

## **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. 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 2014 fiscal year, Investor Relations Department participated 20 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 15 teleconferences and organized an Investor Webcast meeting. In these conferences and teleconferences, 405 investors/ analysts from 289 incorporations and funds were met at the Company Headquarters or at the Investors' offices. During the year of 2014, around 2500 informational requests were made to our Company by e-mail. The Department presented its report about the activities it carried out in 2014, to the Board of Directors of the Incorporation on 20.02.2015.

Our Investor Relations personnel and their contact information are given below:

#### **Duygu İnceöz**

*Investor Relations - Manager*

Licenses:

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

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#### **Özge Şahin**

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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. This –Public Disclosure Policy was announced on the Investor Relations website after it was revised – upon the Board of Directors decision n.11.08.2014/132 – in line with the provisions of; (i) the “Communiqué on Material Matters” n.II-15.1 that entered into force within the scope of the new Capital Markets Law n.6362 and that stipulates the public disclosure principles, and (ii) the Corporate Governance Principles stipulated in the annex of the Corporate Governance Communiqué n.II-17.1. 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 2014, 51 Material Disclosures were made by our Company, while no additional information was -requested 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 incorporations 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](http://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. Furthermore, entities that sign in the distribution list on the website can receive up-to-date information via email about operational and financial announcements.

There is no provision in the Articles of Association about the requests made for appointing a private auditor. Within 2014, there were no requests made for appointing a private auditor.

### **2.3 General Assembly Meetings**

An Ordinary General Assembly Meeting was held on 27 March 2014, 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 979,363,716,726 of the Company’s issued capital of TL 1.380.000.000 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 05.03.2014/8521, Sabah Newspaper dated 04.03.2014, Electronic General Assembly System within the Central Registry Agency, Public Disclosure Platform, and the notification and the announcements that must be made by the Incorporation as per the relevant legislation,– 21 days prior to the meeting date – were announced on the 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.

As per the Turkish Code of Commerce, the Law and relevant legislation, the Chairman of the Assembly makes arrangements in prior and gets necessary information about the procedures of the General Assembly. At the General Assembly Meeting of our Incorporation, agenda items were conveyed in an objective, detailed, clear and comprehensible method while the shareholders were given the opportunity to state their opinions and ask questions under equal circumstances. As a principle, shareholders’ questions are answered verbally at the General Assembly while comprehensive questions are answered in writing. However, due to the fact that there were no questions that required written answers in this period, verbal explanations were sufficient for the three questions asked by the shareholders about the “Structure of the Board of Directors’ “Honorariums of the Members of the Board of Directors’ and “Incorporation’s financial profitability in 2013”. At the General Assembly, shareholders did not make any proposal on the agenda. General Assembly Minutes of the Meeting and List of Attendants 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. The minutes of the Ordinary General Assembly Meeting held on 27.03.2014 were announced in the Turkish Trade Registry Gazette n.8550 (date: 15.04.2014).

Within the scope of our Incorporation’s knowledge; shareholders (who control the management of the Company), members of the Board of Directors, managers who have administrative responsibilities, and their spouses and blood relatives and relatives by marriage up to second-degree did not make any important transaction with the Company or its associate companies which may lead to conflicts of interest. Furthermore, the aforementioned persons did not make any transaction, related to a commercial business that is within the scope of the Company’s or its associate companies’ field of activity, for their own account or for the account of others or did not become unlimited partners in other companies carrying out similar commercial businesses.

Regarding the special agenda items, Members of the Board of Directors, other relevant persons, executives who have responsibilities in preparing and issuing financial statements and auditors, were made ready to attend the General Assembly meeting in order to provide information and to answer questions.

Within the period, there were no transactions left to the General Assembly for resolution due to majority of the independent members of the Board of Directors casting negative votes in cases where affirmative votes of the majority of the independent members of the Board of Directors is required for the Board of Directors to take a decision.

