturers for six years, Chairman of the Istanbul Leather and Leather Products Exporters' Association (İDMİB) from 2000 to 2006, as well as the Founding Chairman of the Turkish Footwear Industry Research Development and Education Foundation (TASEV) from 1997-2006. Previously, Mr. Büyükeksi has been the Deputy Chairman of Turkish Exporters' Assembly (TİM), board member at the Istanbul Chamber of Industry (ISO), Turkish Leather Foundation (TÜRDEV), Organized Industrial Zones and Technology Development Regions (TOBBİS), International Commerce Center Inc. (TOBTİM), and Turkish DO&CO. He is married and has three children.

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.17.1 PRINCIPLES****Naci Ağbal**

Member of the Board and the Early Identification of Risks Committee

Mr. Ağbal was born in Bayburt in 1968. He graduated from the Public Administration Department of the Istanbul University Faculty of Political Sciences in 1989. In 1998 he received his MBA from Exeter University in the UK. In 1989 he became an Assistant Inspector at the Ministry of Finance, in 1993 Inspector at the Ministry of Finance, and in 1999, became Inspector General. Having served as Vice President of the Financial Review Committee, he was appointed as Head of Department at the Inland Revenue in 2003, and served as a Ministerial Advisor in 2004. In 2006, Mr. Ağbal was appointed acting General Manager of Budget and Financial Control at the Ministry of Finance, and Vice President of the Inland Revenue in the same year. In 2009, he became the Undersecretary of Finance. He is also a member of the Council of Higher Education and of the Board of Trustees at Ahmet Yesevi University. Mr. Ağbal is married with two children.

M. İlker Aycı

Independent Board Member, Member of the Audit Committee, Chairman of the Early Identification of Risks Committee

Mr. Aycı was born in İstanbul in 1971. After graduating from Department of Political Science and Public Administration at Bilkent University, he served as a researcher in the Department of Political Sciences at Leeds University, and then in 1997 he received his master's degree in International Relations (English) at Marmara University.

Starting his career in 1994, he was assigned several positions in Kurtsan İlaçlar A.Ş., İstanbul Metropolitan Municipality, Universal Dış Ticaret A.Ş., respectively, and then he served as a general manager in Başak Sigorta A.Ş. between 2005-2006, in Güneş Sigorta A.Ş. between 2006 and 2011. In January 2011 he began to serve as the Chairman of The Republic of Turkey Investment Support and Promotion Agency. In February 2013 he was appointed as the Vice President of World Association of Investment Promotion Agencies (WAIPA) and later on in January 2014, the Chairman of WAIPA.

Mr. Aycı also serves several positions such as the Board Member and Chairman of Insurance Association of Turkey, Foreign Economic Relations Board - Turkey China Business Council, Vakıf Emeklilik A.Ş. and VakıfBank Güneş Sigorta Sports Club (Champion of 2008 Europe Challenge Cup). He is married with one child.

Arzu Akalın

Independent Board Member, Chairman of the Corporate Governance Committee

Ms. Arzu Akalın was born in Germany in 1973. Completing part of her education in Germany, she was graduated from İstanbul Vefa Poyraz High School and İstanbul University Faculty of Law. She was graduated from İstanbul University Faculty of Law, ranking first in class, during the period 1991-1995. She was specialized in patent rights in commercial law.

Ms. Akalın commenced her professional business life in 1997. After working in the field of brand and patent law in a private company for 11 years, she set up her own law office in 2010. She is a trademark/patent attorney and also has native fluency in German. Currently, she continues her studies in order to have a PhD degree in law in Germany.

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COMMITTEES

Audit Committee

Chairman: Muzaffer Akpınar

Member: M. İlker Aycı

The Audit committee shall be in charge of the supervision of the corporation's accounting system, public disclosure of the financial information, independent auditing and the operation and efficiency of internal control and internal audit system. Election of the independent audit institution, initiation of the independent audit process by preparing the contracts of independent audit and the work of the independent audit institution at all levels shall be conducted under the supervision of the audit committee.

The Audit committee shall designate the applicable method and criteria with regard to the review of the complaints regarding the accounting and internal control system of the corporations and the independent audit, settling thereof, evaluation of the notifications of the employees of the corporation with regard to matters on accounting and independent audit of the corporation within the framework of the confidentiality principle.

Corporate Governance Committee

Chairman: Arzu Akalın

Members: Mehmet Büyükekşi, İsmail Gerçek, Duygu İnceöz (Investor Relations Manager)

The Corporate governance committee shall determine as to whether principles of corporate governance apply, if not applied its grounds and state the conflict of interest which arises for not complying with these principles and give advice to the board of directors in order to enhance the implementation of corporate governance and supervise the work of the Investor Relations department.

Early Identification of Risks Committee

Chairman: M. İlker Aycı

Member: Naci Ağbal

The Committee of early detection of risk shall be responsible for early detection of the risks which poses a threat to the existence, development and continuation of the corporation, taking the necessary measures with respect to detected risks and working on risk management. The Committee of early detection of risk shall review the risk management systems at least once a year.

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.17.1 PRINCIPLES**

5. SENIOR MANAGEMENT

Information about the Senior Management of the Incorporation and their duties within the Incorporation are presented below:

