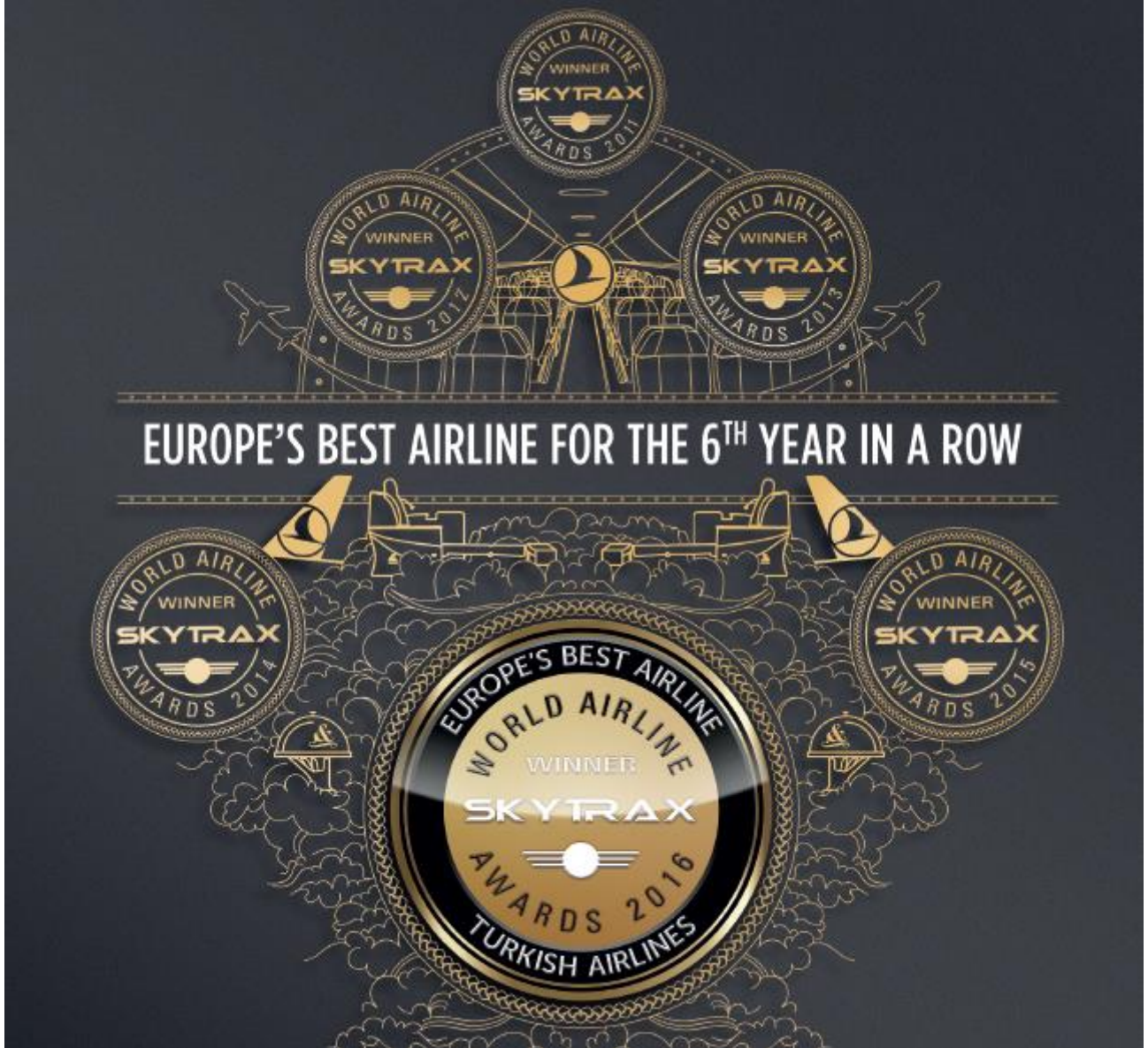


BOARD ACTIVITY REPORT
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.17.1 PRINCIPLES



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1 JANUARY – 31 DECEMBER 2016

BOARD ACTIVITY REPORT

**BOARD ACTIVITY REPORT
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1. INDUSTRY DEVELOPMENTS

The unstable geopolitical environment occurred in the south eastern side of Turkey, the terrorist incidents started to happen in 2015 and continued in 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 11% 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-December 2016 the global traffic has increased by 6%.