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 total amount of donation made by our Incorporation to the THY Sports Club is TL 116.608. There are no other donations made apart from this. The Donation Policy of our Company is available on our Investor Relations website for the information of our shareholders. At the Ordinary General Assembly held on 27.03.2014, a unanimous decision was taken to limit the donations to be made in 2014 with an upper limit that will be determined by the Capital Markets Board as per the 19th Article of the Capital Markets Law.

Procedures regarding the General Assembly Meetings of our Incorporation, are given in our publicly announced Articles of Association that is available on the Investor Relations website of our Company. According the 29th Article of the Articles of Association, shareholders who have the right to attend the General Assembly meetings of the Incorporation, may attend these meetings on electronic platform (environment) as per the 1527th Article of the Turkish Code of Commerce.

## **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. Profit distribution policy is included in the Board of Directors Annual Report. Profit distribution policy includes the necessary information that would help the shareholders see the principles and procedures for distributing the profit the incorporation will obtain in the future, and pursues a balanced policy between the shareholders' benefits and the incorporation' benefits.

According to the 2013 accounting period's consolidated financial statements that were prepared in conformity with the Turkish Financial Reporting Standards (TFRS) there was a net period profit of TL 682.707.427 TL whereas in our legal records (prepared in accordance with the Tax Procedure Law) there was a net period loss of TL 1.023.653.930. Within this framework, decision was taken at the General Assembly held on 27.03.2014; (i) to transfer the TL 1.023.653.930 net period loss in the legal records to the "previous years' losses", and (ii) to transfer the TL 682.707.427 net period profit obtained according to the financial statements that were prepared in conformity with the TFRS, to the "previous years' profits" in the balance sheet that was prepared in accordance with the TFRS, and (iii) not to make profit distribution to the shareholders of the Incorporation in 2013 due to the fact that there are no funds in the legal records for profit distribution.

## **2.6 Transfer of Shares**

According to the Article 6 of our Company's Articles of Association regarding "Shareholders Nature, the shares held by foreign shareholders may not exceed 40% of the total issued 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. In our Articles of Association, there are no provisions that complicate shareholders using their right to transfer their shares freely.

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.

## **SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1 Corporate Website and Its' Content**

Our Company's corporate web address is "<http://www.turkishairlines.com/en-tr/>" and Investor Relations web address is "[investor.turkishairlines.com](http://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.

For international investors, all information on the Investor Relations Website is given also in English and has exactly the same content of the Turkish version. On the Investor Relations website, in the "contact" section, investors are directed to the [ir@thy.com](mailto:ir@thy.com) e-mail address for any questions and opinions.

### **3.2 Activity Report**

The Annual Report of our Incorporation is prepared in a manner that will provide complete and correct information to the public about the activities of the Incorporation. Information that must be included as per the Corporate Governance Principles is included in the Annual Reports.

## **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, our website and implementation of the Public Disclosure Policy. 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.

In case of conflicts of interest between the stakeholders or in case a stakeholder is involved in more than one group of interest; a balanced policy, as much as possible, is pursued to protect the rights of the stakeholders. In this aspect, the aim is to protect each right separately.

#### **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. Our Incorporation also takes all stakeholders' opinions and suggestions, and customer satisfaction surveys into consideration.

#### **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.

As a principle, persons under equal circumstances are provided with equal opportunities in recruitment and career planning processes. The procedures and principles in personnel employment process of our Incorporation, are described in the General Employment Procedures of the Incorporation and in employment process charts. Processes differ in working groups such as cockpit personnel, cabin personnel, personnel covered/not-covered in the Collective Agreement. In the procedures, general information about the responsible units in all phases, criteria for job ads, process flows and personnel record management is included. The procedures and principles of the Performance Evaluation System implemented in our Incorporation, and the performance evaluation criteria are described in the Incorporation's Performance Management System Manual, and are available for all our employees on our Incorporation's intranet page. Performance Management Procedure preparations are ongoing.

Relations with employees are realized through the Personnel Relations Directorate. Mr. Ebubekir Baysal, as Personnel Relations Supervisor, is responsible for improving communication with employees, as well as for answering questions, solving problems and making announcements of interest to all employees. Necessary measures are taken to prevent any race, religion, language and gender discrimination among the employees, and to protect the employees against any physical, mental and emotional harassment at work. 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.

