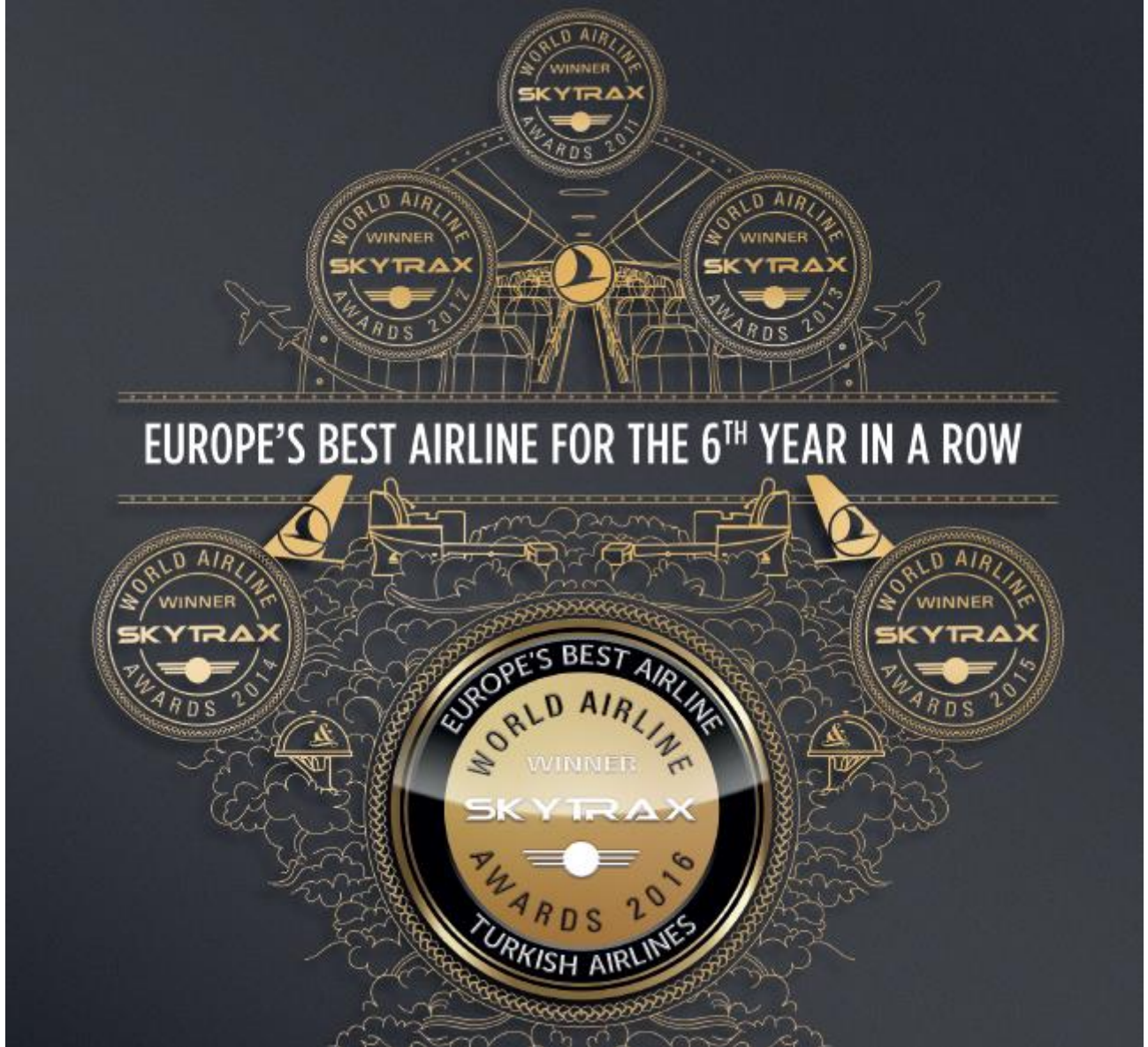


BOARD ACTIVITY REPORT
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.17.1 PRINCIPLES



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01 JANUARY – 30 JUNE 2016

BOARD ACTIVITY REPORT

**BOARD ACTIVITY REPORT
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.17.1 PRINCIPLES**

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INDUSTRY DEVELOPMENTS

The unstable geopolitical environment occurred in the south eastern side of Turkey, the terrorist incidents started to happen in 2015 and continuing in the first half of 2016 and increasing security issues had a negative effect on passenger traffic in Europe and Turkey. Turkish Airlines has compensated the decrease in direct traffic with transfer traffic with the help of its wide network and secondary city penetration skills.

Along with 15% increase in capacity during, negative situations caused a decrease in load factor and an increase in pressure over yields.

During the year 2015, decrease in fuel prices, the biggest cost item of airlines, has also continued in 2016. That circumstance led the capacity increase and competition in the sector to maintain. Despite the negative events in Middle East and Europe, during the period of January-June 2016 the global traffic has increased by 6%.

