

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION I – CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Embracing the principles of transparency, justice, responsibility and accountability, as well as perfectly publicizing and representing Turkey and Turkish Aviation Sector in the international platform, The Company complies with all the mandatory Corporate Governance Principles included in the Appendix of the Corporate Government Communiqué n.II-17.1 of the Capital Markets Board (CMB) and pays utmost attention to comply with the non-mandatory principles. With the assent n.29833736-199 441-1915 dated 27 February 2013 of the CMB, The Independent Member of the Board of Directors Muzaffer Akpınar, was exempted from the Article “g” of the principle n.4.3.6 regulating the issue of “not being a Board member of the Company more than six years in the last ten years”. The Company continues to develop the corporate governance approach and – constantly increases its level of compliance to the corporate governance principles.

SECTION II - SHAREHOLDERS

2.1 Investor Relations Department

The Investor Relations Department, which reports directly to the CFO, Mr. Coşkun Kılıç, has been established as a unit to oversee the communication of accurate, consistent and timely information to our national and international investors, maintaining communication and exchanging information with the Board of Directors and capital market supervisors and participants, as well as monitoring compliance with regulations and Articles of Association for the exercising of shareholders rights, and the compliance of public disclosures with all kinds of regulations.

During the 2013 fiscal year, Investor Relations Department participated 16 investor conferences and road shows with the aim of sharing the financial, operational and strategic developments about the Company with the investors and analysts, made 12 teleconferences and organized an Investor Webcast meeting.

In these conferences and teleconferences, 431 investors/analysts from 264 corporations and funds were met at the Company Headquarters or at the Investors’ offices. During the year of 2013 around 2500 informational requests were made to our Company by e-mail. In addition to the applications made by e-mail, many investors and shareholders were also informed by telephone. Our Investor Relations personnel and their contact information is given below:

Duygu İnceöz

Investor Relations - Manager

Licenses:

- Capital Market Activities Advanced Level License
- Corporate Governance Rating Specialist License

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2.2. Shareholder's Right to Obtain Information

Within the scope of the CMB Communiqué On Principles Regarding Public Disclosure Of Material Events and Communiqué On Corporate Governance, relevant provisions of the Turkish Commercial Code and Borsa Istanbul (BIST) regulations; our Board of Directors has established a Public Disclosure Policy to determine the general principles and procedures regarding public disclosure and how to share information with the shareholders, investors, other participants in the capital market and other relevant stakeholders.

The Board of Directors of our Partnership has formed a Disclosure of Information Policy with the aim of determining the and sharing information – in which manner, how often, and in which methods – In the course of implementing the Public Disclosure Policy; the aim is to provide all stakeholders including shareholders, investors, employees, and customers with punctual, accurate, complete, comprehensible, easily accessible information, events and developments that might influence the investment decisions of the investors.

Within this scope, during the fiscal year 2013, 67 Material Disclosures were made by our Company, while no additional information was demanded by CMB and BIST regarding these disclosures. Our Company has used its best efforts to ensure that its material disclosures were communicated to investors, shareholders, institutions and corporations simultaneously, in due course and in an understandable, accurate and interpretable form.

As per the 'Regulation Regarding the Websites of Capital Companies' dated 31 May 2013, of the Ministry of Customs and Trade, the required content can be accessed through the "Information Society Services" link given on the homepage of our Company's website.

On the other hand, in order to ensure the shareholders' rights to obtain information, an Investor Relations website (investor.turkishairlines.com) is available – accessible also from our Company's corporate website – where investors and other stakeholders can access all financial and operational data, material disclosures and all announcements regarding the utilization of shareholders' rights.

In the Articles of Association there is no provision regulating the request for appointing a Special Auditor.

2.3. General Assembly Meetings

An Ordinary General Assembly Meeting was held on 29 March 2013, to review 2013 accounts and operations at the VIP Meeting Room of the General Administration Building at Atatürk Airport Yeşilköy-Bakırköy/İstanbul – Company Headquarters’ address. Shareholders representing TL 893,729,919.42 of the Company’s issued capital of TL 1.200.000.000 attended the Ordinary General Assembly Meeting, where there was no media attendance. As per the Turkish Commercial Code n.6102 and CMB legislation, the General Assembly was convened in physical and electronic environment.

