

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

1. Statement of Compliance with Corporate Governance Principles

The Incorporation, which aims at promoting and representing Turkey and Turkish Aviation industry in international arena in the best possible manner and which has adopted the transparency, fairness, responsibility and accountability as a principle, complies with any and all mandatory principles set out in the Corporate Governance Principles attached to the Capital Market Board (CMB) Communiqué n: II-17.1 and pays utmost attention to abide by non-mandatory principles thereof. The principles no: 4.2.5, 4.2.8, 4.3.9, and 4.5.5 are non-mandatory Corporate Governance Principles, which are not observed by the Incorporation and the reasons thereof are given in the relevant parts of the report.

The Incorporation keeps carrying out activities for continuous development of Corporate Governance approach and for enhancement of the level of compliance with the Corporate Governance Principles. In 2015, Sustainability Reporting was carried out for the first time within the organization of the Incorporation and any improvable matters with respect to all stakeholders were identified during such process. Accordingly, any and all Incorporation policies, systems, procedures and documents such as “Code of Conduct Manual”, which are included in the subjects of Corporate Governance, have been reviewed, and any actions for revision thereof have been started to be taken for such purpose. In 2016, Turkish Airlines stucked at the studies and investments it has carried out for a sustainable future, and continued to be a component of the Borsa Istanbul Sustainability Index.

PART I – SHAREHOLDERS

2. Investor Relations Department

There is an Investor Relations Management, directly reporting to Dr. Murat Şeker, Chief Financial Officer, which has been established in order to operate with respect to informing any domestic and foreign investors in a correct, consistent and timely manner and ensuring the communication and information exchange between the Board of Directors and the regulators and participants of the capital markets and observing the compliance with the regulations and Articles of Association with respect to exercise of shareholding rights and also fulfilling the obligations for disclosure in compliance with any and all kinds of regulations, within the organisation of Turkish Airlines.

In 2016, Investor Relations Department participated in 15 investor conferences and roadshows, performed 30 teleconferences and held more than 70 individual/corporate investor meetings, in order to share any financial, operational and strategical developments in relation to the Incorporation with investors and analysts. During these conferences, and teleconferences, it was convened with the 307 investors/analysts from 214 corporates and funds, at the head office of the Incorporation and at the offices of the investors. All analysts who issued a report about our Incorporation were contacted and accurate and proper information was conveyed during the preparation of the reports and feedback related to their reports were delivered. Approximately 2.500 applications were received by the Incorporation by e-mail within the activity period 2016 for the purpose of obtaining information. Besides the applications received by e-mail, many investors and shareholders were also informed by phone.

Aiming to further improve the transparent communication it established with its stakeholders in 2016, Investor Relations Department introduced the Investor Relations Application compatible with iPad, iPhone and Android devices to the service of the users. Thanks to the application, domestic and foreign investors as well as all Turkish Airlines stakeholders got the opportunity to have access to up-to-date developments, material disclosures, operational and financial statements, investor presentations, activity reports and many other documents regarding Turkish Airlines, via 3 different digital platforms and in 2 languages.

Investor Relations Department submitted the report for activities it conducted in 2016, to the information of the Board of Directors of the Incorporation on 17.03.2017. Contact info of the Investor Relations staff is provided below:

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3. Exercise of Right to Information by Shareholders

The Investor Relations Department of our Incorporation replies any requests of information and any inquiries, delivered thereto by either the stakeholders or any other shareholders by means of different communication channels, by using the most efficient means of communication as soon as possible. On the other hand, there is an Investor Relations web page (investor.turkishairlines.com), which is accessible through the corporate web site of the Incorporation, in order for ensuring the efficient exercise of the rights of shareholders to obtain information and any investors and any other stakeholders may access any public financial and operational data, material disclosures and any and all announcements for exercise of the shareholding rights through such web site.

Besides, any persons/organisations, signing up for the distribution list, may be informed about any up-to-date operational and financial disclosures by e-mail.

No regulation on request for assignment of a special auditor is available under the Articles of Association; and no request was made to assign a special auditor in 2016.

4. General Meetings

The regulations as regards the General Assembly Meetings of our Incorporation are set out in the Articles of Association, publicly available on the Investor Relations web site of the Incorporation.