<u>Aviation Industry Revenue/Expense</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015(*)</u>	<u>2016(*)</u>
REVENUES (\$ billion)	642	706	720	751	718	709
Passenger Revenue	512	531	539	539	518	511
Cargo Revenue	67	64	61	63	53	50
Traffic						
Passenger Km Growth (RPK) %	6,3	5,3	5,2	5,7	7,4	6,2
Cargo Km Growth (FTK) %	0,4	-0,9	0,6	5,0	2,3	2,1
OPERATIONAL EXPENSES (\$ billion)	623	687	695	716	659	647
Fuel	191	228	230	226	181	127
% of expenses	31	33	33	32	28	20
Non-fuel expenses	431	460	465	490	478	519
OPERATING PROFIT (\$ billion)	19,8	18,4	25,3	35,1	59,5	62,2
% margin	3,1	2,6	3,5	4,7	8,3	8,8
NET PROFIT(\$ billion)	8,3	9,2	10,7	13,7	35,3	39,4
% margin	1,3	1,3	1,5	1,8	4,9	5,6

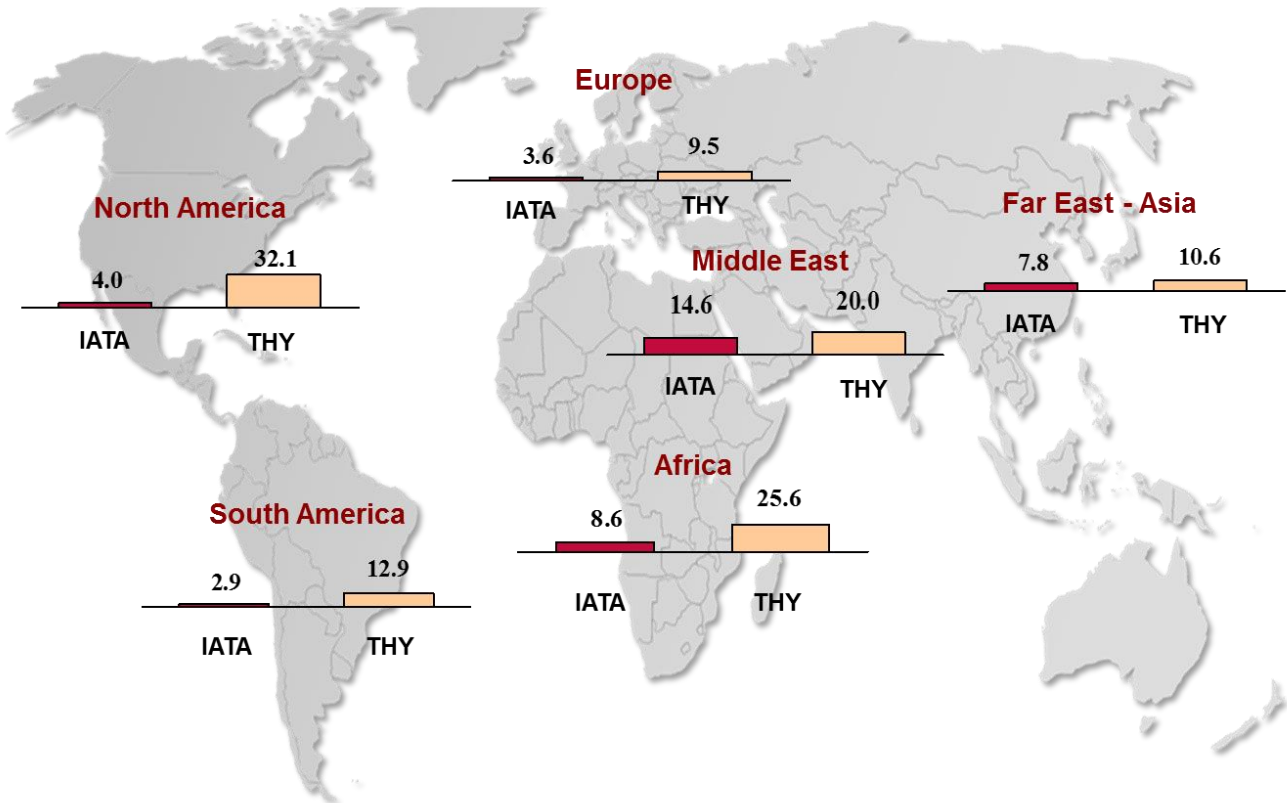
(*) Annual forecast published by IATA

Source: IATA Airline Industry Economic Performance, June 2016

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Within the global aviation industry, passenger capacity grew by 6.2% and passenger traffic grew by 6.0% in 1H'2016. While international passenger traffic grew by 6.2% driven by the growth of developing regions, domestic passenger traffic grew by 5.6%. Despite cargo capacity grew by 6.0%, cargo traffic decreased by 0.5%.