Invitation to the Ordinary General Assembly Meeting was announced in the Turkish Trade Registry Gazette, Electronic General Assembly System within the Central Registry Agency, Public Disclosure Platform, and Investor Relations website of the Company.

As per Article 437 of the Turkish Commercial Code, financial statements, consolidated financial statements, annual activity report of the Board of Directors, audit reports and profit distribution proposal of the Board of Directors were presented for the review of the shareholders at the Company’s Headquarters and branches prior to the General Assembly meeting in line with the schedules stipulated in the legislation. At the General Assembly Meeting, existing practice endeavors to respond to shareholder questions verbally, and to address more comprehensive questions in writing; however since no questions requiring a written answer were received during this period, verbal explanations were deemed adequate. At the General Assembly, there weren’t any agenda proposals made by shareholders.

General Assembly Meeting Minutes and Attendance List are publicly shared on the same day via Public Disclosure Platform, and also presented on the Company’s Investor Relations website to inform the shareholders. General Assembly Meeting Minutes and other documents regarding previous years are also available on the Company’s Investor Relations website.

Within the framework of our Donation policy accepted by the General Assembly, information about the donations and charities made in this period is discussed as a separate agenda item at the General Assembly. The Donation Policy of our Company is available on our Investor Relations website for the information of our shareholders.

2.4. Rights to Vote and Minority Rights

Voting rights are set out in Article 31 of our Articles of Association, as follows:

“Each shareholder or proxy attending the ordinary or extraordinary Shareholders Assembly Meetings will be vested with one vote for each share, provided that the provisions of Article 6/d of the Articles of Association are reserved.”

Under Clause 5 of Article 14 of our Articles of Association;

The Board member representing Group C shares is required to attend the meeting, and his affirmative vote is required for the effectiveness of the resolutions of the Board of Directors regarding the following issues:

- Resolutions that will clearly have an adverse effect on the mission of the Incorporation as indicated in Article 3.1 of the Articles of Association;
- Any suggestion to be made to the Shareholders Assembly for any modification of the Articles of Association;
- Increase of the share capital;
- Approval of the transfer of registered shares and registration of the transfer in the Share Register;
- Any transaction, based on each contract, which exceeds 5% of the total assets of the Incorporation as indicated in the latest balance sheet submitted to the Capital Markets Board, and which is directly or indirectly binding for the Incorporation, any resolution which will place the Incorporation under any form of commitment, (provided that in the event that the public share in the Incorporation has decreased below 20% of the Incorporation's share capital, the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution on the cancellation of any flight route, or for a remarkable decrease in the number of flights, excluding those routes which do not generate revenue to meet its own operating costs based on exclusive market conditions, or through other sources.
- The privileges of the Group C share may only be limited by the High Commission of Privatization, or any other public institution which has assumed such duties.
- No mutually-affiliated relationship exists with any other company. Our Articles of Association do not contain provisions for accumulated voting.

2.5. Dividend Rights

The determination and distribution of profits from our Company are set forth in Article 36 of our Articles of Association. There are no privileges in dividend participation.

The General Assembly shall determine the time and method of payment of dividends in accordance with the directives of the Capital Markets Board. In this regard, our Company's dividend distribution policy as formulated by the Board of Directors by taking the strategic targets, growth trend, financial needs and the expectations of the shareholders of the Incorporation into consideration, and under the provisions of the Turkish Commercial Code, Capital Markets Law, other related legislation and its Articles of Association, and this policy is available on the Investor Relations website of the Company.

2.6. Transfer of Shares

According to the Article 6 of our Articles of Association regarding Shareholders Nature, the shares held by foreign shareholders may not exceed 40% of the issued share capital of the Incorporation. In calculating the rates of the shares held by foreigner shareholders, the rate of foreign shareholding in the shares held by the shareholder holding Group A shares, which are not open to the public, will be taken into consideration too.