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. Employees are treated equally in all rights granted to them. Furthermore, training programs are organized to increase employees' knowhow, skills and experience. Our employees are provided with safe working environment and circumstances in and outside the country.

#### **4.4. Code of Ethics and Social Responsibility**

Continuing its activities in conformity with its flag carrier identity, our Incorporation pays utmost attention to act with the awareness of its social responsibilities in its activities and guides its subsidiaries in line with this goal. 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. There has been no case against the Company in Turkey regarding environmental damage 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. Within the scope the "One Team" project, various workshops were organized in Africa, Europe and Asia as we reached several communities in need of special support and had them join the social events with the help of the basketball organizations.

Within the scope of the "Widen Your Heart" program, 4 separate commissions were established and needy children were provided with clothing, alimentation and stationeries. With the "I've read it, you should, too" campaign children's libraries were built in 13 village schools across Turkey while with the "Let's make a snowman" campaign, 1,700 students were provided with winter clothes in 19 cities. And, with the "1 million young trees, 1 million smiling kids" campaign, Turkish Airlines Memorial Forest was established. Moreover, support is given to a number of projects carried out by "Turkish Red Crescent" and "AKUT Search and Rescue Association".

Our Incorporation takes all measures that create customer satisfaction in marketing and selling its services, and thus rapidly meets the customer requests regarding the services they purchase. Our Incorporation complies with the quality standards in the services it offers, and pays utmost attention to maintain the standards.



Within the scope of trade secrets, we pay attention to keep the information about our customers and suppliers confidential.

## **PART V – BOARD OF DIRECTORS**

### **5.1. Structure of the Board of Directors and its Formation**

With the strategic decisions it will take, the Board of Directors of our Incorporation administers and represents the Corporation by optimizing risk, growth and yield balance, and oversees the long term interests of the Incorporation with a rational and precautionous risk management approach. Our Board of Directors sets the strategic targets of the Incorporation, and determines the required work force and financial resources, and controls the performance of the management.

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, according to Article 10 of our Articles of Association. 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, as defined in the CMB legislation. Since the aviation industry has a dynamic nature, were the Chairman of the Board of Directors and the Executive Committee the same person, it would create uniformity. Therefore, at our Company the Chairman of the Board of Directors and Executive Committee is the same person, and the CEO is not the Chairman of the Board of Directors. No one, alone, has unlimited power to make decisions at our Incorporation.

There is no target for female members' ratio in the Board of Directors. On the other hand, we have one female member in the Board of Directors of our Incorporation as of 2014.

For the vacant positions of the Members of the Board of Directors of our Incorporation Mr. Mehmet Nuri Yazıcı and Mr. Prof. Dr. Cemal Şanlı who resigned on 28.03.2014, the Board of Directors prepared a list – in conformity with the Capital Markets Board legislation – of independent member candidates within the framework of the Corporate Governance Committee report (date: 01.04.2014) and requested consent from the CMB for the independent member candidates Mr. M. Ilker Aycı and Ms. Arzu Akalın. The Capital Markets Board, sent the consent letter n.29833736-199-696 (date: 04.04.2014) for both candidates – taking the Article n.6.2 of the Corporate Governance Communiqué into consideration for the nomination of Mr. Ilker Aycı as an independent member. As per the 363rd Article of the Turkish Code of Commerce; on 04.04.2014, Mr. M. Ilker Aycı and Ms. Arzu Akalın were appointed as independent members of the Board of Directors to complete the remaining term of office of the Board of Directors and to be presented to the approval the of the General Assembly at the first General Assembly meeting to be held.

