

**BOARD ACTIVITY REPORT
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.14.1**



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1 JANUARY – 31 MARCH 2019

BOARD ACTIVITY REPORT

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1. INDUSTRY DEVELOPMENTS

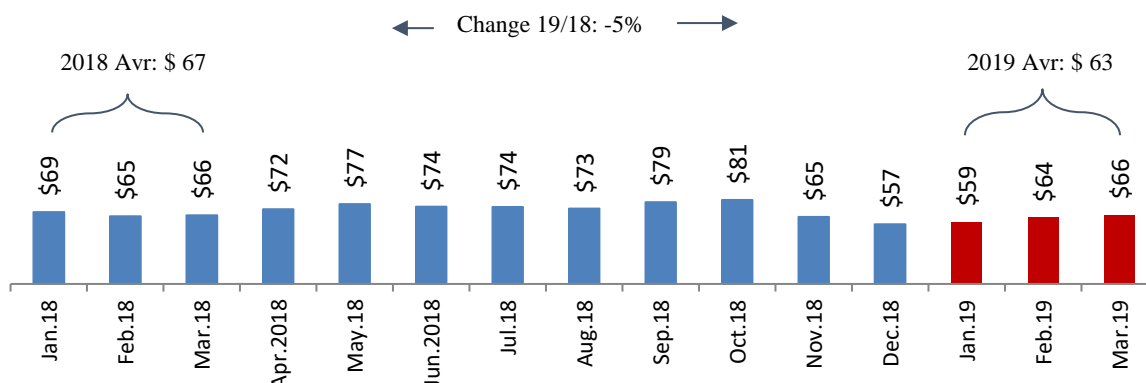
The increase in oil prices in first quarter of 2019 affected the global aviation sector. Turkish aviation sector was affected positively by the exchange rate fluctuation in the first quarter. Due to depreciation in Turkish Lira, Turkey had become a more attractive vacation destination and consequently; during the first quarter of 2019, the number of foreign tourists visiting Turkey increased by 4.6% compared to the first quarter of 2018. In the same period, the number of international passengers carried by Turkish Airlines increased by 3.9%.

Turkish Airlines continues its success on the passenger side on cargo transportation side as well. The Incorporation has achieved to maintain its strong growth trend in the cargo market over the last decade and consequently, cargo carried increased by 15.6% and cargo revenue increased by 5.2% during the first quarter of 2019. Turkish Airlines increases the importance of cargo transportation each passing day and plans to expand the cargo fleet in proportionate to passenger fleet. Accordingly, Turkish Airlines takes firm steps forward to be one of the largest air cargo carriers in the world by increasing its market share in the global air cargo market with the addition of new cargo aircraft to the existing fleet.

Aviation Industry Revenue/Expense	2014	2015	2016	2017	2018*	2019*
REVENUES (\$ billion)	767	721	709	755	821	885
Passenger Revenue	538	509	498	534	564	606
Cargo Revenue	92,9	83,8	80,8	95,9	109,8	116,1
Traffic						
Passenger Km Growth (RPK) %	6,0	7,4	7,4	8,0	6,5	6,0
Cargo Km Growth (FTK) %	5,8	2,3	3,6	9,7	4,1	3,7
OPERATIONAL EXPENSES (\$ billion)	731	659	649	697	765	825
Fuel	224	174	135	149	180	200
% of expenses	30,6	26,4	20,8	21,4	23,5	24,2
Non-fuel expenses	507	485	514	548	586	625
OPERATING PROFIT (\$ billion)	35,5	62,0	60,1	57,8	55,8	59,8
% margin	4,6	8,6	8,5	7,7	6,8	6,8
NET PROFIT(\$ billion)	13,8	36,0	34,2	37,7	32,3	35,5
% margin	1,8	5,0	4,8	5,0	3,9	4,0
(*) Annual forecast published by IATA Source: IATA Airline Industry Economic Performance, December 2018)						

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Oil Price per Barrel (Monthly Average)



Source: U.S. Energy Information Administration

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

FUEL PRICE ANALYSIS	2015	2016	2017	2018	1Q'18	1Q'19
Fuel Expenses (Million \$)	2.997	2.673	2.866	3.768	804	855
Fuel Consumption (000 Tons)	4.272	4.693	4.847	5.278	1.205	1265
Average Unit Cost (\$/Tons)	701	570	591	714	667	676
Average Change of Unit Cost (%)	-30%	-19%	4%	20,7%	13%	1.4%
Fuel Expense Rate in Operational Expenses (%)	30%	26%	28%	32%	29%	29%