As per the Article 7 of the Articles of Association regarding "Transfer of Shares", share transfers are subject to the Turkish Commercial Code, Capital Market Legislation and Civil Aviation Legislation. Issues regarding Shareholder Nature and Transfer of Shares and implementation principles and justifications are specified in the relevant articles of the Articles of Association, and are also available on the Company's Investor Relations website.

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SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Its Content

Our Company's corporate web address is "www.turkishairlines.com" and Investor Relations web address is "investor.turkishairlines.com" and both websites also have an English version. Information on the Company's corporate website and the Investor Relations website should be equal and/or consistent with the disclosures pursuant to related articles of legislation; they may not contain contradicting or deficient information. The Investor Relations website covers the following subjects listed in the Corporate Governance Principles; current Partnership structure, the updated version of the Company's Articles of Association, as well as all the amendments that are published on Turkish Trade Registry Gazette, General Assembly Meetings agenda, proxy form, list of attendants, additional information and meeting minutes, Activity Reports, Financial Statements, commercial activity data, Company presentations, Corporate Governance Principles Compliance Reports, information on the Board of Directors and Committees, Material Disclosures, Code of Ethics, Policies (Profit Distribution Policy, Public Disclosure Policy, Remuneration Policy, Donation Policy), information regarding the transactions with the "related parties", share information, analyst information, Trade Registry information, contact information and frequently asked questions, are given. On the Investor Relations website, in the "contact" section, investors are directed to the ir@thy.com e-mail address for any questions and opinions.

3.2. Activity Report

Our Company's annual and interim activity reports contain information listed in the Corporate Governance Principles.

PART IV - STAKEHOLDERS

4.1. Informing the Stakeholders

In our announcements to the public of information regarding our Company, in addition to forecast and material disclosure announcements, other information and statements deemed to be of interest to other beneficiaries are delivered in a timely and clear manner through the appropriate communication channels. In addition to stakeholders and investors, suppliers, financial institutions and other interested parties may obtain information about our company via press releases, activity reports and our website. Personnel receive information regarding the Company's general practices and operations through internal announcements via the Company intranet site, which is actively used. In addition, the monthly magazine Empathy is published for inter-company communication. The internal communication channels of our Company are designed to be open to all stakeholders, with contact information also announced on the Company's web site. There is no Company practice that in any way obstructs stakeholders in contacting the Corporate Governance Committee or Audit Committee.

4.2. Stakeholders taking part in management

Our Company organizes meetings with international and domestic sales agents, Our Company's sales teams and personnel from different levels. Besides these meetings, our Company also organizes management meetings regularly each year. The national and international managers of our Company, upper management and the Board of Directors participate in these meetings. Opinions are exchanged on relevant matters both at these meetings, by workshops and panels.

In addition, a proposal system is used in our Company. Through this system, employees can propose opinions for improvement and development within the Company, with those proposals deemed appropriate being implemented.

4.3. Human Resources Policy

Our Company adheres to the Human Resource Procedure established by our Board of Directors. With sub-units structured along these procedures, all personnel activities are realized within the framework of legislation.

Relations with employees are realized through the Personnel Relations Directorate. Mr. Ebubekir Baysal, as Chief of Personnel Relations, is responsible for improving communication with employees, as well as for answering questions, solving problems and making announcements of interest to all employees. Questions and complaints, reaching the Directorate through various means are solved in coordination with the related departments. To date, among notifications made to the Ethics Line Board, which is the application point for our Company's employees with regards to discrimination and conflict of interest have included cases of direct or indirect discrimination. In order to resolve these applications, the Ethics Committee has decided to listen to the related personnel, in terms of gathering the opinions of relevant departments, thereafter acting upon the results received. Other than this, there were no claims of discrimination and conflict of interests. Up-to-date job descriptions of our Company's staff are published on THY Intranet website.

All employees can access their job description via the intranet page. A Performance Management System Guideline has been prepared that covers performance criteria. Performance Management Procedure preparations are ongoing.