Coşkun KILIÇ 08.03.2006-	: Chief Financial Officer : THY A.O. Chief Financial Officer
Asaf Ahmed BORA 15.06.1989-01.02.1993 01.02.1993-12.06.1996 12.06.1996-14.04.1998 14.04.1998-27.07.2004 27.07.2004-04.05.2009 04.05.2009-	: Chief Flight Operations Officer : THY A.O. Flight Operations / FEO : THY A.O. Flight Operations / First Officer : THY A.O. Flight Operations / Commander (RJ-100) : THY A.O. Flight Operations / Commander (B-737) : THY A.O. Flight Operations / Commander (A-340) : THY A.O. Chief Flight Operations Officer
Dr. Ahmet BOLAT 06.07.2005-22.07.2005 23.07.2005-22.01.2012 23.01.2012-	: Chief Investment and Technology Officer : THY A.O. General Management / Specialist : THY A.O. Senior Vice President (Investment Management) : THY A.O. Chief Investment and Technology Officer
Ömer Faruk ÖZTÜRK 07.12.2005-01.03.2013 02.03.2013-21.07.2013 22.07.2013-	: Chief Human Resources Officer : THY A.O. Senior Vice President (Personnel Management) : THY A.O. Deputy Chief Human Resources Officer : THY A.O. Chief Human Resources Officer
Mehmet Akif KONAR 28.01.2004-27.02.2004 2.2004- 26.05.2004 5.2004- 25.07.2006 25.07.2006-13.03.2007 13.03.2007-09.08.2010 09.08.2010-21.03.2012 21.03.2012-16.04.2013 16.04.2013-	: Chief Commercial Officer : THY A.O. Chief Technical Officer/ Engineer : THY A.O. Production Planning and Projects / Production Planning and Control Manager : THY A.O. Production Planning and Projects./ Investment Planning and Projects Manager : THY A.O. Marketing and Sales / Region Manager.(America and F. East) : THY A.O. Senior Vice President (Production Planning) : THY A.O. Senior Vice President (Marketing and Sales) : THY A.O. Senior Vice President (Marketing and Sales, 1st Region) : THY A.O. Chief Commercial Officer
Ahmet OLMUŞTUR 08.05.2007 - 22.01.2009 23.01.2009 - 21.02.2010 2.2010 - 12.01.2011 13.01.2011- 27.05.2014 28.05.2014 -	: Chief Marketing Officer : THY A.O. Revenue Management/ Specialist : THY A.O. Revenue Management / Global Distribution Systems Manager : THY A.O. Revenue Management/ Revenue Management & Pricing Manager (Eastern Europe and Balkans) : THY A.O. Senior Vice President (Revenue Management) : THY A.O. Chief Marketing Officer

**BOARD OPERATIONAL REPORT
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6. HUMAN RESOURCES

During January-December 2014, 1,020 people were employed at Turkish Airlines. Personnel numbers according to classes in 2013 and 2014 are as follows:

	<u>31.12.2013</u>	<u>31.12.2014</u>	<u>Change (%)</u>
Cockpit Personnel	3,369	3,892	16%
Cabin Personnel	6,902	7,736	12%
Aircraft Maintenance Technician*	688	47	-93%
Staff Abroad	2,572	2,895	13%
Domestic Staff	5,351	5,332	0%
Total	18,882	19,902	5%

*Since SVP Line Maintenance was transferred to Turkish Technic on 01 April 2014, number of technicians decreased.

Social Rights of the Staff

Pass Tickets

The Incorporation provides a limited number of free or discounted pass tickets to its employees who are working at least for one year in the company. Pass ticket rights depend on the priority and titles of the employees, and spouse and children of the employees have the same right.

Kindergarten Benefit

The female employees of the company can take advantage of the kindergarten benefit for their children who are under 6 years old by submitting the necessary document and invoice.

Maternity Benefit

The Incorporation employees can take advantage of maternity benefit for only one time, by submitting the necessary documents if having a child.

Marriage Benefit

The Incorporation employees can take advantage of marriage benefit for only one time, by submitting the necessary documents in the event of marriage.

Death Benefit

The Incorporation employees can make use of death benefit for only one time, by submitting the necessary documents in case of death of their first degree relatives. (Birth mother and father, spouse, child)

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7. TRAFFIC RESULTS

January-December traffic results are shown below:

DOMESTIC	2010	2011	2012	2013	2014	14/13 Chg.
Number Of Landings	112,842	120,677	128,541	157,339	172,290	10%
Revenue Passenger (000)	13,645	14,488	15,906	20,052	22,708	13%
Available Seats*Km (Millions)	10,437	11,164	12,012	15,433	17,557	14%
Revenue Passenger*Km (Millions)	8,007	8,584	9,511	12,301	14,248	16%
Passenger Load Factor (%)	76.70%	76.90%	79.20%	79.71%	81.15%	1.4p
Cargo+Mail (Tons)	39,324	37,440	40,107	47,543	51,619	9%
Available Ton*Km (Millions)	1,191	1,273	1,369	1,764	2,034	15%
Revenue Ton*Km (Millions)	757	813	882	1,132	1,300	15%
Overall Load Factor (%)	63.60%	63.90%	64.40%	64.20%	63.88%	-0.3p
INTERNATIONAL	2010	2011	2012	2013	2014	14/13 Chg.
Number Of Landings	132,384	149,941	173,902	212,819	241,086	13%
Revenue Passenger (000)	15,474	18,160	23,139	28,215	31,967	135
Available Seats*Km (Millions)	54,663	70,029	84,118	100,966	117,773	17%
Revenue Passenger*Km (Millions)	39,943	50,349	65,147	79,700	92,539	16%
Passenger Load Factor (%)	73.10%	71.90%	77.40%	78.94%	78.57%	-0.4p
Cargo+Mail (Tons)	274,632	350,398	430,529	517,772	616,124	19%
Available Ton*Km (Millions)	7,845	10,653	12,885	16,743	19,976	19%
Revenue Ton*Km (Millions)	5,137	6,654	8,505	10,442	12,103	16%
Overall Load Factor (%)	65.50%	62.50%	66.00%	62.36%	60.59%	-1.8p
TOTAL	2010	2011	2012	2013	2014	14/13 Chg.
Number Of Landings	245,226	270,618	302,416	370,158	413,376	12%
Revenue Passenger (000)	29,119	32,648	39,045	48,267	54,675	13%
Available Seats*Km (Millions)	65,100	81,193	96,131	116,399	135,330	16%
Revenue Passenger*Km (Millions)	47,950	58,933	74,658	92,000	106,787	16%
Passenger Load Factor (%)	73.70%	72.60%	77.70%	79.04%	78.91%	-0.1p
Cargo+Mail (Tons)	313,956	387,838	470,636	565,315	667,743	18%
Available Ton*Km (Millions)	9,036	11,926	14,255	18,506	22,011	19%
Revenue Ton*Km (Millions)	5,894	7,467	9,387	11,574	13,402	16%
Overall Load Factor (%)	65.20%	62.60%	65.90%	62.54%	60.89%	-1.6p
Aircraft Utilization	12:02	11:38	12:11	12:39	12:43	1%