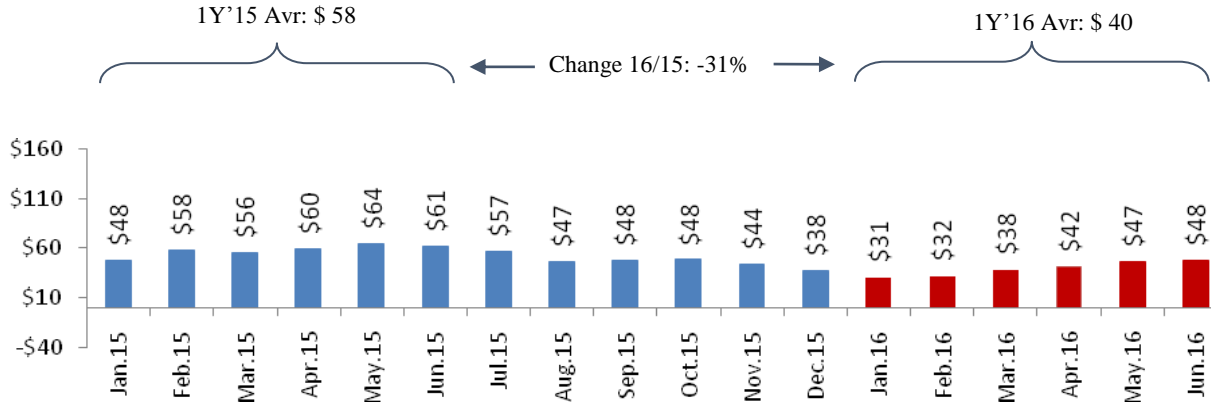
Regional Capacity Changes (%)



During 1H'2016, the highest capacity growth was realized in Middle East (+14.6%), followed by emerging markets, Africa and Far East. Turkish Airlines' growth rate was above the industry average in all regions. (According to Air Passenger Market Analysis of IATA, June 2016).

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Oil Price per Barrel (Montly Average)



Source: U.S. Energy Information Administration

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

FUEL PRICE ANALYSIS	2013	2014	2015	1H'15	1H'16
Fuel Expenses (Million \$)	3.442	3.806	2,997	1,476	1,276
Fuel Consumption (000 Tons)	3.247	3.801	4,272	2,000	2,268
Average Unit Cost (\$/Tons)	1.06	1.001	701	738	563
Average Change of Unit Cost (%)	-2%	-6%	-30%	-30%	-24%
Fuel Expense Rate in Operational Expenses (%)	37.0%	36.0%	30.0%	31.1%	24.9%

2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES

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

The Incorporation is registered in Istanbul, Turkey (Reg. No: 75184) and its head office address is Türk Hava Yolları A.O. Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL. Detailed info about the Incorporation can be reached via Investor Relations Website. (<http://investor.turkishairlines.com/en>)

As of 30 June 2016, the shareholders and their respective shareholdings in the Incorporation are as follows:

	<u>30 June 2016</u>
Republic of Turkey Prime Ministry Privatization Administration	% 49.12
Other (publicly held)	<u>% 50.88</u>
Total	% 100.00

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The authorized capital of the Incorporation is 5,000,000,000 (five billion) Turkish Lira, while the issued share capital is 1,380,000,000 (one billion three hundred and eighty million) Turkish Lira divided into 138,000,000,000 (one hundred thirty eight billion) shares, each with the nominal value of 1 Kuruş (one kuruş) and is completely paid.

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

Group C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and privileges granted to Group C share are defined in the Articles of Association of the Incorporation.

The table below sets out the consolidated subsidiaries and participation rate of the Group in these as of 30 June 2016:

<u>Name of the Company</u>	<u>Principal Activity</u>
THY Teknik A.Ş. (Turkish Technic)	Aircraft Maintenance Service
THY Aydın Çıldır Havalimanı İşletme A.Ş.	Training & Airport Operations

THY Teknik A.Ş. (Turkish Technic)

Established in 23 May 2006, the Company is a wholly-owned subsidiary of Turkish Airlines. 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. Until 2013, Turkish Technic operated out of four hangars in Istanbul and Ankara. In June 2015, Turkish Technic merged with Turkish HABOM, which was also a fully owned subsidiary of Turkish Airlines and which has a total MRO capacity to provide simultaneous maintenance, repair and overhaul services for 30 narrow body aircraft and 10 wide body aircraft. As of March 2016, Turkish Technic has 6,084 employees.

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. The airport is used as a base for Turkish Airlines Flight Academy and since the first half of 2013 provides flight training for Turkish Airlines Pilot Nominees. As of 31 March 2016, Company has 15 employees.