<u>Aviation Industry Revenue/Expense</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016(*)</u>	<u>2017(*)</u>
REVENUES (\$ billion)	706	720	751	718	701	736
Passenger Revenue	531	539	539	518	504	530
Cargo Revenue	64	61	63	53	48	49
Traffic						
Passenger Km Growth (RPK) %	5.3	5.2	5.7	7.4	5.9	5.1
Cargo Km Growth (FTK) %	-0.9	0.6	5.0	2.3	3.4	3.5
OPERATIONAL EXPENSES (\$ billion)	687	695	716	659	643	687
Fuel	228	231	224	180	124	129
% of expenses	33	33	31	27	19	19
Non-fuel expenses	459	464	492	479	519	559
OPERATING PROFIT (\$ billion)	18.4	25.3	35.1	59.5	58.3	48.5
% margin	2.6	3.5	4.7	8.3	8.3	6.6
NET PROFIT(\$ billion)	9.2	10.7	13.7	35.3	35.6	29.8
% margin	1.3	1.5	1.8	4.9	5.1	4.1

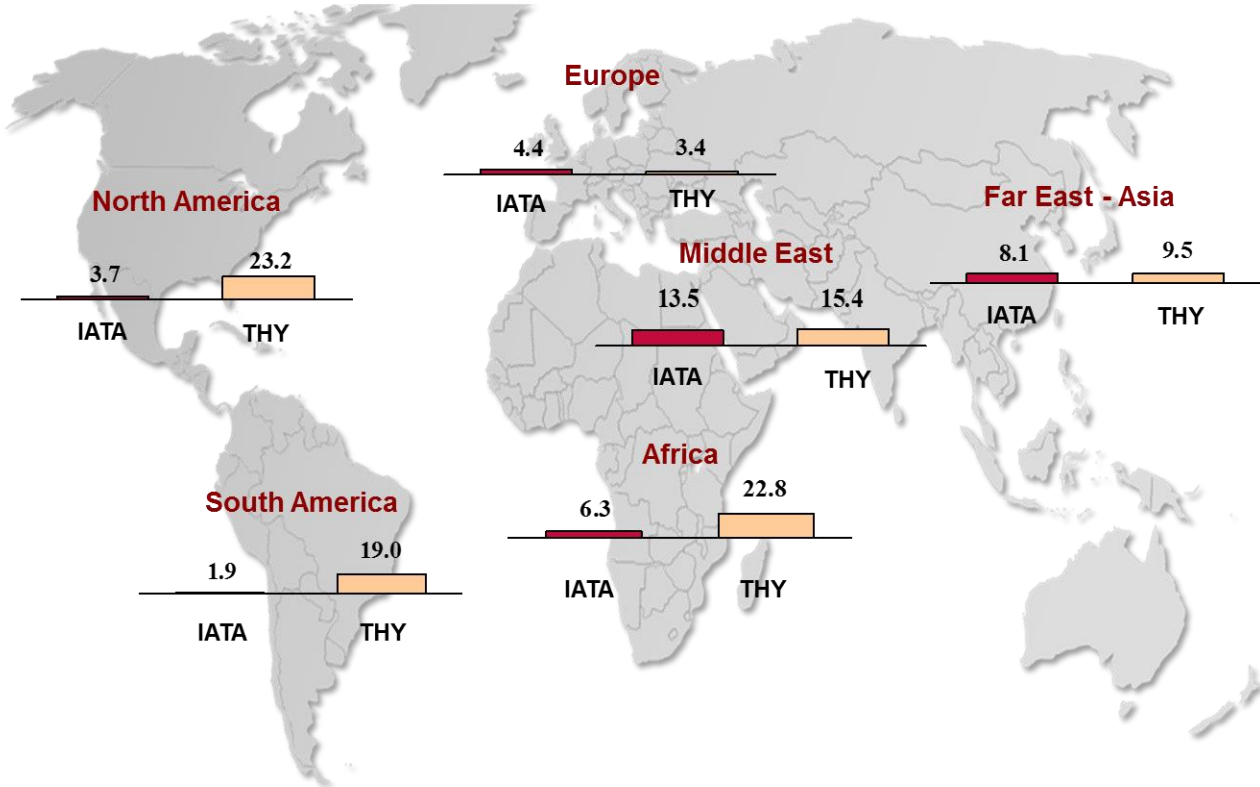
(*) Annual forecast published by IATA

Source: IATA Airline Industry Economic Performance, December 2016

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Within the global aviation industry, passenger capacity grew by 6.2% and passenger traffic grew by 6.3% in 2016. While international passenger traffic grew by 6.7% driven by the growth of developing regions, domestic passenger traffic grew by 5.7%. Cargo capacity and cargo traffic increased by 5.3% and 3.8% respectively.