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I. Scheduled Domestic Flights:

During January-December 2014 , the Incorporation started operating scheduled flights with TK main brand to a new domestic flight destination stated below:

<u>Flight Destination</u>	<u>Flight Inaugural Date</u>
GAZİPAŞA - Antalya	25.07.2014

II. Scheduled International Flights:

During January-December 2014 , the Incorporation started operating scheduled flights with TK main brand to new international destinations stated below:

<u>Flight Destination</u>	<u>Flight Inaugural Date</u>
ROTTERDAM - Netherlands	04.03.2014
ASTRAKHAN - Russia	02.04.2014
STAVROPOL - Russia	22.04.2014
ORAN - Algeria	07.05.2014
BOSTON – U.S.A	12.05.2014
CONSTANTINE - Algeria	15.05.2014
CATANIA - Italy	23.05.2014
VARNA - Bulgaria	30.05.2014
MONTREAL - Canada	03.06.2014
BORDEAUX - France	12.06.2014
MUNSTER - Germany	18.06.2014
COTONOU - Benin	23.06.2014
PISA – Italy	26.06.2014
TLEMCEN – Algeria	31.07.2014
BATNA – Algeria	31.07.2014
ASMARA – Eritrea	19.08.2014
KHERSON - Ukraine	15.10.2014

Besides, during January-December 2014, scheduled flights from Sabiha Gökçen Airport to Berlin in Germany, Brussels in Belgium and Sarajevo in Bosnia-Herzegovina have been started.

On April 2014, scheduled flights from Sabiha Gökçen Airport to Astrakhan and Stavropol in Russia are started; however, these flights have been transferred to Atatürk Airport as of October 2014.

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III. Additional, Charter and Hajj-Umrah Flights

During January-December 2014, number of additional, charter and hajj-Umrah flights and number of passengers carried on these flights are stated on the table below:

	<i>Number of Flights</i>		<i>Number of Passengers</i>
	<i>Domestic</i>	<i>International</i>	
Additional	1,705	601	125,215
Charter	1,670	3,263	763,373
Hajj-Umrah	-	3,675	390,890

IV. AnadoluJet Flights:

<i>Scheduled and Additional Flights</i>	<i>2013</i>	<i>2014</i>	<i>14/13 Chg.</i>
Number Of Landings	56,385	60,895	8%
Revenue Passenger (000)	7,698	8,484	10%
Available Seats*Km (Millions)	9,532	10,603	11%
Passenger Load Factor (%)	81.3	81.1	-0.2p
Number Of Aircraft	25	26	4%

Since January 2014, AnadoluJet has been continuing its operations with wet-lease aircraft from SunExpress. As of 2014, 16 aircraft is based in Esenboğa and 8 in Sabiha Gökçen.

By the end of 2014, number of domestic destinations went up to 36 from 35, compared to the end of 2013. Esenboğa based flight destinations rose to 31 and Sabiha Gökçen based to 18.

In Sabiha Gökçen operations, available seats km increased by 39%, reaching to 3,753,221.

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8. FLEET

By the end of 2014, number of aircraft went up to 261, including 41 additions and 13 exits from the fleet, from 233, compared to the end of 2013.

Fleet Group	Fleet Type	Stage Length (km)	Number of Aircraft			Seat Capacity			Avg. Fleet Age
			2013/12	2014/12	%Chg.	2013/12	2014/12	%Chg.	2014/12
WIDE BODY	A340-300	13,700	7	5	-29%	1,890	1.350	-29%	17.5
	A330-200	13,400	8	16	100%	2,072	3.859	86%	8.4
	A330-300	10,800	12	18	50%	3,468	5.202	50%	2.4
	B777-300ER	14,685	15	16	7%	4,980	5.440	9%	3.0
	TOTAL		42	55	31%	12,410	15.851	28%	5.7
NARROW BODY	B-737-800	5,765	70	88	26%	11,399	14.720	29%	9.3
	B-737-700	6,370	14	9	-36%	1,986	1.266	-36%	8.1
	B737-900ER	6,045	10	10	0%	1,510	1.510	0%	2.5
	A320-200	6,150	33	33	0%	4,898	5.222	7%	8.1
	A321-200	5,950	41	43	5%	7,554	7.856	4%	4.6
	A319-100	6,850	14	14	0%	1,848	1.848	0%	6.8
	TOTAL		182	197	8%	29,195	32.422	11%	7.5
TOTAL PASSENGER AIRCRAFT			224	252	13%	41.605	48,273	16%	7.1
CARGO	A310F	7,300	3	3	0%				25.3
	A330F	7,400	6	6	0%				2.8
	TOTAL		9	9	0%				10.3
GRAND TOTAL			233*	261**	12%	41.605	48,273	16%	7.2

*35 wet lease passenger aircraft and 2 wet-lease cargo aircraft is included.

**26 wet lease passenger aircraft and 2 wet-lease cargo aircraft is included.

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9. DEVELOPMENTS WITHIN THE INCORPORATION**New Aircraft Lease and Purchase Decision of a Simulator**

On 05.03.2014, the Incorporation has decided to lease 2 A321-200 aircraft, one from PAFCO 2916, Inc. and the other from PAFCO 2919, Inc. for the duration of 6 years.

Besides, on 14.04.2014, our Incorporation has also decided to purchase one B777-300ER simulator to be delivered in 8 months after signing the relevant contracts.

On 09.06.2014, Our Incorporation has decided to convert the options for fifteen B737-8 MAX aircraft that have been purchased from Boeing to firm orders to be delivered in 2020.

On 23.12.2014, Our Incorporation has decided to exercise the options for eight A321-200 NEO aircraft that have been purchased from Airbus to be delivered in 2019 and to convert four firm orders of A320-200 NEO aircraft that were to be delivered in 2016, to four A321-200 NEO aircraft to be delivered in 2021.