The Group has ten joint ventures. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

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The table below sets out consolidated joint ventures and indicates the proportion of ownership interest of the Incorporation in these joint ventures as of 30 June 2016:

<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>
Sun Express Turkey	Aircraft Transportation	50%	-	Turkey
Turkish DO&CO	Catering Services	50%	-	Turkey
Turkish Ground Services	Ground Services	50%	-	Turkey
Turkish Opet Aviation Fuels	Aviation Fuel	50%	-	Turkey
Aircraft Seat Manufacturing Industry & Trade, Inc.	Cabin Interior	45%	5%	Turkey
Turkish Cabin Interior Systems Industries, Inc.	Cabin Interior	30%	20%	Turkey
Pratt Whitney THY Turkish Engine Center (TEC)	Maintenance	-	49%	Turkey
Goodrich Turkish Airlines Technical Service Center	Maintenance	-	40%	Turkey
Turkbine Technical Gas Turbines Maintenance & Repair, Inc.	Maintenance	-	50%	Turkey
Tax Free Zone, Inc. (Tax Refund)	VAT Return and Consultancy	30%	-	Turkey

Sun Express - Turkey

Founded in 1989, SunExpress is a joint venture of Turkish Airlines and Lufthansa, in which each holds a 50% stake. The Company has a fleet of 26 aircraft (for AnadoluJet operations of THY) and serves its customers in both charter and scheduled business with 3,862 employees as of 30 June 2016. SunExpress flies to 23 domestic and 64 international destinations, which brings the total number to 87 destinations. In 2011, SunExpress Germany was founded as a joint venture of Stiftung and SunExpress, in which each holds %50-50 stake. As of 30 June 2016, SunExpress Germany conducts operations to 12 domestic and 28 international destinations with its 12 Boeing 737-800 passenger aircraft.

Turkish DO&CO

Founded in September 2006, commencing operations in 2007, Turkish DO&CO is a joint venture of Turkish Airlines and DO&CO Restaurants & Catering AG (Austria based), in which each holds a 50% stake. The Company provides inflight catering services to Turkish Airlines and other domestic and international airlines. As of 30 June 2016, 5,348 employees are working for the Company.

**BOARD ACTIVITY REPORT
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.17.1 PRINCIPLES****Turkish Ground Services**

The Company was established on 26 August 2008 as a wholly-owned subsidiary of Turkish Airlines, in order to provide ground-handling services. By signing the articles of association in the framework of the Board Decision dated on 19.12.2008, 50% of shares was transferred to HAVAŞ Havaalanları Yer Hizmetleri A.Ş. On 1 January 2010, the Company began to provide services to Turkish Airlines. The Company provides ground services for Turkish Airlines in 8 airports in Turkey. TGS is employing 10,354 personnel as of 30 June 2016.

Turkish Opet Aviation Fuels

Turkish Opet Aviation Fuels, established in 2009, engages in the domestic and international sale, importation, exportation, distribution, and transport of various petroleum products, chemicals, lubricants, and paints for all kinds of aircraft. The Company commenced operations on 1 July 2010. 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. As of 30 June 2016, the Incorporation has 433 employees.

Aircraft Seat Manufacturing Industry & Trade, Inc.

Founded in 2011, 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. Stakes of 50%, 45%, 5% are respectively held by Assan Hanil Group, Turkish Airlines, and Turkish Tecnic. As of 30 June 2016, 65 employees are working for the company.

Turkish Cabin Interior Systems Industries, Inc.

Established in December 2010, TCI's objective is to undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components. Stakes of 30%, 20% and 50% are held respectively by Turkish Airlines, Turkish Technic and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ – TAI). As of 30 June 2016, the Company has 144 employees.

Pratt Whitney THY Turkish Engine Center (TEC)

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 maintenance center with an area of around 25,000 m² at Istanbul Sabiha Gökçen International Airport, 296 employees as of 30 June 2016.

Goodrich Turkish Airlines Technical Service Center

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. Services for maintenance and repair of nacelles, thrust reversers, related parts and rotatable support is provided. As of 30 June 2016, the Company has 32 employees.

Turbine Technical Gas Turbines Maintenance & Repair, Inc.

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 30 June 2016, 10 employees are working for the Company.

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Tax Free Zone, Inc. (Tax Refund)

The Company is established on 1 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 30 June 2016, 19 employees are working for the company.

The Incorporation 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 Incorporation are carried out by SVP of Inspection Board, SVP of Quality Assurance and other relevant expertise and financial departments.