In addition, our Company's personnel are unionized, and as such work under a collective bargaining system. Employee/employer relations are conducted in an effective and results-oriented manner at all levels and on any subject concerning collective bargaining and personnel and representatives appointed by the union in numbers and percentages as specified in the latest legislation and by union directors. Additionally, training services are provided to all our personnel.

4.4. Code of Ethics and Social Responsibility

Our Company continues its practices in accordance with its flag carrier identity, with the provided service quality and social responsibility, both domestically and internationally. Our Board of Directors has prepared a Code of Ethics within the framework of Corporate Governance Principles, which is also published on our website. In addition, job descriptions are prepared for employees. It is required that they behave along accepted principles in

business life, and to be respectful in their words and deeds with regards to legislation, ethical values, social norms and the environment. An Ethics Line Board has been established to enable the Company's employees Our Partnership continuous to carry out all its activities in and outside the country by taking its responsibilities on the climate, environment and social issues into consideration. Environmental and Social Responsibility Report composed of all tasks carried out regarding these responsibilities is available in English on the Investor Relations website.

Our Company, the main sponsor of the "Euroleague Basketball Championship" which is the biggest basketball organization of Europe, pioneers many social projects for the disabled with the support of the basketball teams, within the framework of "One Team" project. Moreover, support is given to a number of projects carried out by "Turkish Red Crescent" and "AKUT Search and Rescue Association". There has been no case against the Company in Turkey regarding environmental damage.

PART V – BOARD OF DIRECTORS

5.1. Structure of the Board of Directors and its Formation

The Board of Directors is comprised of nine members elected by the General Assembly. At least eight out of nine Board Members should be elected from among Class A shareholders with the highest vote, and one member should be chosen from among the Class C share shareholders.

At least six Board Members, including the Board Member representing the Class C share, must be Turkish citizens. The term of office for Board members is 2 (two) years. The General Assembly may terminate the membership of a Board Member before the end of his/her term. Board Members whose term has expired may be reelected.

Three members of the Board of Directors are appointed to the Executive Committee, and the other six are non-executive members. Among the non-executive Board of Directors three are independent members of the Board. Since the aviation industry has a dynamic nature, were the Board of Directors and President of the Executive Committee the same person, it would create uniformity. Therefore, at our Company the President of the Board of Directors and Executive Committee is the same person, and the CEO is not the President of the Board of Directors.

Information on the Members of the Board as of 31.12.2013:

Name Surname	Office	Start Date of the Office	Status of Independency	Committees participated and office
Hamdi TOPÇU	Chairman, Board of Directors	01.01.2010	Non-Independent	Executive Committee / Chairman
Prof. Dr. Cemal Şanlı	Deputy Chairman, Board of Directors	01.01.2010	Non-Independent	Executive Committee / Deputy Chairman
Doç. Dr. Temel KOTİL	CEO, Member of the Board	26.04.2005	Non-Independent	Executive Committee / Member
Mehmet Büyükekşi	Member of the Board	03.03.2004	Non-Independent	Corporate Governance Committee / Member
Muzaffer Akpınar	Member of the Board	24.04.2007	Independent	Financial Audit Committee / Chairman
İsmail Gerçek	Member of the Board	08.04.2011	Non-Independent	Corporate Governance Committee / Member
Prof. Dr. Mecit Eş	Member of the Board	29.03.2013	Independent	Financial Audit Committee / Member
Naci Ağbal	Member of the Board	10.10.2012	Non-Independent	
Mehmet Nuri Yazıcı	Member of the Board	10.10.2012	Independent	Corporate Governance Committee / Chairman

The résumés of Board Members, their office tenure and duties beyond the Company are presented in the Activity Report and on the Company’s website. Independency Declarations of independent members are announced publicly via the Public Disclosure Platform and are attached to the activity report.