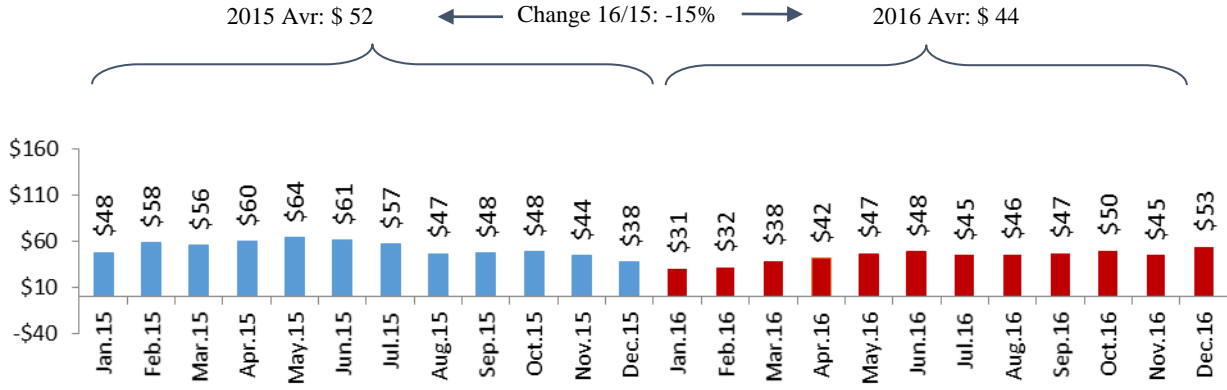
Regional Capacity Changes (%)



During 2016, the highest capacity growth was realized in Middle East (+13.5%), followed by emerging markets, Africa and Far East. Turkish Airlines' growth rate was above the industry average in all regions except Europe. (According to Air Passenger Market Analysis of IATA, December 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	2016
Fuel Expenses (Million \$)	3,442	3,806	2,997	2,673
Fuel Consumption (000 Tons)	3,247	3,801	4,272	4,693
Average Unit Cost (\$/Tons)	1,060	1,001	701	570
Average Change of Unit Cost (%)	-2%	-6%	-30%	-19%
Fuel Expense Rate in Operational Expenses (%)	37%	36%	30%	26%

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 31 December 2016, the shareholders and their respective shareholdings in the Incorporation are as follows:

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	<u>31 December 2016</u>
Republic of Turkey Prime Ministry Privatization Administration	% 49.12
Other (publicly held)	% 50.88
Total	<u>% 100.00</u>

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 31 December 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 December 2016, Turkish Technic has 6,417 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 December 2016, Company has 18 employees.

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The Group has ten joint ventures. 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 Incorporation in these joint ventures as of 31 December 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 22 aircraft for AnadoluJet operations of THY and with a fleet of 27 aircraft serves its customers in both charter and scheduled business with 3,768 employees as of 31 December 2016. SunExpress flies to 15 domestic and 70 international destinations, which brings the total number to 85 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 2016, SunExpress Germany conducts operations to 12 domestic and 29 international destinations with its 14 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

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Company provides inflight catering services to Turkish Airlines and other domestic and international airlines. As of 31 December 2016, 4,606 employees are working for the Company.

Turkish Ground Services (TGS)

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 9,711 personnel as of 31 December 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 31 December 2016, the Incorporation has 436 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 31 December 2016, 91 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 31 December 2016, the Company has 134 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, 329 employees as of 31 December 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 31 December 2016, the Company has 33 employees.

Turkbine 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 08.12.2016, Türk Hava Yolları Teknik A.Ş. (Turkish Technic) has transferred of its shares in Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş (50% held by Turkish Technic) to Zorlu O&M.

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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 31 December 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.