Ordinary General Assembly Meeting, during which the accounting and activities of 2015 were discussed, was held on 04.04.2016 at VIP Meeting Hall at the General Management Building situated at Ataturk Airport Yesilkoy-Bakirkoy/Istanbul, the principal office address of the Incorporation. The shareholders, representing TRY 966.222.633,79 (70%) of TRY 1.380.000.000, which was the issued capital of the Incorporation, attended the Ordinary General Assembly Meeting and no other stakeholders or press participated in the meeting. The General Assembly Meeting was held physically and electronically as per the legislation of Turkish Commercial Code No: 6102 and the regulations of the CMB.

The announcement and invitation to the Ordinary General Assembly Meeting was published in Trade Registry Gazette (TTSG), nr. 17.03.2016/9034, in Sabah newspaper dated 17.03.2016 and on the Electronic General Assembly System, which is available within the organisation of Central Registration Agency and Public Disclosure Platform as well as on the website of investor relations three weeks before the date of the meeting, along with the notifications and disclosures required to be made by the Incorporation in accordance with the relevant regulations. As per the article no: 437 of Turkish Commercial Code (TCC), 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 uploaded on the website of the Incorporation before the date of General Assembly Meeting in accordance with the periods specified by the regulations and submitted to the examination of the shareholders at the principal office and branches of the Incorporation.

It was ensured that the Members of the Board, other related persons and other authorised persons in charge of preparing the financial statements as well as the auditors were present at the General Assembly Meeting in order to provide required information and respond to any inquiries with respect to any specific matters in the agenda. The subjects on the agenda were submitted objectively and in detail through a clear and understandable method during the General Assembly Meeting of the Incorporation and the shareholders were provided with an opportunity to convey their opinions and ask questions under equal circumstances.

Although the practice for replying the questions of the shareholders verbally and for replying the comprehensive questions in writing was available during the General Assembly Meeting, no question which required to be replied was asked in this meeting. The questions asked during the meeting were replied verbally and such replies were added into the minutes of the meeting. The minutes of meeting which included the questions asked in the meeting and replies thereof are available on the website of the Investor Relations of our Incorporation. No agenda suggestion was proposed by the stakeholders during this meeting. The minutes of the General Assembly Meeting and the list of participants are disclosed publicly on the same day via the Public Disclosure Platform and submitted to the information of the shareholders on the website of the Investor Relations of the Incorporation and on the Electronic General Assembly System. The minutes of the General Assembly Meetings of the previous years and any other documents are also available on the web site of the Investor Relations of the Incorporation. The Minutes of the General Assembly Meeting, dated 04.04.2016, was published in the TTSG, dated 29.04.2016 and no: 9065

Since there was no process where favourable vote of the majority of the Independent Members of the Board was sought for adoption of a resolution in the Meeting of the Board of Directors and where the General Assembly Meeting was consulted to adopt a resolution due to the dissenting votes of the Members, such an agenda was not available in the General Assembly Meeting.

Information about the charitable donations incurred within the period in accordance with our Donation Policy adopted by the General Assembly is provided through a separate agenda item during the General Assembly Meeting. Total amount of donation granted by our Incorporation in 2015 for Turkish Airlines Sports Clubs was TRY 264.054 and no other donation was available. Donation Policy of the Incorporation is submitted to the information of the shareholders via the website of the Investor Relations of the Incorporation.

5. Voting Rights and Minority Rights

Voting right is regulated in the article no: 31 of the Articles of Association, as specified below:

“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 this Articles of Association are reserved.”

As per the subparagraph 5 of the article no: 14 of the Articles of Association;

It is required for the Board member representing Group C share to attend the meeting and his affirmative vote is required for the effectiveness of the resolutions of the Board of Directors regarding the followings issues:

- Resolutions which will clearly adversely affect the mission of the Incorporations as indicated in Article 3.1 of this Articles of Association;
- Any suggestion to be made to the Shareholders Assembly for any modification in the Articles of Association;
- Increase of the share capital;
- Approval of 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 Market Board and which is directly or indirectly binding for the Incorporation, any resolution which will bring the Incorporation under any commitment, (provided that in case the share of the public in the Incorporation has decreased below 20 % of the Incorporation’s share capital, then the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution about the cancellation of any flight route or for a remarkable decrease in the number of flights, excluding the routes which do not even have a revenue to meet its own operating costs based on exclusive market conditions or through other sources.

The privileges of group C share may only be limited by the The Privatization High Council or any other public institution, which will take over the duties of the Board.