2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES

Türk Hava Yolları Anonim Ortaklığı (the “Incorporation” 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, Yeşilköy Mah. Havaalanı Cad. No:3/1 34149 Bakırköy, İstanbul/Türkiye. Detailed information about the Incorporation can be reached via Investor Relations Website. (<http://investor.turkishairlines.com/en>)

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:

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Shareholder	Amount of Nominal Shares (TL)	Ownership (%)	Amount of Shares (#)	Rate of Voting Right (%)
Turkey Wealth Fund (Group A)	677,884,849	49.12	67,788,484,857	49.12
The Republic of Turkey Ministry of Treasury and Finance Privatization Administration (Group C)	0.01		1	
Open for Public (Group A)	702,115,151	50.88	70,211,515,142	50.88
TOTAL	1,380,000,000	100.00	138,000,000,000	100.00

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

The Group has 5 subsidiaries as of 31 March 2019. The table below sets out the consolidated subsidiaries and participation rate of the Group in these:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Country of Registration</u>
THY Teknik A.Ş. (Turkish Technic)	Aircraft Maintenance Service	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Airport Operations	100%	Turkey
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş.	Investment & Airport Operations	100%	Turkey
THY Uluslararası Yatırım ve Taşımacılık A.Ş.	Transportation and Investment	100%	Turkey
Cornea Havacılık Sistemleri San. Ve Tic. A.Ş.	In-Flight Entertainment Systems and Internet Service	80%	Turkey

THY Teknik A.Ş. (Turkish Technic)

Established on 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 31 March 2019, Turkish Technic has 8,616 employees.

THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.

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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 2019, Company has 67 employees. Name of the company has been changed from THY Aydın Çıldır Havalimanı İşletme A.Ş. to THY Uçuş Eğitim ve Havalimanı İşletme A.Ş. (TAFA) on 12 June 2017.

THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş

The Company, which is wholly owned by our Incorporation, was established on 15 November 2017 with the cash capital of 50.000 TRY in order to operate principally in the fields of airport operations and investments and also according to the fields of other activity that is specified in the Articles of Association of the Company.

THY Uluslararası Yatırım ve Taşımacılık A.Ş

The Company, which is wholly owned by the Incorporation, was established on 25 September 2017 with the cash capital of 10.000.000 TRY in order to invest at abroad and domestically, principally in the fields of cargo and courier transportation and in the fields that is specified in the Articles of Association of the Company.

Cornea Havacılık Sistemleri San. Ve Tic. A.Ş.

On 11 October 2018, Cornea Havacılık Sistemleri Sanayi ve Ticaret A.Ş. was established in order to operate principally in the fields of "In-Flight Entertainment Systems and Internet Service" and also according to the fields of other activity that is specified in the Articles of Association of the Company. Stakes of 80% and 20% are held respectively by THY Teknik A.Ş. and Havelsan Hava Elektronik Sanayi ve Ticaret A.Ş. As of 31 March 2019, Company has 1 employee.

The Group has 10 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 March 2019:

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<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
Tax Free Zone, Inc. (Tax Refund)	VAT Return and Consultancy	30%	-	Turkey
Air Albania	Aircraft Transportation	49%	-	Albania

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 19 aircraft for AnadoluJet operations of THY and with a fleet of 29 aircraft serves its customers in both charter and scheduled business with 3,108 employees as of 31 March 2019. SunExpress flies to 22 domestic and 59 international destinations, which brings the total number to 81 destinations. In 2011, SunExpress Germany was founded as a joint venture of Stiftung and SunExpress, in which each holds %50-50 stake. SunExpress Germany conducts operations to 18 international destinations with its 15 passenger aircraft. As of 31 March 2019, 1,184 employees are working for the Company.

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 31 March 2019, 5,694 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

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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 15,179 personnel as of 31 March 2019.

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 March 2019, the Company has 447 employees.

TSI Aviation Seats

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 March 2019, 108 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 – TAD). As of 31 March 2019, the Company has 210 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, the company has 389 employees as of 31 March 2019.

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 March 2019, the Company has 45 employees.

Tax Free Zone, Inc. (Tax Refund)

The Company was 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 March 2019, 19 employees are working for the company.