Added New Destinations to Turkish Airlines' Network

Turkish Airlines continued its success in flying to the most destinations in the world with the addition of Rotterdam in The Netherlands, Astrakhan and Stavropol in Russia, Oran, Constantine, Tlemcen and Batna in Algeria, Catania and Pisa in Italy, Boston in the USA, Varna in Bulgaria, Montreal in Canada, Munster in Germany, Cotonou in Benin, Asmara in Eritrea, Kherson in Ukraine and in domestic routes Gazipaşa-Antalya to its' network.

Groundbreaking for Istanbul's 3rd Airport

A groundbreaking ceremony for Istanbul's third airport has been held on 06.06.2014. Composing of 4 phases, the airport once completed, will have 6 runways, 4 terminals and a 150 million passengers capacity.

The first phase, having 3 runways and 2 terminals is expected to be completed by 2018, serving 90 million passengers capacity.

2014 Skytrax Awards Were Announced

Turkish Airlines has been announced the Best Airline in Europe in 2014, the fourth year running, by Skytrax Passengers Choice Awards. Turkish Airlines has also been chosen the "Best Business Class Onboard Catering", "Best Business Class Lounge Dining", "Best Airline in Southern Europe" in 2014 Skytrax World Airline Awards.

Establishment of a Joint Venture Company

The Incorporation has been established a joint venture company on 01.09.2014, Vergi İade Aracılık A.Ş., that will carry out brokerage operations of value added tax return regarding the goods bought in Turkey by non-residents.

Lounge İstanbul Sabiha Gökçen Opens

Turkish Airlines' new premier passenger lounge, Lounge İstanbul Sabiha Gökçen, has opened for service for the international flights as of 09.10.2014 and for the domestic flights as of 24.12.2014. Operated by Turkish Airlines' successful subsidiary Turkish DO&CO, the lounge, standing out for its traditional design, is offering a joyful experience to Turkish Airlines' passengers.

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A New Shopping Site ‘Shop&Miles’ is now open

“Shop&Miles”, an alternative way of using miles accumulated in the mileage reward program, has been available as of 11 November 2014. The new option, will allow program members to purchase items either with miles or cash or by using a combination of miles and cash.

Members now have the opportunity to spend their miles for goods displayed on the site as an alternative to the traditional use for travel and transportation. As an added bonus, by using the Shop&Miles site, members will accrue additional miles for cash spent when purchasing from the collection.

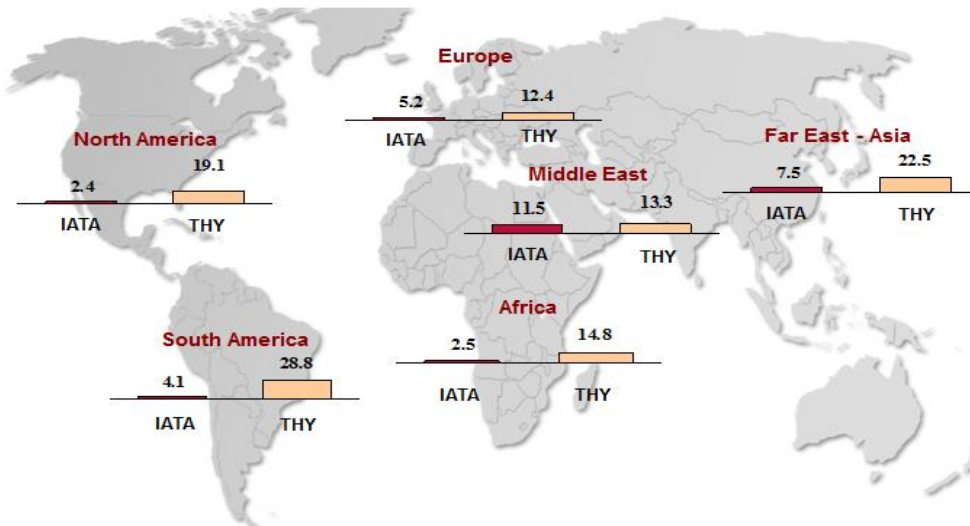
New Mission Brand; “WE’R From Turkey” has been introduced

“WE’R”; comprising of 13 categories representing local culture and traditions and 24 products including olive oil, jam, marmalade, tea, coffee, molasses, tahini, pomegranate syrup, sugar candy, Turkish delight, honey, soap, groundnuts and dried fruits, is targeting to introduce Anatolian culture and traditions to the world. The main target customer is foreign passengers followed by Turkish clients and Turkish media. The products will be sold at duty free shops, which provide easy access and tax-free products to passengers, and also at upscale tourist locations. In the second phase, they will also be sold outside of Turkey.

10. DEVELOPMENTS WITHIN THE SECTOR

In global air travel industry, passenger capacity grew by 5.6% and passenger traffic grew by 5.9% in 2014 compared to 2013. While international passenger traffic grew by 6.4% due to effect of developing regions, domestic passenger traffic grew by 4.3%. Cargo capacity and cargo traffic grew by 3.7% and 4.5%, respectively.

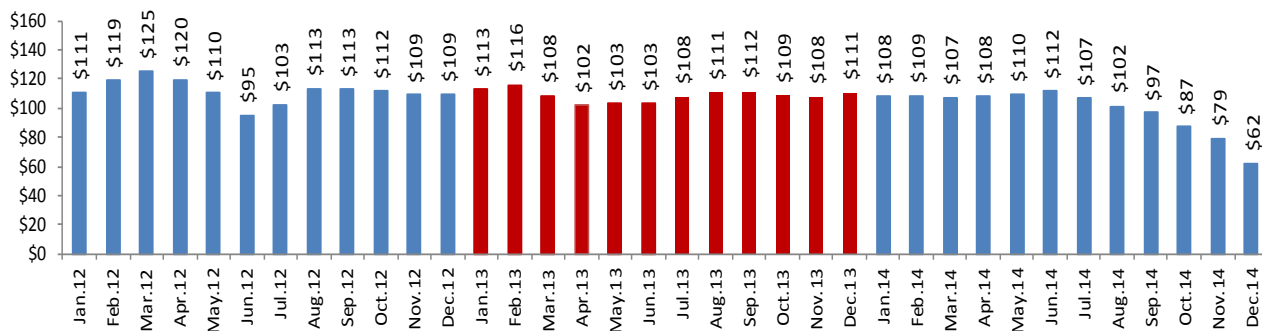
Rate of Capacity Changes (%)



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During January-December 2014, the highest growth is in Middle East and load factors are high as previous years according to Air Passenger Market Analysis of IATA. The incorporation continues to achieve higher capacity growth than the industry in all regions.