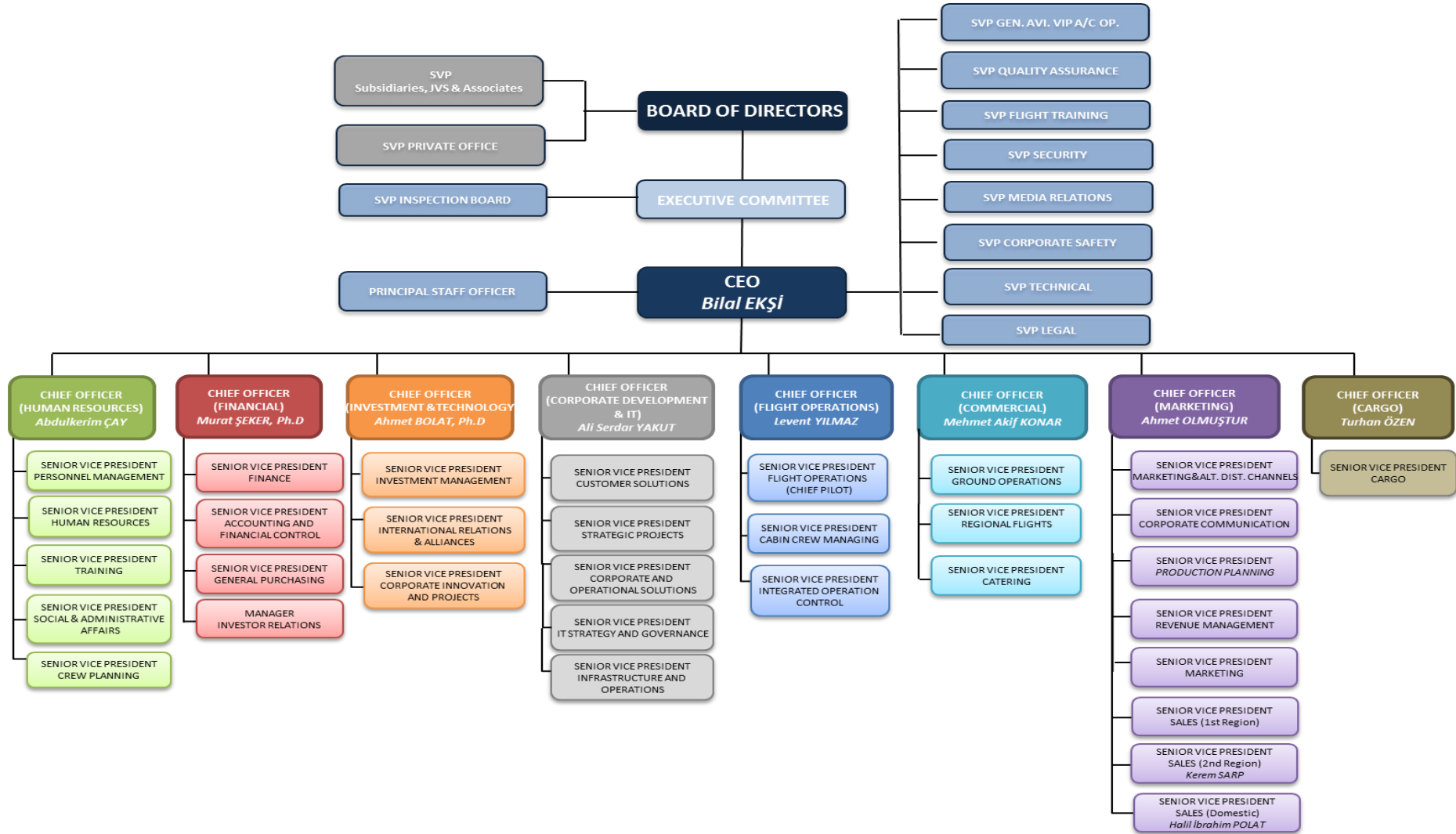
3. ORGANIZATIONAL STRUCTURE

The table below sets out Turkish Airlines' network on a country-city-airport basis as of 31 December 2016:

	COUNTRY	CITY	AIRPORT
DOMESTIC	1	49	51
INTERNATIONAL	118	246	247
Europe	43	110	111
Far East	22	35	35
Middel East	13	34	34
Africa	32	50	50
America	8	17	17
TOTAL	119	295	298

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 31 December 2016 is shown on the next page.