Also on the same date, a decision was taken to appoint our Board member Prof. Dr. Mecit Eş as the Deputy Chairman of the Board of Directors and the Executive Committee. Information regarding the Members of the Board of Directors as of 31.12.2014, is given below. Majority

of the Members of the Board of Directors are non-executive members in conformity with the CMB's Corporate Governance Principles:

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. Mecit Eş	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 Büyükeksi	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
Arzu Akalın	Member of the Board	04.04.2014	Independent	Corporate Governance Committee / Chairman
Naci Ağbal	Member of the Board	10.10.2012	Non-Independent	Early Risk Detection Committee / Member
M. İlker Aycı	Member of the Board	04.04.2014	Independent	Early Risk Detection Committee / Chairman Financial Audit Committee / Member

Résumés of the Members of the Board of Directors and tasks they assume outside the Incorporation, are available in the “Board of Directors” section of the Annual Report and in the “Corporate Governance” section on our Incorporation’ Investor Relations website. In the annex of the Annual Report, independence statements of the independent members were submitted to the Public Disclosure Platform. Within the relevant activity period, there was no breach of independence.

## 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.

Chairman of the Board of Directors discusses with the other Members of the Board of Directors and the General Manager, and determines the agenda of the Board of Directors Meetings. Members pay special attention to attend all meetings and share their opinions at the

meetings. The call for the Board of Directors meeting is made three days prior to the meeting date in order to provide equal information flow of the information and documents regarding the agenda items. The opinions of the members not attending the meeting, but submitting their opinions to the Board of Directors in writing, are presented for the information of the other members.

Board of Directors meets, with a quorum of at least 6 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 6 meetings in one year without excuse accepted by the Board of Directors, or for a justified reason are considered to have resigned from office.

All members have one right to vote in the Board of Directors. 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".

At the Board of Directors Meetings, agenda items are explicitly discussed in all aspects. The Chairman of the Board of Directors pays utmost attention to enable the non-executive members to effectively attend the Board of Directors Meetings. Reasonable and detailed reasons of the negative votes given by the Members of the Board of Directors for the issues on which the Board Members state opposing opinions, are recorded in the decision book.

Members of the Board of Directors spare sufficient time for company affairs. In case a Member of the Board of Directors becomes a manager or a Member of the Board of Directors or provides advisory services in another company; such situation does not create any conflicts of interest and does not disrupt the existing tasks and duties of the member at the company. For this reason, there are no specific rules binding or restricting the Members of the Board of Directors to assume tasks outside the Company.

During 2014, the Board of Directors met 33 times and passed 222 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.

The Board of Directors plays a leading role in resolving the disputes that might interrupt the effective communication between the Company and the shareholders, and works in close incorporation with the Corporate Governance committee and the Investor Relations Department in line with this aim.

Employer's Liability Insurance is made by our Company, with an insurance coverage of US\$ 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**

In order to ensure that the Board of Directors soundly carries out its tasks and duties, the following committees were established under the Board of Directors within the framework of the Turkish Code of Commerce and CMB legislation. On the other hand, in 2014 a separate Nomination Committee and a Remuneration Committee were not established, and the tasks of these committees were assumed by the Corporate Governance Committee. In April 2014, Early Risk Detection Committee was established, and working principles of the committee were determined. The names of the members of the Audit Committee, the Corporate

Governance Committee and the Early Risk Detection Committee were publicly announced after they were determined by the Board of Directors. Committees' tasks and duties and working principles were also determined by the Board of Directors. The Board of Directors provide all means and support to the committees to carry out their tasks.

Within the scope of the Capital Markets Law n.6362, and as per the principles n.4.5.3 and n.4.5.4 stipulated in the Capital Markets Board Corporate Governance Communiqué n.II-17.1; (i) chairmen of the committees of the Board of Directors, must be elected from among the independent Members of the Board of Directors, and (ii) all members of the Audit Committee must be independent Members of the Board of Directors, and (iii) the CEO/ General Manager must not be assuming tasks in the committees.

Within our Incorporation, the Chairman of the Executive Committee/ and General Manager does not assume tasks in the committees. We pay attention to have our Members of the Board of Directors not to assume tasks in more than one committee. On the other hand, due to the fact that the chairmen of the three committees of the Board of Directors and the members of the Audit Committee must be Independent Members of the Board of Directors, the Member of our Board of Directors Mr. M. Ilker Aycı is both the Early Risk Detection Committee Chairman and Member of the Audit Committee.