5.2. Activities of the Board of Directors

The activities of the Company’s Board of Directors are specified in Article 14 of the Articles of Association;

The Board of Directors shall meet whenever necessary and at least once a month under all circumstances. The meeting venue will be at Company headquarters. Other venues may be chosen by a Board decision. Matters to be discussed at Board meetings shall be specified on an agenda to be communicated to Board Members prior to the meeting. Invitations to Board meetings shall be made at least three days prior to the actual meeting. Board of Directors meets, with a quorum of at least six members. Decisions of the Board of Directors require the positive votes of at least five members. Members, who have not attended four consecutive meetings, or six meetings in one year without excuse accepted by the Board of Directors, or for a justified reason are considered to have resigned from office.

Issues that will be applicable provided that the members of the Board of Directors representing Group C shares attend the meeting and cast an affirmative vote are specified in this report’s section 2.4 on the “Rights to Vote and Minority Rights”.

During 2013, the Board of Directors met 42 times and passed 228 decisions. Among the discussed matters, there are no related party transactions or transactions of important nature, which are not approved by independent board members and that require submission to the General Assembly.

Employer's Liability Insurance is made by our Company, with an insurance coverage of USD 25 million, that covers the damages the Director is requested to pay as a result of not fulfilling his/her responsibilities with sufficient scrutiny and of the fault, neglect or mistakes he/she made while performing his/her tasks.

5.3. Committees within the Board of Directors, Number, Structure and Independence

The following committees have been formed under the organization of the Board of Directors within the framework of TCC and CMB legislation. Nomination Committee, Early Identification of Risks Committee , and a Remuneration Committee have not been formed. Instead it was approved for these duties to be transferred to the Corporate Governance Committee. The members of the Financial Audit Committee and Corporate Governance Committee have been determined by the Board of Directors and publicly announced. The assigned positions, and working principles are set by the Board of Directors.

Turkish Airlines Corporate Governance Committee

President: Mehmet Nuri YAZICI

Members: Mehmet Büyükekşi, İsmail Gerçek

The Corporate Management Committee reports directly to the Board of Directors. It supports and helps the Board of Directors with practices in the following areas: The Company's compliance with internationally approved Corporate Management Principles, determining Board of Directors and Senior Managers, evaluation of wages, awards and performances and career planning, as well as investor relations and public disclosure matters. The Corporate Management Committee reviews the system and processes formed and will be formed for performance increasing management practices, evaluates them and gives recommendations.

Turkish Airlines Financial Audit Committee

President: Muzaffer Akpınar

Member: Prof. Dr. Mecit Eş

The Financial Audit Committee directly reports to the Board of Directors. It supports and assists the Board of Directors in the following areas: The compliance of Company practices with national and international codes and legislation, improving work processes through audit and coordinating work on information transparency. The Audit Committee is responsible for taking all precautions necessary for any kind of internal and external audit to be executed in a sufficient and transparent manner; and to carry out the duties, subject to Capital Markets Board legislation. Financial Audit Committee members are selected from among Independent Board Members.

5.4. Risk Management and Internal Control Mechanism

Risk Management Mechanism

An effective risk management strategy at our Company is critical in taking under control potential risks inherent in the airline industry, which is prone to fierce competition, and to ensuring sustainable growth. In an effort to provide a reasonable degree of security against possible shocks by minimizing sensitivity to fluctuations, particularly those relating to fuel and carbon emission prices, interest rates cash flow and exchange rates, as well as counterparty risk, the Financial Risk Management Department devises the Company's Financial Risk Management strategy, and works towards the management of actual/potential financial risks the Company is exposed to.

Addressed as a matter of first priority within this framework, hedging in relation to fuel prices, amongst the Financial Risks the Company is exposed to, commenced in June 2009. Within the market experience during those years, number of instruments were increased gradually and hedging is ongoing within the framework of the dynamic strategy.

In order to minimize the impact of exchange rate fluctuations, regarded as a major risk element in view of the Company's field of activity and to keep the risks that can arise from potential differences between forecasted and actualized income and expenses under control, a proactive exchange rate policy is implemented based first and foremost on natural risk management for exchange rates, by also taking into account the evaluation of the available cash portfolio.