Air Albania

The Incorporation established a Republic of Albanian based Joint Venture Company, in order to operate in the field of passenger and cargo transportation. Established on 12 September 2018, the stakes of 49%, 41% and 10% is being held respectively by Turkish Airlines, MDN Investment SHPK, and Albcontrol, which manages Albanian airspace and air traffic, representing Government of Albania. As of 31 March 2019, 53 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

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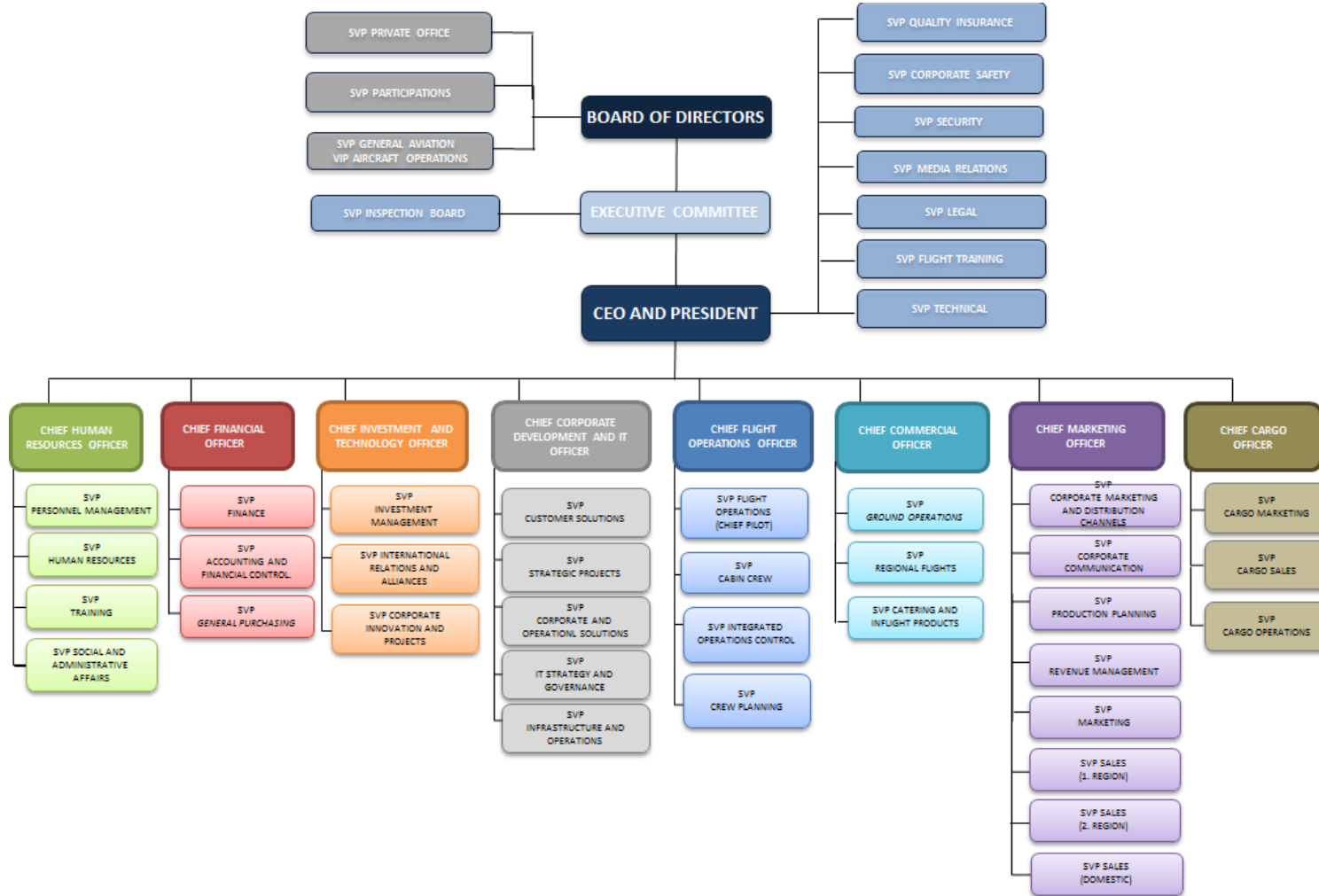
Subsidiaries located within the means of the Parent Company. The internal audit and control functions in the Incorporation are carried out by SVP of Inspection Board, SVP of Quality Assurance and other relevant expertise and financial departments.