Oil Price per Barrel (Montly Average)



The table below sets out the fuel price analysis of the Incorporation.

FUEL PRICE ANALYSIS	2012	2013	2014
Fuel Expenses (Million USD)	2,886	3,441	3,844
Fuel Consumption (Tons)	2,688,232	3,260,373	3,801,388
Average Unit Price (USD/Tons)	1,074	1,055	1,011
Average Change of Unit Price (%)	2%	(2%)	(4%)
Fuel Expense Rate in Operational Expenses (%)	38%	37%	37%

11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES

Within the scope of “2009-2013 Fleet Projection” and “2012-2020 Fleet Plans”, confirmed by Board, number of aircraft and delivery years are stated on the following table.

By the end of 2014, the number of wide body aircraft has reached 55 and number of wide body aircraft rate within the fleet is approximately 21%. Due to effect of stage length and seat capacity, contribution of wide body aircraft to the production will exceed 40%.

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		2011-2021 Aircraft Purchases												
		Delivered					To Be Delivered							
	Type	2011	2012	2013	2014	TOTAL	2015	2016	2017	2018	2019	2020	2021	TOTAL
Wide Body	A330-300	3	3	2	6	14	7	5						12
	B777-3ER	7			4	11	7	6	3					16
	Total	10	3	2	10	25	14	11	3					28
Narrow Body	B737-900ER	2	7	1		10	5							5
	B737-9 MAX					0				5	5			10
	B737-800	2	2	6	10	20		20						20
	B737-8 MAX**					0				20	10	25	10	65
	A321	8	7	9		24	13	10	2					25
	A321 NEO***					0			4	27	25	32	4	92
	A319	6				6								0
	Total	18	16	16	10	60	18	30	6	47	40	62	14	217
Cargo	A330-200F	1	1	2		4								
	Total	1	1	2		4								
GRAND TOTAL		29	20	20	20	89	32	41	9	47	40	62	14	245

* Including 10 optional aircraft in 2021

** Including 7 optional aircraft in 2018 and 20 in 2020

HABOM Investment

HABOM Project is consisting of 380.000 m² closed area and aircraft maintenance hangar which has the capacity of 11 Narrow-Body and 3 Wide-body aircraft in 47.000 m² hangar area. The planned investment of this aircraft and component maintenance hangar is approximately 550 million USD. The Narrow Body aircraft maintenance hangar started operations at the 4th quarter of 2013 and the wide body hangar started operations within the 4th quarter of 2014. By the investment of HABOM Project, aiming to be the significant base of aircraft maintenance repair and overhaul center in the region.

Decree on State Aids for Investments

The incorporation had completed 13,245,403,524 TRY in total value of aircraft investments since 31.05.2010 in scope of the Investment Incentive Certificate obtained within the framework of "Decree on State Aids for Investments" put to force by the Cabinet on 14.07.2009. According to the incentive certificate, a 50% discounted corporate tax (i.e. 10% tax rate) will be applied to the income generated by the related aircraft until the total amount of contributions invested of 2,649,080,704 TRY (20% of total investment) is reached. In this context, 16,587,441 TRY tax advantage has been attained in 2012.

The incorporation has decided to terminate the aforementioned certificate and apply for a new certificate for the 32,049,048,095 TRY total values of aircraft investments that is planned to be made as of 01.12.2014 within the framework of "Cabinet Decree on State Aids for Investments" put to force on 15.06.2012. According to this new certificate, a 50% discounted corporate tax (i.e. 10% tax rate) will be applied to the income generated by the related aircraft, until this amount reaches 15% of total investment.

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12. FINANCING AND FINANCIAL RISK MANAGEMENT

Financing Sources

Internationally recognized financing methods are implemented for the aircraft purchased pursuant to the Aircraft Purchase Agreements signed with Boeing and Airbus that will be delivered in the coming year. The different types of financing offers received from national and international banks, leasing companies as well as other financial institutions are evaluated economically and technically to be finalized two months prior the delivery date of the first aircraft in the coming year in order to complete the financing process in a timely manner.

The aircraft currently present in THY fleet had been financed via different types of finance leases including Japanese Tax Lease with Call Option, European Export Credit Agency or US Ex-Im Bank Guaranteed Finance Lease, ECA Guaranteed Italian Tax Lease, ECA Guaranteed Japanese Tax Lease with Call Option, French Tax Leveraged Financial Lease, Operating Lease and Commercial Loan.

Turkish Airlines is trying to diversify its financing sources in order to decrease its exposure to the credit markets. After the changes in Basel III laws and the new ASU published in 2012, THY, who used to finance the new aircraft via European ECA / US Ex-Im Bank guaranteed loan or commercial loans, started to explore and evaluate other long-term financing product opportunities in the capital markets.

Financial Risk Management

Within the framework of its financial risk Management policies, the Company has defined the following elements of risk as fundamental to the health of its future cash flows and liquidity:

- The possibility of the Company being prevented from achieving its business objectives by changes taking place in its short, medium and long-term cash position, and in its portfolio investments.
- The financial impact of changes in Aviation fuel and carbon emission certificate prices.
- The financial impact of changes in the market value of aircraft financing, of FX-denominated debt, and on cash owing to interest rates movements.
- The possibility that earnings and expenditures may be mismatched owing to differences in the exchange rate of one currency against another.
- The potential for losses in the event that a domestic or foreign financial institution or its counterparties, default on deposit, derivative or other transactions.