In addition to this, the aim of the strategy launched in 2013 June is to minimize the financial risk that can arise as a result of the possible negative fluctuations in FX, by using derivative transactions. In this context, upon determining the EUR, USD and TRY currency positions anticipated for each month as a result of the Company's monthly updated cash flow forecasting study, financial risk prevention is gradually actualized by using forward contracts with the aim of selling EUR at a fixed rate and buying USD and TRY within the next 24 month period for a portion of these currency positions.

In addition, the Company established its liability in relation to carbon emissions, laid down the strategy to protect against carbon emission risk, and works as necessary within the framework of the Carbon Emission Trading System.

Internal Control Mechanism:

Within our Company, there is an Audit Board that;

- audits, with a systematic and disciplined approach, the Company's activities, corporate governance, effectiveness of risk and control processes, and
- provides consultancy and assurance on the issue of efficiency and effectiveness of these processes, and
- presents opinions and suggestions.

In this respect, the Audit Board reports and counsels to the Senior Executive Management about the issues listed below and supervises whether the findings and recommendations are fulfilled or not;

- conducting the Company's activities in compliance with the legislation, Partnership's internal regulations, agreements, specified strategies, policies and targets
- good governance, effective management of internal control and risk processes,
- effective and efficient utilization of the Company's resources,
- providing reliable, consistent and updated data,
- continuous improvement of the units and processes,
- improvement of Company services are to the quality that will provide the highest level of customer satisfaction,
- effective communication of the information obtained during audits to the necessary units of the Company,
- coherence and coordination among the units,
- detection of faults, fraud and misconducts that can cause a loss in the income and assets of the Corporation and implementation of measures.

5.5. Strategic Targets of the Company

The Board of Directors shall approve the strategic targets set out by the management and continuously and effectively monitor these targets, as well as the activities of the Company and its past performance. In doing so, the Board shall strive to ensure compliance with international standards, and wherever necessary, take preemptive action to potential problems. The mission of the Company as it appears in Article 3 of the Articles of Association is indicated below:

- a) To develop the Company's standing as a global airline by expanding the coverage of its long-range flight network.
- b) To develop the Company's standing by making its technical maintenance unit a major regional technical maintenance resource.
- c) To develop the Company's standing as a service provider in all strategically important aspects of civil aviation, including ground handling services and flight training.
- d) To defend the Company's standing as the leader of the domestic airline industry.
- e) To provide uninterrupted, and superior-quality flight service by entering into a collaborative agreement with a global airline alliance that will complement its own network in such a way as to advance the Company's international image and enhance its marketing abilities.
- f) To defend and improve upon Istanbul's reputation as a regional aviation hub. In its capacity as the flag carrier of the Republic of Turkey in the civil aviation industry, to be a leading European airline and an active global player by virtue of its flight safety and security record, its product diversity, its service quality, and its competitive stance.

Our company Vision;

- a. Continue sustained growth above the industry average
- b. A zero accident and crash record
- c. The most envied service levels worldwide
- d. Unit costs equal to those of low-cost carriers
- e. Sales and distribution costs below industry averages
- f. Loyal customers, who take care of their own reservation, ticketing, and boarding formalities themselves
- g. Personnel who constantly develop their qualifications with the awareness of the close relationship between the benefits for the Company and the added value that they contribute

h. A sense of entrepreneurship that creates business opportunities for fellow members in the Star Alliance, and takes advantage of the business potential provided by them

A management team, whose members identify with modern governance principles and are distinguished by being mindful of the best interests not just of shareholders, but of all stakeholders.

5.6. Financial Rights

All kinds of rights, benefits and remuneration and the criteria to determine them, as well as the basics of remuneration are written in the Remuneration Policy of our Company. This policy is publicly disclosed and published on our website. There are no explanations on a personal basis, however there is a distinction between the Board of Directors and Senior Managers. Remuneration of the Board of Directors is determined by the General Assembly through a separate agenda item. Board Members may not obtain any loan or debt from the Company.