3. ORGANIZATIONAL STRUCTURE

As of 31 March 2019, the number of countries served has reached to 124.

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 31 March 2019 is shown on the next page.

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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 March 2019 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
Mithat Görkem AKSOY	: Member of the Board
Prof. Dr. Mecit EŞ	: Member of the Board
Orhan Birdal	: Member of the Board
Ogün ŞANLIER	: Independent Board Member
Fatmanur ALTUN	: Independent Board Member
M. Muzaffer AKPINAR	: Independent Board Member

Brief resumes of our Board of Directors and their duties outside of the company 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: Fatmanur Altun

Member: Orhan Birdal, Mithat Görkem Aksoy, 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 March 2019):

Name	Title	Starting Date of Position	Profession
Bilal Ekşi	Chief Executive Officer	24.10.2016	Electronics and Communications Engineer
Assoc. Prof. Murat Şeker, Ph.D.	Chief Financial Officer	26.07.2016	Industrial Engineer
Ahmet Olmuşur	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
Aykut Alpa	Chief Flight Operations Officer	25.05.2018	Pilot
Turhan Özen	Chief Cargo Officer	12.12.2016	Business Management, Manager

6. HUMAN RESOURCES

Number of personnel increased by 16% to 28,183 during the period of January-March 2019 from 24,291 for the period of January-March 2018. Personnel numbers according to classes are as follows:

	31.12.2018	31.03.2018	31.03.2019	Change(%)
Cockpit Personnel	5.213	4.518	5.341	18%
Cabin Personnel	10.593	9.924	11.775	19%
Aircraft Maintenance Tech.	69	68	70	3%
Staff Abroad	3.385	3.226	3.442	7%
Domestic Staff	7.479	6.555	7.555	15%
TOTAL	26.739	24.291	28.183	16%

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7. DEVELOPMENTS WITHIN THE INCORPORATION

I. Developments During the Period

New International Route Announcement

The Incorporation has decided to start operating scheduled flights, based on market conditions, to Port Harcourt of Nigeria and Pointe-Noire of Republic of the Congo.

26th Contract Period Negotiations

Negotiations between our Incorporation and Hava-Is Labor Union, regarding the 26th Collective Bargaining Agreement began with the first meeting on January 3, 2019 at Turkish Airlines Headquarters.

2019 Guidance

According to the non-consolidated 2019 budget that was approved by the Board of Directors, the guidance regarding the Incorporation's targets and expectations for the year 2019 is as follows:

Traffic Development

- Total number of passengers carried is targeted to reach 80 million including 33 million on domestic routes, 47 million on international routes.
- While passenger load factor is expected to be in the band of 81% and 82%, total Available Seat Kilometers (ASK) will approximately reach to 195 billion with an increase of 7% to 8% compared to 2018. Capacity (ASK) increase is expected to be 3% in Turkey, 11% in Middle East, 6% in Europe, 8% in Far East, 7% in America and 15% in Africa regions.
- In 2019, cargo/mail carried is expected to increase by 3% - 4% reaching around 1.45 million tonnes.

Financial Development (Consolidated)

- In 2019, jet fuel consumption is expected to increase by 8% to 9% compared to 2018.
 - Average jet fuel (including fuel hedge) is expected to be 715 \$/ton in 2019.
 - The Incorporation is targeting to generate 14.1 billion USD of sales revenue.
 - Cost per available seat kilometer (CASK), excluding fuel is expected to increase by 3% - 5%.
 - Consolidated EBITDAR margin is targeted to be in the band of 22% and 24%.
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II. Subsequent Events

New International Routes

In April 2019, our scheduled flights to Sharjah of United Arab Emirates and Marakesh of Morocco have started.

New Domestic Route Announcement

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to Zonguldak Airport in Turkey.

New International Route Announcement

The Incorporation has decided to start operating scheduled flights, based on market conditions, to Strasbourg of France.

26th Contract Period

As a result of the negotiations held between Turkish Airlines Inc. and Hava-İş Union, 26th Collective Bargaining Agreement has been signed, covering 3 years period starting from January 1st, 2019.