To manage such risks, priority is given to making use of natural hedging methods. In situations where this approach proves insufficient or impractical, recourse is made to financial risk hedging in derivative markets through the employment of strategies developed to protect the Company against potential risks arising from possible movements in commodity prices and/or in currency, exchange and interest rates. The effectiveness of existing strategies developed to hedge against such financial risks is constantly monitored by the Turkish Airlines Treasury and Risk Management Commission, such that alterations and improvements may be effected to account for changes in market conditions.

1. Cash Flow Risk Management

Cash flow risk is defined as the potential for medium and long term movements (incoming and outgoing) in the Company's Portfolio investments and/or cash positions to prevent the Company from achieving its business objectives. Financial transactions in the Aviation industry tend to be of a much longer term nature than in many

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other lines of business. Consequently, having a sound cash Management policy is one of the Company's prime issues of concern.

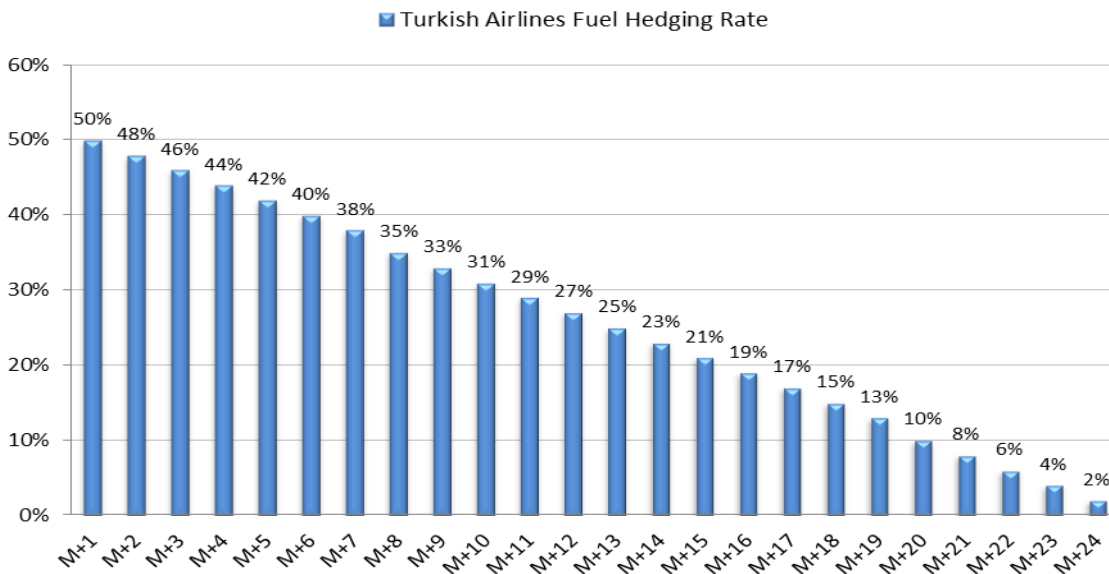
To enable the Company to most effectively manage its medium and long-term liquidity and financial risks, EUR, USD, and TL cash flow projections are made and updated monthly. For these projections, the Company's exchange rate and fuel price forecasts for the period ahead are reconsidered and revised monthly so as to ensure that the information on which projections are based is both current and reliable. The results of cash flow projections are presented to the Turkish Airlines Treasury and Risk Management Commission, thereby providing it with essential information on which to base the Company's investment and financing decisions. Each month's actual performance figures are also compared and contrasted with the projections, and the results of these studies analyzed. By this way, the possibility of the cash amount to go below the threshold level determined for short and medium-term is observed continuously and any needed precautions are taken for any possible liquidity risk.

2. Commodity Risk Management

(a) Fuel Price Risk Management

The Company makes use of swap and option-based derivative instruments to mitigate the impact of fuel price movements on its Aviation fuel costs, and to ensure that such costs are determined by fixing at one price or at least kept within predetermined limits where they cannot actually be anchored. In order to shield both its profitability and cash flows against volatility that may arise from fuel market movements, changes and potential future prices of past crude oil and jet fuel, as well as price correlations and their own price volatilities are taken into consideration for analytical purposes. Turkish Airlines, with contractual amounts corresponding to around 50% of its annualized jet fuel consumption figures as projected for the next twenty four months, and using various instruments for determined price ranges, through two barriers swaps (limited from up) written on crude oil and band derivative instruments with two, three or four barriers without cost band are used to gradually prevent financial risks. When market prices exceed pre-determined levels and there is an expectation that these price levels will not be in force for long, related transactions are put hold by the Company.

RISK PREVENTION METHODOLOGY IMPLEMENTATION PLAN



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Turkish Airlines closely monitors the recent developments in the global economy and structural changes in fuel prices and market dynamics. By evaluating the developments in fuel market and taking strategies implemented in aviation industry into account; a risk prevention methodology for fuel is determined. Accordingly several studies for any necessary updates in the future are continued.

(b) Carbon Emissions Risk Management

Effective as of 1 January 2012, the Aviation industry was included within the scope of the European Union Emission Trading Scheme (EU ETS). As a result of this inclusion, Turkish Airlines (like all other airlines flying in or out of European airports) is required to comply with EU ETS regulations.

Under this emission trading scheme, airlines must buy Carbon Credits in the market in situations where they exceed the maximum carbon emission limit prescribed by the authorities to which they are responsible. According to this, Turkish Airlines has developed hedging strategies to protect itself against financial risks that might arise from its having to purchase such credits. The plan is to make use of derivative instruments as a means of mitigating this risk.

Within this scope, and as one that executes EUA, EUAA, ERU and CER forward transactions, the Company has obtained certificates to be used within certain periods in 2012 and following years. The company expects that 2015 requirement of Carbon Credits will be close to 2014.

3. Interest Rate Risk Management

Under the heading of interest rate risk Management activities, the Company keeps regular track of possible changes in its costs arising from interest rate movements by monitoring and analyzing the interest rate markets, managing its debt structure, and determining its sensitivity to interest rate movements based on analyses of the weighted average terms of its debt exposure. In order to better manage interest rate risk, the Company engages in hedging with the aim of locking the interest rates on part of its debt portfolio for the credit period where possible, or at least of ensuring that interest rates remain within a predetermined band where not.