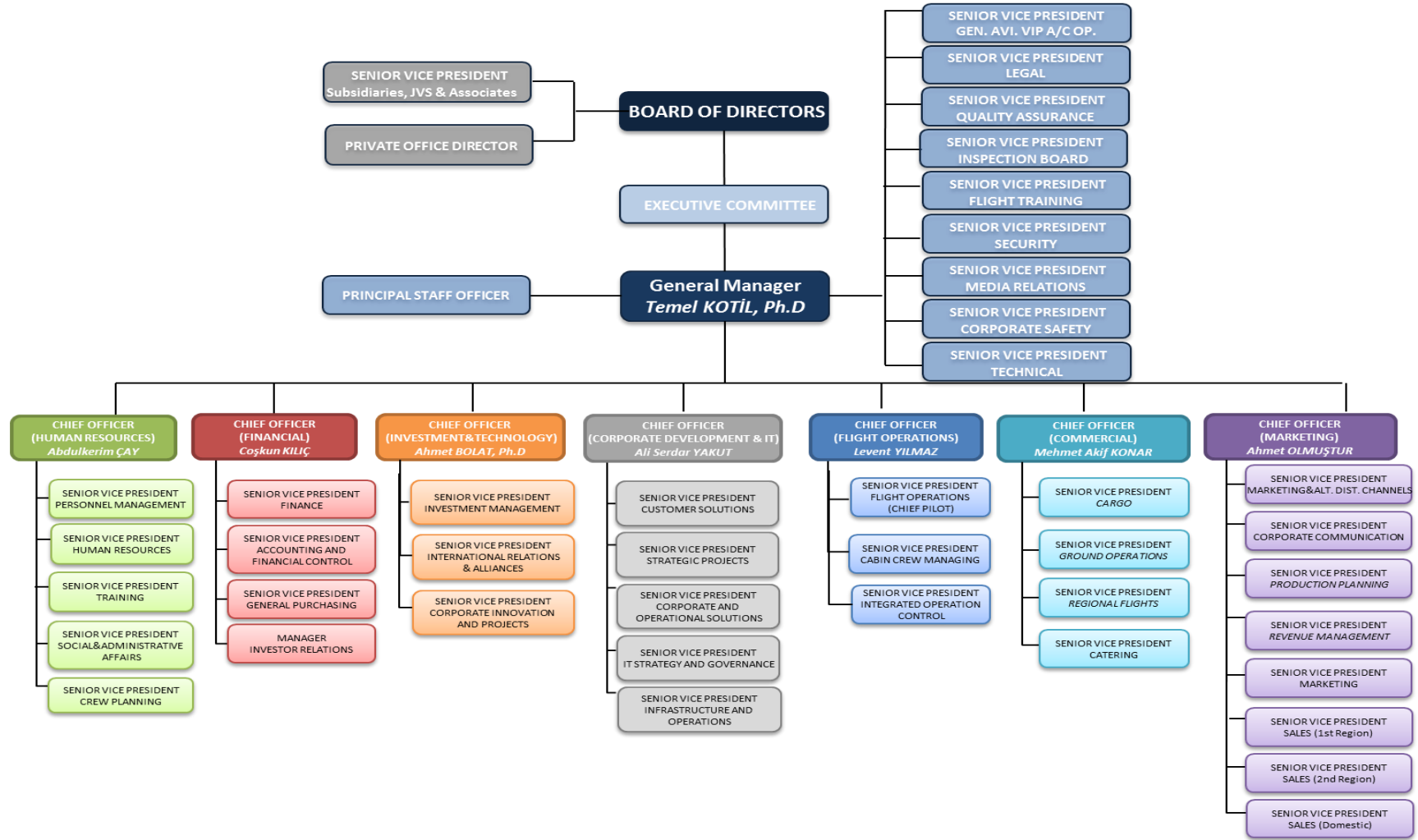
3. ORGANIZATIONAL STRUCTURE

The table below sets out Turkish Airlines' network on a country-city-airport basis as of 30 June 2016:

	COUNTRY	CITY	AIRPORT
DOMESTIC	1	49	51
INTERNATIONAL	115	241	242
Europe	43	109	110
Far East	22	35	35
Middel East	13	34	34
Africa	31	48	48
America	6	15	15
TOTAL	116	290	293

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 30 June 2016 is shown on the next page.

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**BOARD OPERATIONAL REPORT
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4. BOARD OF DIRECTORS AND COMMITTEES

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.

Members of the Board who were on duty as of 30 June 2016 are listed below:

M. İlker AYCI	: Chairman of the Board and the Executive Committee
Doç. Dr. Temel KOTİL	: Vice Chairman of the Board and the Executive Committee, General Manager
İsmail Cenk DİLBEROĞLU	: Member of the Board and the Executive Committee
İsmail GERÇEK	: Member of the Board
Prof. Dr. Mecit EŞ	: Member of the Board
Mehmet BÜYÜKEKŞİ	: Member of the Board
Ogün ŞANLIER	: Independent Board Member
Arzu AKALIN	: Independent Board Member
M. Muzaffer AKPINAR	: Independent Board Member

Brief resumes of our Board of Directors are reachable via THY Investor Relations Website. (<http://investor.turkishairlines.com/en/governance/board-of-directors>)

COMMITTEES

Audit Committee

Chairman: M. Muzaffer Akpınar
Member: Ogün Şanlıer

Corporate Governance Committee

Chairman: Arzu Akalın
Member: Mehmet Büyükeksi, İsmail Gerçek, Duygu İnceöz (Yatırımcı İlişkileri Müdürü)