According to the Agreement, the wage increase for the first half of 2019 will be 12.19% which is calculated by adding 2% to 10.19%, Consumer Price Index change between period of June 2018 and December 2018. 1.5%, 2%, 1.5%, 1%, and 1% will be added to related periods CPI change for the second half of 2019, for the first half of 2020, for the second half of 2020, for the first half of 2021 and for the second half of 2021, respectively. Apart from the wage increases the monthly-paid social aid will increase from 750.-TL to 865.-TL for the first year, from 865.-TL to 955.-TL for the second year and from 955.-TL to 1,050.-TL for the third year. A onetime net payment of 5,000.-TL will be made to the unionized staff.

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8. TRAFFIC RESULTS

January-December 2018 traffic results are shown below:

	TOTAL		
	2018	2019	Change (%)
Number of Landing (Passenger Flights)	113.157	112.846	-0,3%
Available Seat Km ('000)	41.716.060	42.651.755	2,2%
Revenue Passenger Km ('000)	33.595.075	34.151.753	1,7%
Passenger Load Factor (%)	80,5%	80,1%	-0,5 pt
Passengers Carried	16.766.706	16.751.883	-0,1%
Int-to-Int Transfer Passengers Carried	5.228.720	5.456.094	4,3%
Cargo and Mail (Tons)	314.372	363.297	15,6%
Fleet	327	336	2,8%
Seat Capacity	65.016	65.329	0,5%
Number of Destinations	302	306	1,3%
Km Flown ('000)	199.844	206.626	3,4%
Hours Flown	333.201	344.112	3,3%
Utilization*	11:28	11:45	2,5%

* Based on 320 aircraft for 2018, 324 aircraft for 2019.

	DOMESTIC		
	2018	2019	Change (%)
Number of Landing (Passenger Flights)	51.885	48.828	-5,9%
Available Seat Km ('000)	5.681.974	5.416.177	-4,7%
Revenue Passenger Km ('000)	4.836.085	4.637.258	-4,1%
Passenger Load Factor (%)	85,1%	85,6%	0,5 pt
Passengers Carried	7.729.005	7.365.794	-4,7%
Cargo and Mail (Tons)	18.313	15.929	-13,0%
Km Flown ('000)	32.376	30.410	-6,1%

	INTERNATIONAL		
	2018	2019	Change (%)
Number of Landing (Passenger Flights)	61.272	64.018	4,5%
Available Seat Km ('000)	36.034.086	37.235.578	3,3%
Revenue Passenger Km ('000)	28.758.991	29.514.495	2,6%
Passenger Load Factor (%)	79,8%	79,3%	-0,5 pt
Passengers Carried	9.037.701	9.386.089	3,9%
Excl. Int-to-Int Transfer Passenger	3.808.981	3.929.995	3,2%
Cargo and Mail (Tons)	296.059	347.368	17,3%
Km Flown ('000)	167.467	176.216	5,2%

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I. Scheduled Domestic Flights:

During January - March 2019, the Incorporation did not start operating any new domestic scheduled flights with TK main brand.

II. Scheduled International Flights:

During January - March 2019, the Incorporation did not start operating any new international scheduled flights with TK main brand.

III. Additional, Charter and Hajj-Umrah Flights

During January - March 2019, 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	15	28	3,904
Charter	174	95	23,552
Hajj-Umrah	-	1,300	120,195

IV. AnadoluJet Flights:

Scheduled and Additional Flights	2017	2018	Change (%)
Revenue Passenger (000)	3,865	3,330	-14%
Avaliable Seats*Km (Millions)	2,922	2,504	-14%
Passenger Load Factor (%)	84.8	85.4	+0,6 pt

- In the period of January – March 2019, AnadoluJet has been pursuing its operations with 19 aircraft (wetlease) from SunExpress and 18 aircraft from TK fleet (Average number of 36 B737-800).
- As of March 2019, 16 aircraft is based in Ankara Esenboğa and 15 in İstanbul Sabiha Gökçen.
- As of March 2019, AnadoluJet flys to a total of 42 destinations. (Esenboğa based 33, Sabiha Gökçen based 30, point to point (cross) flights 8)
- As of March 2019, Sabiha Gökçen and Ankara Esenboğa based ASK has decreased by 22% and 2%, respectively. (Total rate of ASK decrease 14%)
- As of March 2019, the load factor is 85.4%.