At the same time, the Company manages the interest rate risk arising as a result of the yield-focused assessments of its cash holdings in order to optimize the relationship between maturity and return. Priority is given to cash flow planning.

4. Exchange Rate Risk Management

Exchange rate risk is defined as the potential for changes taking place in the Company's cash flows and revenues on account of movements in exchange rates. The Company secures a substantial volume of its earnings in Euros, but also incurs significant expenditure in US dollars and Turkish liras. Such a revenue and expenditure structure exposes the Company to serious risk arising from relative movements in these currencies' exchange rates, which have been quite volatile of late, and are likely to remain so going forward.

Turkish Airlines' exchange rate risk management activities focus on reducing the impact of exchange rate volatility by ensuring that the relative currency mixes of its revenue and expenses items are reasonably proximate. To this end, the particular currency (or currency mix) on the basis of which a contract is to be signed is determined in such a way as to balance the Company's revenue and expenses streams and avoid the emergence of situations that are disadvantageous to it. Natural hedging is the primary method of recourse in managing the Company's exchange rate risk exposure.

On the other hand, the composition of revenue and expenses from a variety of currencies, natural risk prevention methods are implemented. Even so our Company is on long position in Euro and on short position in

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USD and TRY. Financial risks stemming from adverse movement in exchange rates are minimized by implementation of derivative transactions. In this context, cash flow of our Company is monthly updated. In prospective cash flow projections, monthly estimated positions of EUR, USD and TRY are calculated. Following for the next 24 months, monthly EUR sales at a constant and fixed rate and USD and TRY buy is carried out for risk prevention through forward rate agreements. With the help of these transactions in USD a risk prevention changing from 25% to 35% and in TRY by 30% against the following month's short position and prevention at a lesser amount for the coming months are expected.

5. Counterparty Risk Management

In order to limit the impact of the ongoing global economic crisis on Turkish Airlines, the nature of whose business requires it to interact with many domestic and international financial institutions across a broad range of commercial spheres, a variety of measures are taken to deal with its exposure to the risk of default by one or more of the counterparties with which it has dealings. Accordingly, the Company adheres to an approach that involves abiding by equally applicable, objective criteria for each counterparties with which there is a deposit or derivative relationship. The underlying aim is to reduce counterparty risk on a long-term basis. The Company enters into agreements with financial institutions to cover the risks arising from derivative contracts.

When entering into deposit and derivative agreements, attention is given to the credit risk ratings assigned to financial institutions by international rating agencies. Wherever possible, the Company avoids dealing with any financial institution whose rating is below a predetermined threshold. In the case of those financial institutions that surpass the threshold, the Company assigns limits based on risk levels determined according to a specified credit risk assessment methodology, and works with them on that basis. The credit ratings of financial institutions with which the Company has dealings, and their assigned limits, are also reviewed periodically. Should it be ascertained that a financial institution's credit rating has deteriorated; transactions with the related organization are closely scrutinized. And should the credit rating fall below specified limits, the Company keeps a much closer watch on its dealings with that concern, and may even unilaterally sever its relationships if need be.

To manage the credit risk to which it may be exposed through the use of derivative instruments, the Company enters into framework agreements with domestic financial institutions, into ISDA (International Swaps and Derivatives Association) agreements with foreign financial institutions, and into other agreements and conventions as may be deemed necessary. Issues specifically related to credit risk management are governed by a separate CSA (credit support annex) agreement. Based on such agreements, credit risk is reduced through offsets that take place at regular intervals.

13. PROJECTIONS ABOUT THE COMPANY

The Company has decided to start operating scheduled flights, based on aircraft availability, to the cities Bari of Italy, Porto of Portugal, Taipei of Taiwan and Maputo of Republic of Mozambique.

The Company, flies more countries than any other airline in the World, aims to be among the leading Airlines in the World by providing wide-body fleet investments, capacity increases mainly in long-range flights and new routes. The Company maintains its steady growth with increased number of transfer passengers. In addition, it has been aimed that the improvement of service quality will increase passenger revenue of Business Class and Comfort Class and expansion of Cargo operations will increase unit revenue of the Company.

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14. DIVIDEND POLICY

The profit distribution policy of the Incorporation in 2007 and in the forthcoming years has been set, by taking the strategic targets, growth trend, financial needs and the expectations of the shareholders of the Incorporation into consideration and under the provisions of the Turkish Commercial Code, Capital Markets Law, other related legislation and its Articles of Association, and the Incorporation will basically distribute profit at the minimum ratio determined by the Capital Markets Board by means of cash and/or bonus shares and upon taking of the potential of the Incorporation to be able to distribute profit, it is always possible for the Board of Directors to resolve for distributing profit above the minimum ratio and submit it to the approval of the General Assembly and the profit share distribution shall be carried out within their legal terms.

15. DONATION POLICY

The Donation Policy of the Incorporation has been approved at Ordinary General Assembly that took place on 07.05.2012 and is as follows:

Turkish Airlines, in compliance with its social responsibility, could make donation or provide relief by virtue of the Board of Directors approval, within the scope of the principles indicated by the Capital Markets Board and under the Turkish Commercial Code. In selection of the donation type and amount of the donation, Turkish Airlines corporate social responsibility policies will be the guidance. The details of the donations made are submitted to the shareholders during the Ordinary General Assembly of the respective year.

At the General Assembly that took place on 27.03.2014, it was decided for the donations to be made in 2014 not to exceed the upper limit to be determined by the CMB in accordance with the Article 19 of the CMB by majority votes of the attendees.

16. CORPORATE GOVERNANCE POLICY

Embracing the principles of transparency, justice, responsibility and accountability, as well as perfectly publicizing and representing Turkey and Turkish Aviation Sector in the international platform, Corporate Governance Principles Compliance Report is published on <http://www.turkishairlines.com/tr-tr/kurumsal/yatirimci-iliskileri/kurumsal-yonetim>

Financial Benefits Provided to the Board of Directors

Gross yearly salary of Board of Directors is 200,000 TRY while gross yearly salary of CEO and Senior Management is 495,000 TRY. During January-December 2014, total financial benefit, including salary and bonus, to Board of Directors, CEO and Senior Management is 9,547,290 TRY.