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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 31 December 2016 are listed below:

M. İlker AYCI	: Chairman of the Board and the Executive Committee
Bilal EKŞİ	: 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 Turkish Airlines 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 Büyükekşi, İsmail Gerçek, Kadir Coşkun (Investor Relations Manager)

Early Identification of Risks Committee

Chairman: Ogün Şanlıer

Member: M. Muzaffer Akpınar

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5. SENIOR MANAGEMENT

Information about the Senior Management of the Incorporation are presented below (as of 31 December 2016):

Name	Title	Starting Date of Position	Profession
Bilal Ekşi	Chief Executive Officer	24.10.2016	Electronics and Communications Engineer
Murat Şeker, Ph.D.	Chief Financial Officer	26.07.2016	Industrial Engineer
Ahmet Olmuştur	Chief Marketing Officer	30.04.2014	Business Management, Manager
Mehmet Akif Konar	Chief Commercial Officer	16.04.2013	Operating Engineer
Ahmet Bolat, Ph.D.	Chief Investment and Technology Officer	23.01.2012	Industrial Engineer
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
Turhan Özen	Chief Cargo Officer	12.12.2016	Business Management, Manager

6. HUMAN RESOURCES

Number of personnel with 10% increase reached to 24,124 during the period of January-December 2016 from 22,030 for the period of January-December 2015. Personnel numbers according to classes in 2015 and 2016 are as follows:

	31.12.2015	31.12.2016	Change(%)
Cockpit Personnel	4,374	4,468	2%
Cabin Personnel	8,676	9,922	14%
Aircraft Maintenance Tech.	234	243	4%
Staff Abroad	2,970	3,232	9%
Domestic Staff	5,776	6,259	8%
TOTAL	22,030	24,124	10%

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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+.

International Credit Agency Moody's has downgraded Turkish Airlines corporate family rating to Ba3 from Ba2 and maintained negative outlook on 19.08.2016. Along with the revision, Turkish Airlines' Enhanced Equipment Trust Certificates (EETCs) issue ratings have also been revised and both USD and JPY denominated Class A certificates were lowered to Baa1 from A3 and JPY denominated Class B certificates were lowered to Ba1 from Baa3 accompanied by negative outlook.

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

2016 Guidance Revision

According to the 2016 revised budget that was approved by the Board of Directors, the guidance regarding the Incorporation's targets and expectations for the year 2016 is as follows:

Traffic Development

- Total number of passengers carried is targeted to reach 63,4 million including 27,9 million on schedules domestic routes, 34,5 million on scheduled international routes, and the rest on charter and hajj flights.
- While passenger load factor is expected to be 72-74%, total Available Seat Kilometers (ASK) will reach to 174 billion with an increase of 13% compared 2015. Capacity (ASK) increase is expected to be 9% in Turkey, 26% in America region, 23% in Africa region, 10% in Far East region, 4% in Europe region and 22% in Middle East region.
- In 2016, cargo/mail carried will increase by 13% reaching 817 thousand tonnes.

Financial Development

- In 2016, the Incorporation's fuel consumption is expected to increase by 12% compared to 2015.
- Under the assumptions of average 1,11 for EUR/USD, average 3,00 USD/TRY and average jet fuel (inc. Hedge) 577\$/ton, the Incorporation is targeting to generate around 9,5 Billion USD of sales revenue.
- Targeted CASK decrease is between 5-7%
- Targeted EBITDAR margin range is between 12-14%

Reschedule of Aircraft Deliveries

The Incorporation has decided to reschedule the deliveries of 92 A321 NEO, 65 B737-8 MAX and 10 B737-9 MAX narrow body aircraft that were planned to enter the fleet between 2018-2022. The deliveries will be as follows: for 2018 from 34 to 10, for 2019 from 40 to 35, for 2020 from 52 to 42, for 2021 no change, for 2022 from 6 to 30, for 2023 to 15.

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Management and Organizational Structure Change

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

Mr. Bilal Ekşi has been appointed in the place of Assoc. Prof. Temel Kotil as General Manager of Turkish Airlines Inc.

The Board of Directors has decided to establish Office of Chief Cargo Officer, reporting directly to the General Manager, thus appoint Mr. Tuhun Özen as Chief Cargo Officer.

Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. share transfer

Türk Hava Yolları Teknik A.Ş. (Turkish Technic) has completed the transfer of its shares in Turkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş (50% held by Turkish Technic) to Zorlu O&M (B group shareholder of Turkbine Teknik).

Share Transfer

49.12% share of Turkish Airlines owned by Republic of Turkey Prime Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of February 3rd, 2017.

8. TRAFFIC RESULTS

January-December traffic results are shown below:

	TOTAL		
	2015	2016	Change (%)
Number of Landing	452,763	464,031	2.5%
Available Seat Km ('000)	153,626,339	170,091,797	10.7%
Revenue Passenger Km ('000)	119,286,693	126,814,712	6.3%
Passenger Load Factor (%)	77.6%	74.6%	-3.1 pt
Passengers Carried	61,234,678	62,758,615	2.5%
Int-to-Int Transfer Passengers Carried	18,362,723	20,951,040	14.1%
Cargo and Mail (Tons)	719,928	876,228	21.7%
Fleet	299	334	11.7%
Seat Capacity	56,899	65,993	16.0%
Number of Destinations	284	295	3.9%
Km Flown ('000)	864,304	918,127	6.2%
Hours Flown	1,298,144	1,360,808	4.8%
Utilization*	12:47	11:54	-6.9%

* Based on 277 aircraft for 2015, 311 aircraft for 2016.

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	DOMESTIC		
	2015	2016	Change (%)
Number of Landing	191,479	195,510	2.1%
Available Seat Km ('000)	19,668,781	20,763,634	5.6%
Revenue Passenger Km ('000)	16,376,286	17,046,393	4.1%
Passenger Load Factor (%)	83.3%	82.1%	-1.2 pt
Passengers Carried	26,306,627	27,301,418	3.8%
Cargo and Mail (Tons)	48,962	54,507	11.3%
Km Flown ('000)	117,859	121,298	2.9%

	INTERNATIONAL		
	2015	2016	Change (%)
Number of Landing	261,284	268,521	2.8%
Available Seat Km ('000)	133,957,557	149,328,164	11.5%
Revenue Passenger Km ('000)	102,910,407	109,768,320	6.7%
Passenger Load Factor (%)	76.8%	73.5%	-3.3 pt
Passengers Carried	34,928,051	35,457,197	1.5%
Cargo and Mail (Tons)	670,967	821,721	22.5%
Km Flown ('000)	746,446	796,829	6.7%

I. Scheduled Domestic Flights:

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

II. Scheduled International Flights:

During January-December 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
CLUJ - Romania	01.09.2016
SEYCHELLES - Seychelles	31.10.2016

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ZANZIBAR - Tanzania	13.12.2016
HAVANA - Cuba	20.12.2016
CARACAS - Venezuela	20.12.2016

Besides, during January-December 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.

III. Additional, Charter and Hajj-Umrah Flights

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

	Number of Flights		Number of Passengers
	Domestic	International	
Additional	1,767	1,431	301,079
Charter	1,503	2,008	628,934
Hajj-Umrah	-	3,909	465,178

IV. AnadoluJet Flights:

Scheduled and Additional Flights	2015	2016	Change (%)
Revenue Passenger (000)	10,530	11,651	11%
Avaliable Seats*Km (Millions)	12,768	14,360	12%
Passenger Load Factor (%)	83.3	82.2	-1.1p

- AnadoluJet has been pursuing its operations with 22 aircraft (wetlease) from SunExpress and 12 aircraft from TK fleet.(A total of 34 B73-800)
- As of December 2016, 17aircraft is based in Ankara Esenboğa and 12 in İstanbul Sabiha Gökçen.
- As of December 2016, AnadoluJet flies to a total of 41 destinations.(Esenboğa based 34, Sabiha Gökçen based 24, point to point (cross) flights 5)
- As of December 2016, Sabiha Gökçen and Ankara Esenboğa based capacity has increased by 11% and 9%, respectively. (Total rate of 11%)
- As December of 2016, the load factor is 82.2%