#### **Turkish Airlines Corporate Governance Committee**

President: Arzu Akalın

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

The Corporate Governance 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 Governance Committee reviews the system and processes formed and will be formed for performance increasing management practices, evaluates them, gives recommendations and oversees the activities of the Investor Relations Department. Corporate Governance Committee convenes occasionally.

#### **Turkish Airlines Audit Committee**

President: Muzaffer Akpınar

Member: M. İlker Aycı

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. Audit committee convenes prior to announcing the quarterly financial results. Audit committee members have 5 year experience in the field of audit/ accounting and finance.

## **Turkish Airlines Early Risk Detection Committee**

President: M. İlker Aycı

Members: Naci Ağbal

In April 2014, Early Risk Detection Committee was established and authorized by the Board of Directors. Committee is composed of at least two members, and the Committee Chairman is elected from among the independent Members of the Board of Directors. Early Risk Detection Committee;

a) Carries out activities regarding; (i) the early diagnosis of the reasons threatening the existence, development and continuation of the Incorporation, and (ii) the implementation of the relevant measures against the detected risks, and (ii) risk management.

b) Checks the Risk management systems at least once a year.

Committee prepares all its work in writing, and keeps record of all its activities, and moreover prepares and presents a report – that includes a situation analysis and committee’s opinions & suggestions – to the Board of Directors every two months.

## **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 order to minimize particularly the impacts of fuel and carbon emission prices, interest rates, cash flow, foreign currency fluctuations and counterparty risks and to provide a reasonable level of guarantee within our Incorporation against potential shocks; Treasury and Risk Management Commission – chaired by Chief Financial Officer and composed of the following members; Senior Vice President (Finance), Senior Vice President (Accounting and Financial Control), Financial Risk Management Manager, Treasury Manager, Finance Manager, Budget Manager, Financial Control Manager, Financial Analysis Manager and Fuel Manager – was established under the coordination of the Financial Risk Management Department. The Commission, sets the Financial Risk Management strategy of our Incorporation, and carries out necessary activities regarding the management of the Financial Risks our Incorporation is/will be facing.

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, US\$ 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 US\$ and TRY within the next 24 month period for a portion of these currency positions.

Financial risks arising from the changes in interest rates may have impacts on our Incorporation as a consequence of the nature of its sector and its activities. Within the framework of interest rate risk management, our Incorporation regularly carries out activities; to monitor and analyze interest rate markets, to prepare an indebtedness structure, to make interest rate sensitivity and weighted average maturity analysis, and to keep track of potential cost variations arising from interest rates. In order to manage the interest rate risk; hedging transactions are performed by keeping the interest rates for loans either at a fixed level or between certain limits for a portion of the debt portfolio until the due date of the loan. 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 Incorporation 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.

In order to keep track of the strategic targets and previous performance of our Incorporation, informative presentation is made to the Board of Directors at the biweekly organized Board of Directors meetings where; i) the summary of the Incorporation's up-to-date financial and operational situation and budget deviations, and ii) the level of reaching the budget targets (set

in the previous year) at the yearend and cost analysis are evaluated. In addition to this, the Board of Directors can have instant access to the financial and operational data through the ERP system implemented within the Incorporation.

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 was announced on the Investor Relations website. Determining the remuneration of the Members of the Board of Directors is discussed with a separate agenda item at the General Assembly meeting. Dividends, share options or payment plans based on the performance of the Incorporation are not used in the remuneration of the Independent Members of the Board of Directors. Our Incorporation does not lend money or extend credit to any of the Members of the Board of Directors. The announcement regarding the remuneration of the Members of the Board of Directors and Executives is made on "position basis" (indicating the positions of the

Members of the Board of Directors and Executives) - not on individual basis - for Board of Directors and Executives. This information is also included in the Board of Directors' Activity Report. TL 200.000 on average per year is paid to the Members of the Board of Directors, while a gross remuneration of TL 495.000 per year is paid to the General Manager and the Chief Officers. The total amount of financial benefits including the remuneration and bonuses paid to the Members of the Board of Directors, the General Manager and the Chief Officers is TL 9.547.290 for the 2014 January - December period.