Early Identification of Risks Committee

Chairman: Ogün Şanlıer
Member: M. Muzaffer Akpınar

**BOARD OPERATIONAL REPORT
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5. SENIOR MANAGEMENT

Information about the Senior Management of the Incorporation are presented below (as of 30 June 2016):

Name	Title	Starting Date of Position	Profession
Coşkun Kılıç	Chief Financial Officer	08.03.2006	Economist, Certified Sworn Fiscal Advisor, Independent Auditor
Dr. Ahmet Bolat	Chief Investment and Technology Officer	23.01.2012	Industrial Engineer
Mehmet Akif Konar	Chief Commercial Officer	16.04.2013	Management Engineer
Ahmet Olmuştur	Chief Marketing Officer	30.04.2014	Business Management, Manager
Abdulkerim Çay	Chief Human Resources Officer	21.04.2015	Business Management, Manager
Ali Serdar Yakut	Chief Corporate Development and IT Officer	01.06.2015	Computer Engineer
Levent Yılmaz	Chief Flight Operations Officer	30.11.2015	Air Force Academy, Pilot

6. HUMAN RESOURCES

Number of personnel with 12% increase reached to 23,997 during the period of January-June 2016 from 21,083 for the period of January-June 2015. Personnel numbers according to classes in 2015 and 2016 are as follows:

	31.12.2015	30.06.2015	30.06.2016	Change(%)
Cockpit Personnel	4,374	4,235	4,454	5%
Cabin Personnel	8,676	8,296	9,790	18%
Aircraft Maintenance Tech.	234	227	243	7%
Staff Abroad	2,970	2,869	3,203	12%
Domestic Staff	5,776	5,456	6,307	16%
TOTAL	22,030	21,083	23,997	14%

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7. DEVELOPMENTS WITHIN THE INCORPORATION

Regular General Assembly Meeting of our Incorporation

The Regular General Assembly Meeting was held on April 4, 2016. All documents regarding the Meeting are accessible via the Incorporation's Investor Relations Web Site.

(<http://investor.turkishairlines.com/en/governance/general-assembly/1/2016>)

Some of the Significant Resolutions taken at the Regular General Assembly Meeting are stated below:

Dividend Policy Revision

Our Board of Directors proposal regarding the amendment of the Dividend Policy has been approved by the General Assembly. The related document is accessible via the Incorporation's Investor Relations Web Site.

Remuneration Policy Revision

Our Board of Directors proposal regarding the amendment of the Incorporation Remuneration Policy has been approved by the General Assembly. The related document is accessible via the Incorporation's Investor Relations Web Site.

Share Buy-Back Program

Our Board of Directors proposal regarding the Share Buy-Back Program has been approved by the General Assembly. According to the program, the Board is authorized for three years with a maximum amount of funds, TL 500 million for the Buy-Back process.

Turkish Airlines - 25th Contract Period

As a result of the negotiations made between Turkish Airlines Inc. and Hava-İş Union, 25th Collective Bargaining Agreement has been signed, regarding 17.500 employees, covering 3 year period starting from January 1st, 2016.

According to the Agreement, the wage increase for the first half of 2016 will be 7%, for the second half of 2016 will be 6% and for every following six months period will be 4%. In case of an inflation difference for the relevant periods, the difference will be paid. Apart from the wage increases the monthly-paid social aid will increase from 500.-TL to 575.-TL for the first year, from 575.-TL to 675.-TL for the second year and from 675.-TL to 750.-TL for the third year. A onetime net payment of 5.000.-TL will be made to the unionized staff.

Rating Revision

International Credit Agency Moody's downgraded Turkish Airlines corporate family rating to Ba2 from Ba1 with a negative outlook on 20.07.2016. Along with this revision Turkish Airlines enhanced equipment trust certificates issue ratings have also been revised and both USD and JPY denominated Calss A certificates were lowered to A3 from A2 and JPY denominated Class B certificates were lowered to Baa3 from Baa2, with outlook negative.

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International Credit Agency S&P on 15.07.2016 had also lowered Turkish Airlines long term corporate credit rating BB- from BB with a negative outlook and Turkish Airlines issue ratings of aircraft backed enhanced equipment trust certificates to BBB from BBB+.

You may access the related letters attached and via Investor Relations Website.(<http://investor.turkishairlines.com/en>)

Management Change

Mr. Murat Şeker, PhD, has been appointed in the place of Mr. Coşkun Kılıç as Chief Financial Officer of Turkish Airlines Inc.