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9. FLEET

31.12.2016	Type	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Total
Wide Body	A330-200		5	15	5,074	9.2	20
	A330-300		29	2	8,977	2.9	31
	A340-300	4			1,161	18.5	4
	B777-3ER		29	3	11,297	3.0	32
	Total	4	63	20	26,509	5.1	87
Narrow Body	B737-900ER		15		2,355	3.3	15
	B737-9 MAX						
	B737-800	25	53	10	14,224	8.4	88
	B737-700			1	124	10.6	1
	B737-8 MAX						
	A321 NEO						
	A319-100		6	7	1,716	8.5	13
	A320-200		12	17	4,572	9.4	29
	A321-200		62	4	12,004	4.4	66
	B737-800 WL			22	4,158	10.4	22
	B737-700 WL						
Total	25	148	61	39,153	7.3	234	
Cargo	A330-200F		8			3.6	8
	B777F						
	Wet Lease			5		24.7	5
	Total		8	5		11.7	13
GRAND TOTAL	29	219	86	65,662	6.9	334	

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10. FINANCIAL SITUATION**SUMMARY OF BALANCE SHEET (Mn TRY)**

	31 December 2016	31 December 2015
<u>ASSETS</u>		
Current Assets	12,673	9,148
Non-Current Assets	52,401	38,490
Total Assets	65,074	47,638
<u>LIABILITIES</u>		
Total Current Liabilities	15,832	11,248
Total Non-Current Liabilities	31,343	22,300
Total Equity	17,899	14,090
Total Liabilities and Equity	65,074	47,638
Debt to Assets Ratio	0,72	0,70
Equity Ratio	0,28	0,30

SUMMARY OF INCOME STATEMENT (TRY)

	1 Jan. – 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Sales Revenue	29,468	28,752
Gross Profit	3,417	5,793
Operating Profit Before Investment Activities	(865)	2,486
Profit Before Tax	2	3,911
Profit for the Period	(47)	2,993
Earnings Per Share (Kr)	(0.03)	2.17

SUMMARY OF BALANCE SHEET (Mn USD)

	31 December 2016	31 December 2015
<u>ASSETS</u>		
Current Assets	3,601	3,146
Non-Current Assets	14,890	13,237
Total Assets	18,491	16,383
<u>LIABILITIES</u>		
Total Current Liabilities	4,497	3,871
Total Non-Current Liabilities	8,907	7,670
Total Equity	5,087	4,842
Total Liabilities and Equity	18,491	16,383

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Debt to Assets Ratio	0.72	0.70
Equity Ratio	0.28	0.30

SUMMARY OF INCOME STATEMENT (USD)

	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Sales Revenue	9,792	10,522
Gross Profit	1,136	2,102
Operating Profit Before Investment Activities	(291)	895
Profit Before Tax	(59)	1,407
Profit for the Period	(77)	1,069
Earnings Per Share (USc)	(0.06)	0.77
EBITDAR	1,628	2,580
EBITDA	981	1,963
EBIT	(167)	1,039
EBITDAR Margin	16.6%	24.5%
EBITDA Margin	10.0%	18.7%
EBIT Margin	(1.7%)	9.9%
Operating Profit Margin	(3.0%)	8.5%
Net Profit Margin	(0.8%)	10.2%

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 three of them were delivered on April 2015, April 2016 and October 2016. The last one will be delivered on February 2017.

By the end of December 2016, number of wide body aircraft has reached 87, 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%.

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31.12.2016		2011-2023 Aircraft Purchases															
		Delivered							To Be Delivered								
		Type	2011	2012	2013	2014	2015	2016	TOTAL	2017	2018	2019	2020	2021	2022	2023	TOTAL
Wide Body	A330-300	3	3	2	6	7	5	26									
	B777-3ER	7			4	7	6	24	1								1
	Total	10	3	2	10	14	11	50	1								1
Narrow Body	B737-900ER	2	7	1		5		15									
	B737-9 MAX										5	5					10
	B737-800	2	2	6	10		20	40									
	B737-8 MAX									7	12	19	15	12			65
	A321	8	7	9		13	10	47	2								2
	A321 NEO									3	18	18	20	18	15		92
	A319	6						6									
Total	18	16	16	10	18	30	108	2	10	35	42	35	30	15		169	
Cargo	A330-200F	1	1	2		1	2	7	1								1
	B777F								2								2
	Total	1	1	2		1	2	7	3								3
GRAND TOTAL		29	20	20	20	33	43	165	6	10	35	42	35	30	15		173

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.

12. PROJECTIONS ABOUT THE COMPANY

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to the cities Makhachkala, Voronezh and Samara of Russia, Abha of Saudi Arabia, Juba of South Sudan, Aswan and Luxor of Egypt, 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.

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.

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