Our Incorporation pays utmost attention to ensure the exercise of minority rights. In accordance with the Article no: 10 of the Articles of Association, any shareholder holding the public group A shares may only be nominated to the Board of Directors provided that they are represented at the rate of minimum 2% of the total issued capital in the Ordinary General Assembly Meeting during which the Members of the Board are elected.

The shareholders submitted no request for representation of the minority in the management during the Ordinary General Assembly Meeting held in 2016, where the accounting and activities for 2015 were discussed. Also, there is no company, with which no relationship based on mutual interests is available and cumulative voting method is not specified under the Articles of Association.

6. Right of Dividend

The principles for determination and distribution of the distributable profit within the organisation of the Incorporation are regulated in the article no: 36 of the Articles of Association. There is no privilege in respect of participation to the profit.

General Assembly determines the time and method of payment of the profit, by taking into account the communiqués of the CMB. Accordingly, profit distribution policy of the Incorporation has been determined by taking into account the strategical targets, growth trend and financial needs of the Incorporation as well as the expectations of the shareholders in accordance with the Turkish Commercial Code, the Capital Market Law, relevant legal regulations and the provisions set out in the Articles of Association and such policy is available on the website of the Investor Relations of the Incorporation and in the annual report of the Board of Directors. Profit distribution policy includes clearly any minimum details in such a manner that will enable the shareholders to estimate the procedures and principles for distribution of the profit to be obtained by the Incorporation in the following periods and is based upon the adoption of a balanced policy between the interests of the shareholders and that of the Incorporation.

The proposal of the Board of Directors of the Incorporation, as regards the revision of the Profit Distribution Policy of the Incorporation, was approved by the General Assembly at the Ordinary General Assembly Meeting, dated 04.04.2106 and the updated policy is available on the web site of Investor Relations of the Incorporation.

According to the consolidated financial statements belonging to the accounting period of 01.01.2015-31.12.2015 prepared in accordance with the International Financial Reporting Standards within the framework of the provisions of the Communiqué of the CMB Serial: II, and Number: 14.1 and audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., net profit for the period is TRY 2.993.000.000. On the other hand, according to the legal books (under the provisions of Turkish Tax Procedure Law) the net loss of the period is TRY 413.851.522 and previous years' loss account has a balance of TRY 205.332.466.

Accordingly, it has been decided, in the Ordinary General Assembly Meeting dated 04.04.2016 that, the loss amount according to the legal books will be transferred to previous years' loss account. As there will not be any distributable profit (according to the legal books), the net profit of TRY 2.993.000.000 (according to IFRS) will be transferred to the previous years' profit account and that no profit distribution to the shareholders of the Incorporation shall be distributed for the year of 2015.

7. Transfer of Shares

The shares held by the foreign shareholders may not exceed 40% of the total issued capital of the Incorporation, as per the Article 6 of the Articles of Association of our Incorporation, regarding “Shareholders Nature”. In calculating the rates of the shares held by the foreigner shareholders, the rate of foreign shareholding in the shares held by the shareholder holding Group A shares which are not open for public will be taken into consideration as well.

As per the article no: 7 of the Articles of Association, as regards the transfer of shares, the transfer of shares shall be subject to the provisions set out in TCC, Capital Market Regulations and Civilian Aviation Regulations and no provision, which would obstruct the free transfer of shares by the shareholders, is available in the Articles of Association of our Incorporation. The nature of shareholding and any matters concerning

the transfer of shares are specified in the relevant sections of the Articles of Association, along with the implementation principles and the reasons thereof and are available on the website of Investor Relations of the Incorporation.

PART II – PUBLIC DISCLOSURE AND TRANSPARENCY

8. Disclosure Policy

A Disclosure Policy was established by the Board of Directors of the Incorporation in an effort to determine the general principles and procedures as regards any information to be shared with the shareholders, investors, other participants of the capital markets and any other relevant stakeholders and as regards the method, frequency and means to be used, while sharing such information as well as regarding any public disclosures, in accordance with the Material Events Communique of CMB and Corporate Governance Communique, the relevant provisions of TCC and the regulations of Borsa Istanbul (BIST).

In respect of implementation of the disclosure policy, it is essential to inform all stakeholders, including the shareholders, investors, employees and customers, about any information, events and developments, which might affect the investment decisions of the investors, on equal terms in a timely, accurate, complete, understandable and readily manner, so as to be accessible at the lowest cost.