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9. FLEET

31.03.2019	Type	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Total	
Wide Body	A330-200	5		13	4.680	11,1	18	
	A330-300		29	8	10.807	5,2	37	
	A340-300	1			270	19,1	1	
	B777-3ER		27	6	11.670	5,4	33	
	Total	6	56	27	27.427	6,6	89	
Narrow Body	B737-900ER		15		2.355	5,8	15	
	B737-9 MAX		1		169	0,1	1	
	B737-800	28	37	15	13.072	10,1	80	
	B737-700			1	124	13,1	1	
	B737-8 MAX		11		1.661	0,3	11	
	A321 NEO		5		910	0,2	5	
	A319-100		6		792	7,9	6	
	A320-200	5	7	6	2.868	12,1	18	
	A321-200	4	58	6	12.360	6,8	68	
	B737-800 WL			19	3.591	14,0	19	
	Total	37	140	47	37.902	8,5	224	
	Cargo	A330-200F	1	9			5,4	10
		B777F		5			0,8	5
Wet Lease				8		22,7	8	
Total		1	14	8		10,4	23	
GRAND TOTAL		44	210	82	65.329	8,1	336	

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10. FINANCIAL SITUATION

SUMMARY OF BALANCE SHEET (Mn TRY)

	31 March 2019	31 December 2018
<u>ASSETS</u>		
Current Assets	27,141	23,706
Non-Current Assets	101,913	85,370
Total Assets	129,054	109,076
<u>LIABILITIES</u>		
Total Current Liabilities	33,909	27,273
Total Non-Current Liabilities	61,974	50,519
Total Equity	33,171	31,284
Total Liabilities and Equity	129,054	109,076
Debt to Assets Ratio	0.71	0.71
Equity Ratio	0.29	0.29

SUMMARY OF INCOME STATEMENT (Mn TRY)

	1 Jan. – 31 Mar. 2019	1 Jan. – 31 Mar. 2018
Sales Revenue	14,848	10,532
Gross Profit	1,415	1,588
Operating Profit Before Investment Activities	(809)	156
Profit/Loss Before Tax	(1,542)	(386)
Profit/Loss for the Period	(1,253)	(314)
Earnings Per Share (Kr)	(0.91)	(0.23)

SUMMARY OF BALANCE SHEET (Mn USD)

	31 March 2019	31 December 2018
<u>ASSETS</u>		
Current Assets	4,822	4,505
Non-Current Assets	18,107	16,227
Total Assets	22,929	20,732
<u>LIABILITIES</u>		
Total Current Liabilities	6,027	5,184
Total Non-Current Liabilities	11,011	9,603
Total Equity	5,891	5,945
Total Liabilities and Equity	22,929	20,732
Debt to Assets Ratio	0.74	0.71
Equity Ratio	0.26	0.29

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SUMMARY OF INCOME STATEMENT (Mn USD)

	1 Jan. – 31 Mar. 2019	1 Jan. – 31 Mar. 2018
Sales Revenue	2,768	2,763
Gross Profit	264	416
Operating Profit/Loss Before Investment Activities	(150)	41
Profit/Loss Before Tax	(283)	(107)
Profit/Loss for the Period	(229)	(86)
Earnings Per Share (USc)	(0.17)	(0.06)
EBITDAR	358	528
EBITDA	208	329
EBIT	(152)	60
EBITDAR Margin	13%	19.1%
EBITDA Margin	7.5%	11.9%
EBIT Margin	(5.5%)	2.2%
Operating Profit Margin	(5.4%)	1.5%
Net Profit Margin	(8.3%)	(3.1%)

11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES

Within the scope of “2009-2023 Fleet Projection”, “2012-2020 Fleet Plan” and “2019-2023 White Body Fleet Plan” confirmed by the Board, number of aircraft and delivery years are stated on the following table.

On March 9, 2018, in order to insure the need for wide body aircraft, the Incorporation has decided to purchase 50 firm and 10 optional aircraft, a total of 60 wide body aircraft to be delivered between 2019 and 2023. According to this, a total of 30 B787-9 aircraft, of which 25 firm and 5 optional, will be purchased from Boeing and a total of 30 A350-900 aircraft, of which 25 firm and 5 optional will be purchased from Boeing.

On March 15 and April 9, 2013, in order to insure the need for single-aisle passenger aircraft, the Incorporation had decided to purchase 92 A321 NEO and 75 B737 MAX aircraft from Airbus and Boeing. Three A321 NEO aircraft, four B737-8 MAX and one B737-9 MAX aircraft of these order has been delivered in the first quarter of 2019. The rest of the purchase order is planned to be delivered until the end of 2023.