The Statements of Independency of Independent Board Members

The statements of independence issued by the independent members of the Board of Directors are being sent to Public Disclosure Platform as an attachment to this report.

17. OTHER ISSUES

The investigation of the Competition Board about Turkish Airlines was completed. As a result of the investigation, the Board decided that a violation by Turkish Airlines by abusing its dominant position via discriminatory practices against the competitor regarding domestic and international lines from Istanbul could

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not be detected. Consequently, it was concluded that Turkish Airlines would not be imposed administrative fines.

There is no other case significantly affect the financial status and activities of the Company. The Company and Board of Directors have not received any administrative or judicial sanctions because of practices that contrary to regulations.

The duties and working principles of the Early Identification of Risks Committee, which must be determined and publicly disclosed within the scope of Corporate Governance Principles Article 4.5.2 of the Communiqué Serial II. No.17.1 of the Capital Markets Board has been approved by The Board of Directors.

Upon the approval of the Capital Markets Board of Turkey, The Board of Directors has decided to appoint Mr. İlker Aycı and Ms. Arzu Akalın as Independent Board Members until the next General Assembly, in order to replace open positions from prior resignations. Additionally, our Board Member Prof. Dr. Mecit Eş was appointed as Deputy Chairman of the Board and the Executive Committee.

Independent Board Member, Ms. Arzu Akalın has been appointed for the open position of the Chairman of the Corporate Governance Committee, due to the resignation of Mr. Mehmet Nuri Yazıcı's on 28.03.2014. Investor Relations Manager, Ms. Duygu İnceöz has been appointed as the Member of the Corporate Governance Committee, within the scope of Article 11-2 of the Communiqué Serial II. No.17.1 on Corporate Governance Principles of the Capital Markets Board.

Pursuant to the Communiqué Serial II. No.17.1 on Corporate Governance Principles of the Capital Markets Board, the title of the Financial Audit Committee has been changed to Audit Committee and Independent Board Member Mr. M. İlker Aycı has been appointed for the open position of Member of Audit Committee, due to the appointment of Prof. Dr. Mecit Eş as Deputy Chairman of the Board and the Executive Committee.

Pursuant to the Communiqué Serial II. No.17.1 on Corporate Governance Principles of the Capital Markets Board, it has been decided to establish Early Identification of Risks Committee and Independent Board Member Mr. M. İlker Aycı has been appointed as the Chairman and Board Member Mr. Naci Ağbal as the Member of Early Identification of Risks Committee.

Mr. Naci Ağbal, Member of the Board of Directors has resigned from his position as of February 10, 2015. Member of Boards and Committees will be reassigned during the General Assembly on 6 April 2015.

The Company has no research and development activities.

There are no other matters not included in the financial statements but will be useful for users.

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18. FINANCIAL SITUATION

SUMMARY OF BALANCE SHEET (TRY)

	31 December 2014	31 December 2013
<u>ASSETS</u>		
Current Assets	6,564,848,184	4,535,535,069
Non-Current Assets	25,310,758,878	20,866,542,749
Total Assets	31,875,607,062	25,402,077,818
<u>LIABILITIES</u>		
Total Current Liabilities	8,505,344,748	6,652,755,831
Non- Current Liabilities	14,215,859,184	11,786,831,631
Equity	9,154,403,130	6,962,490,356
Total Liabilities and Equity	31,875,607,062	25,402,077,818
Debt to Assets Ratio	0.71	0.73
Equity Ratio	0.29	0.27

SUMMARY OF INCOME STATEMENT (TRY)

	1 January – 31 December 2014	1 January – 31 December 2013
Sales Revenue	24,157,801,405	18,776,784,325
Gross Profit	4,345,177,034	3,472,128,908
Operating Profit From Main Operations	1,358,557,900	1,226,125,748
Operating Income Profit Before Financial Income/Expense	1,678,018,672	1,478,504,922
Profit Before Tax	2,261,146,803	965,244,255
Profit for the Year	1,819,259,536	682,707,427
Earnings Per Share (Kr)	1.32	0.49
EBITDAR	4,429,869,580	3,507,347,526
EBITDA	3,270,719,756	2,669,412,454
EBIT	1,644,306,296	1,428,885,295
EBITDAR Margin	18.3%	18.7%
EBITDA Margin	13.5%	14.2%
EBIT Margin	6.8%	7.6%
Operating Profit Margin	5.6%	6.5%
Net Profit Margin	7.5%	3.6%

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SUMMARY OF BALANCE SHEET (USD Million)

	31 December 2014	31 December 2013
<u>ASSETS</u>		
Current Assets	2,831	2,125
Non-Current Assets	10,915	9,777
Total Assets	13,746	11,902
<u>LIABILITIES</u>		
Total Current Liabilities	3,667	3,117
Non- Current Liabilities	6,129	5,523
Equity	3,950	3,262
Total Liabilities and Equity	13,746	11,902
Debt to Assets Ratio	0.71	0.73
Equity Ratio	0.29	0.27

SUMMARY OF INCOME STATEMENT (USD Million)

	1 January – 31 December 2014	1 January – 31 December 2013
Sales Revenue	11,070	9,826
Gross Profit	2,002	1,823
Operating Profit From Main Operations	638	651
Operating Income Profit Before Financial Income/Expense	785	781
Profit Before Tax	1,046	502
Profit for the Year	845	357
Earning Per Share (Usc)	0.61	0.26
EBITDAR	2,044	1,843
EBITDA	1,514	1,405
EBIT	770	755
EBITDAR Margin	18.5%	18.8%
EBITDA Margin	13.7%	14.3%
EBIT Margin	7.0%	7.7%
Operating Profit Margin	5.8%	6.6%
Net Profit Margin	7.6%	3.6%

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.17.1 PRINCIPLES**

DISCLAIMER

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