8. TRAFFIC RESULTS

January-June traffic results are shown below:

	TOTAL		
	1H'15	1H'16	Change (%)
Number of Landing	212,419	226,065	6.4%
Available Seat Km ('000)	71,384,259	81,772,887	14.6%
Revenue Passenger Km ('000)	55,411,354	60,257,055	8.7%
Passenger Load Factor (%)	77.6%	73.7%	-3.9 pt
Passengers Carried	28,488,568	30,051,051	5.5%
Int-to-Int Transfer Passengers Carried	8,316,472	9,852,178	18.5%
Cargo and Mail (Tons)	347,810	389,198	11.9%
Fleet	282	329	16.7%
Seat Capacity	52,994	64,714	22.1%
Number of Destinations	276	290	5.1%
Km Flown ('000)	407,974	446,338	9.4%
Hours Flown	609,481	668,641	9.7%
Utilization*	12:43	12:01	-5.5%

* Based on 264 aircraft for 2015, 305 aircraft for 2016.

	DOMESTIC		
	1H'15	1H'16	Change (%)
Number of Landing	89,144	93,839	5.3%
Available Seat Km ('000)	9,174,216	9,871,707	7.6%
Revenue Passenger Km ('000)	7,615,176	8,190,755	7.6%
Passenger Load Factor (%)	83.0%	83.0%	-0.0 pt
Passengers Carried	12,189,362	13,122,384	7.7%
Cargo and Mail (Tons)	26,494	27,049	2.1%
Km Flown ('000)	55,051	58,083	5.5%

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	INTERNATIONAL		
	1H'15	1H'16	Change (%)
Number of Landing	123,275	132,226	7.3%
Available Seat Km ('000)	62,210,043	71,901,180	15.6%
Revenue Passenger Km ('000)	47,796,178	52,066,299	8.9%
Passenger Load Factor (%)	76.8%	72.4%	-4.4 pt
Passengers Carried	16,299,206	16,928,667	3.9%
Cargo and Mail (Tons)	321,315	362,149	12.7%
Km Flown ('000)	352,922	388,255	10.0%

- **Scheduled Domestic Flights:**

During January-June 2016, the Incorporation didn't start operating any new domestic scheduled flights with TK main brand.

- **Scheduled International Flights:**

During January-June 2016, 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>
IVANO FRANKIVSK - Ukraine	30.03.2016
BOGOTA - Kolombiya	05.05.2016
PANAMA - Panama	05.05.2016
DUBROVNIK - Hırvatistan	10.05.2016
ATLANTA - ABD	20.05.2016
KOSICE - Slovakia	16.06.2016
HANOI - Vietnam	27.06.2016

Besides, during January-June 2016, scheduled flights from Sabiha Gökçen Airport to Basra in Iraq, Abu Dhabi in UAB, Jeddah, Riyadh and Medina in Saudi Arabia have been started.

- **Additional, Charter and Hajj-Umrah Flights**

During January-June 2016, number of additional, charter and Hajj-Umrah flights and number of passengers carried on these flights are stated on the table below:

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	Number of Flights		Number of Passengers
	Domestic	International	
Additional	965	430	93,429
Charter	832	392	222,184
Hajj-Umrah	-	2,492	288,311

- AnadoluJet Flights:**

Scheduled and Additional Flights	1H'15	1H'16	Change (%)
Revenue Passenger (000)	4,793	5,486	14%
Avaliable Seats*Km (Millions)	5,867	6,713	14%
Passenger Load Factor (%)	82.8	82.7	-0.1p

- AnadoluJet has been pursuing its operations with wet-lease aircraft from SunExpress and Borajet. (32 Boeing and 3 Embraer)
- As of June 2016, 17 aircraft is based in Ankara Esenboğa and 11 in İstanbul Sabiha Gökçen.
- As of June 2016, AnadoluJet flies to a total of 44 destinations.(Esenboğa based 36, Sabiha Gökçen based 25, point to point (cross) flights 8)
- As of June 2016, Sabiha Gökçen and Ankara Esenboğa based capacity has increased by 24% and 3%, respectively,. (Total rate of 14%)
- As June of 2016, the load factor is 82.7%

**BOARD OPERATIONAL REPORT
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9. FLEET

30.06.2016	Type	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Total
Wide Body	A330-200		5	15	5.018	8,9	20
	A330-300		29	1	8.672	2,7	30
	A340-300	4			1.080	18,1	4
	B777-3ER		29	2	10.897	2,9	31
	Total	4	63	18	25.667	4,9	85
Narrow Body	B737-900ER		15		2.355	3,0	15
	B737-9 MAX						
	B737-800	25	47	11	13.102	8,7	83
	B737-700			1	124	10,3	1
	B737-8 MAX						
	A321 NEO						
	A319-100		6	8	1.848	8,2	14
	A320-200		12	17	4.572	9,1	29
	A321-200		59	4	11.470	4,4	63
	B737-800 WL			25	4.914	10,1	25
	B737-700 WL						
	E190 WL/E195 WL			3	354	9,0	3
	Total	25	139	69	38.739	7,3	233
Cargo	A330-200F		7			3,3	7
	Wet Lease			4		19,5	4
	Total		7	4		9,2	11
GENEL TOPLAM		29	209	91	64.406	6,8	329