By the end of March 2019, the operation has been carried out by 89 double-aisle passenger aircraft, 224 single-aisle passenger aircraft and 23 cargo aircraft. Double-aisle aircraft constitute about 26.5% of the total number of

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aircraft in fleet. Due to the effect of stage length and seat capacity, contribution of wide body aircraft to the production is more than 50%.

31.03.2019		2011-2023 Aircraft Purchases														
		Delivered								Total Deliveries						
		2011	2012	2013	2014	2015	2016	2017	2018	TOTAL	2019	2020	2021	2022	2023	TOTAL
Wide Body	A350-900											5	4	8	8	25
	B787-9										6	9	6	4		25
	A330-300	3	3	2	6	7	5			26						
	B777-3ER	7			4	7	6	1		25						
	Total	10	3	2	10	14	11	1		51	6	14	10	12	8	50
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	7	12	19	15	12		58
	A321	8	7	9		13	10			47						
	A321 NEO								2	2	15	22	20	18	15	90
	A319	6								6						
Total	18	16	16	10	18	30		9	117	32	46	35	30	15	158	
Cargo	A330-200F	1	1	2		1	2	1		8						
	B777F							2	3	5	1	2				3
	Total	1	1	2		1	2	3	3	13	1	2				3
GRAND TOTAL		29	20	20	20	33	43	4	12	181	39	62	45	42	23	211

Decree on State Aids for Investments

In our country, “Investment Incentive System” is implemented to aim targets such as:

- Increasing production and employment,
- Increasing international direct investment,
- Reducing the regional development disparities,
- Encouraging strategic investments with regional and large-scaled investment which has high research-development content to increase international competitiveness,
- Directing savings to high value added investments in line with targets, foreseen in annual programs and development plans,
- Supporting research and development activities with clustering and environmental protection investments,

This system provides support to taxpayers when they guarantee the achievement of aforementioned targets. These supports are:

- Customs Duty Exemption,
- Value Added Tax Exemption,
- Tax Reduction (reduce corporate tax)
- Income Tax Withholding Support,
- Insurance Premium Employer Contribution Support,
- Insurance Premium Employee Contribution Support,
- Interest Rate Support,
- Investment Space Allocation,

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Our Incorporation has right to benefit from some incentives in “Investment Incentive System” due to airline cargo and passenger transportation activities. As a result of the applications within this scope, Investment Incentive Certificates are obtained for supply of aircraft and ground handling services. The information on the Investment Incentive Certificates that may have an impact on the current or future financial reports of the Incorporation and the incentives utilized are listed below:

Date of Cabinet Decree	Number of Cabinet Decree	Date of Inv. Incentive Certificate	Investment Status	Tax Reduction	Total Amount of Investment TL: (*)	Utilized Contribution Amount of Investment TL: (**)
14.07.2009	2009/15199	28.12.2010	Completed	Tax Reduction %50 / Contribution rate to Investment %20	13,267,897,366	16,587,441
15.06.2012	2012/3305	18.12.2014	Continue	Tax Reduction %50 / Contribution rate to Investment %15	16,968,269,342	0
21.01.2018	2017/11133	9.08.2018	Continue	Tax Reduction %90 / Contribution rate to Investment %50	4,924,447,036	0
21.01.2018	2017/11133	11.09.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %25	2,518,000,000	0

(*) Because the investments are realized in foreign currency and revisions made on investments, the amount of investment at the time of application and the amount of investment at the time of completion may vary.

(**)The contribution amount of investment, which is not utilizable when there is no tax base, is transferrable by indexing with revaluation rate in accordance with the provisions of the relevant legislation.

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The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to the cities Zonguldak of Turkey, Abha of Saudi Arabia, Juba of South Sudan, Aswan and Luxor of Egypt, Makhachkala of Russia, Krakow of Poland, La Coruna of Spain, Lenkeran of Azerbaijan, Luanda of Angola, Mexico City and Cancun of Mexico, Nantes and Strasbourg of France, Denpasar of Indonesia, Palermo of Italy, Rovaniemi of Finland, Port Sudan of Sudan, Newark of United States of America, Pointe-Noire of Republic of the Congo and Port Harcourt of Nigeria.

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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