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

10. FINANCIAL SITUATION

SUMMARY OF BALANCE SHEET (Mn TRY)

	30 June 2016	31 December 2015
<u>ASSETS</u>		
Current Assets	9.429	9,148
Non-Current Assets	42.987	38,490
Total Assets	52.416	47,638
<u>LIABILITIES</u>		
Total Current Liabilities	12.201	11,248
Total Non-Current Liabilities	27.363	22,300
Total Equity	12.852	14,090
Total Liabilities and Equity	52.416	47,638
Debt to Assets Ratio	0,75	0.70
Equity Ratio	0,25	0.30

SUMMARY OF INCOME STATEMENT (TRY)

	1 Jan. – 30 Jun. 2016	1 Jan. - 30 Jun. 2015
Sales Revenue	13.508	12.302
Gross Profit	990	1.941
Operating Profit Before Investment Activities	-1.206	517
Profit Before Tax	-2.391	1.456
Profit for the Period	-1.894	1.035
Earnings Per Share (Kr)	-1.37	0,75

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

	30 June 2016	31 December 2015
<u>ASSETS</u>		
Current Assets	3,260	3,146
Non-Current Assets	14,855	13,237
Total Assets	18,115	16,383
<u>LIABILITIES</u>		
Total Current Liabilities	4,217	3,871
Total Non-Current Liabilities	9,456	7,670
Total Equity	4,442	4,842
Total Liabilities and Equity	18,115	16,383
Debt to Assets Ratio	0.75	0.70
Equity Ratio	0.25	0.30

SUMMARY OF BALANCE SHEET (USD Million)

	1 Jan. - 30 Jun. 2016	1 Jan. - 30 Jun. 2015
Sales Revenue	4,632	4,789
Gross Profit	342	754
Operating Profit Before Investment Activities	-411	192
Profit Before Tax	-819	572
Profit for the Period	-647	406
Earnings Per Share (USc)	-0,47	0,29
EBITDAR	534	924
EBITDA	182	659
EBIT	-374	234
EBITDAR Margin	%11.5	%19.3
EBITDA Margin	%3.9	%13.8
EBIT Margin	-%8.1	%4.9
Operating Profit Margin	-%8.9	%4.0
Net Profit Margin	-%14.0	%8.5

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

11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES

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

In order to insure the need for cargo aircraft, the Incorporation has decided to purchase a total of 4 A330-200F. The first two of them were delivered on April 2015 and April 2016. The rest will be delivered on October 2016 and January 2017.

By the end of March 2016, number of wide body aircraft has reached 86, which makes up 26 % of the total fleet. Due to the effect of stage length and seat capacity, contribution of wide body aircraft to the production reached 50%.

30.06.2016	Type	2011-2022 Aircraft Purchases															
		Delivered							To Be Delivered								
		2011	2012	2013	2014	2015	2016	TOTAL	2016	2017	2018	2019	2020	2021	2022	TOTAL	
Wide Body	A330-300	3	3	2	6	7	5	26									
	B777-3ER	7			4	7	6	24		3							3
	Total	10	3	2	10	14	11	50		3							3
Narrow Body	B737-900ER	2	7	1		5		15									
	B737-9 MAX											5	5				10
	B737-800	2	2	6	10		14	34	6								6
	B737-8 MAX											20	10	25	10		65
	A321	8	7	9		13	7	44	3	2							5
	A321 NEO											14	25	22	25	6	92
	A319	6						6									
Total	18	16	16	10	18	21	99	9	2	34	40	52	35	6		178	
Cargo	A330-200F	1	1	2		1	1	6	1	1							2
	Total	1	1	2		1	1	6	1	1							3
GRAND TOTAL	29	20	20	20	33	33	155	10	6	34	40	52	35	6		184	

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. PROJECTIONS ABOUT THE COMPANY

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to the cities Makhachkala of Russia, Abha of Saudi Arabia, Juba of South Sudan, Aswan and Luxor of Egypt, Caracas of Venezuela, Conakry of Republic of New Guinea, Havana of Cuba, Kharkiv of Ukrain, Krakow of Poland, La Coruna of Spain, Lenkeran of Azerbaijan, Luanda of Angola, Mexico City of Mexico, Nantes of France, Denpasar of Indonesia, Phuket of Thailand, Cluj of Romania, Zanzibar of Tanzania and Seychelles.

Flying to more countries than any other airline in the world, the Incorporation aims to be among the leading airlines in the world by maintaining its steady growth in parallel to the growth in number of transfer passengers by providing wide-body fleet investments, capacity increases mainly in long-range flights and new routes. In addition, the Incorporation is targeting to increase unit revenue by increasing passenger revenue of Business Class through the improvement of service quality and the expansion of cargo operations.

DISCLAIMER

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