In this context, 64 Material Disclosures were made by our Incorporation in 2016 and no request for additional disclosures for such Material Disclosures was submitted by CMB and BIST. Our Incorporation paid attention to deliver any material disclosures to investors, savers, institutions and organisations in a simultaneous, timely, understandable accurate, interpretable and full manner.

The power and responsibility for monitoring, supervising and improving the disclosure policy of our Incorporation belongs to the Board of Directors. Any amendments to be made in the disclosure policy shall take effect upon the approval of the Board of Directors and be published on the website of the Incorporation.

9. Corporate Website and Its Contents

Corporate website of our Incorporation is www.turkishairlines.com and the website of Investor Relations, which is also accessible through the corporate website, is investor.turkishairlines.com and both websites have English versions. Any information on the corporate and Investor Relations website of the Incorporation is identical to and/or consistent with the disclosures made in accordance with the relevant provisions of the legislation and contains no contradictory or incomplete information. The website of Investor Relations contains current Shareholding Structure, last version of the Articles of Association along with the TTSG on which any amendments were published, the agenda of the General Assembly, the form for voting by proxy, the list of the participants, additional/supplementary information and minutes of the meeting, annual reports, financial statements, business activity data, Incorporation presentations, Corporate Governance Principles Compliance Reports, information about the Board of Directors and Committees, Material Disclosures, Press Releases, Code of Ethics, Policies (Profit Distribution Policy, Disclosure Policy, Pricing Policy, Donation Policy), details of the transaction with the associated parties, share details, analyst details, independent auditor details, Trade Registry Gazette details, contact details and frequently asked questions, including any matters specified under the Corporate Governance Policies.

Any information available on the website of Investor Relations are also prepared in English, in such a way to be exactly the same as the Turkish version, for the purpose of enabling international investors to benefit from such information. Investors are able to convey their opinions and suggestions to the Investor Relations

Department via the relevant form under the heading “Opinions and Suggestions” available on the website of Turkish Airlines Investor Relations. The investors are redirected to the e-mail address “ir@thy.com” in order to deliver any inquiries under the heading “Contact”. In addition, any persons/institutions, signing up the distribution list through the website, can be informed of any up-to-date operational and financial disclosures by e-mail.

The content, which is required to be available on the website in a dedicated way pursuant to the “Regulation on the Websites to be Established by Equity Companies”, dated 31.05.2013, of the Ministry of Customs and Trade, is accessible through the link “Information Society Services” available on the home page of the website of the Incorporation.

10. Activity Report

The activity report of our Incorporation is prepared in such a way to allow the public access to complete and accurate information about the activities of the Incorporation and contains all information specified under the relevant regulations and Corporate Governance Principles.

PART III – STAKEHOLDERS

11. Disclosures to Stakeholders

In addition to those specified under the statutory regulation and material disclosures, any other information and disclosures in relation to the Incorporation, which are considered to concern any other stakeholders, are also disclosed in a timely and explanatory manner through the most appropriate means of communication. Shareholders and participant of capital markets as well as the suppliers, financial institutions and all other stakeholders are informed continuously through the press releases, annual reports, sustainability reports, website and the applications available under the Disclosure Policy of the Incorporation. Announcements are made through the internal arrangements in order to inform the employees about the general practices and activities of the Incorporation and the Intranet of the Incorporation is actively used and also the periodical “Empathy”, which is an internal communication publication, is published on a monthly basis. Communication channels of the Incorporation have been established in a way to be accessed by any and all stakeholders and the contact details were also published on the website of the Incorporation.

Stakeholders may, at all times, contact the Corporate Governance Committee or Audit Committee via the Department of Investor Relations or directly via the channels such as e-mail, mail, phone, etc. In case of conflicts of interest between the stakeholders or in case of inclusion of any stakeholder in more than one interest group, a balanced policy is followed in order to protect the rights possessed as much as possible and it is aimed at protecting each right independently.

12. Stakeholders' Participation in Management

Management meetings, in which domestic and international managers and senior executives of the Incorporation participate, are held within the organisation of the Incorporation on regular basis every year, in addition to the meetings in which the suppliers, domestic and international sales agencies, sales organisations of the Incorporation and personnel holding various positions participate regularly and an exchange of opinions in relation to the workshops and panels is achieved during such meetings.

Moreover, a suggestion system is implemented within the Incorporation and the employees submit their suggestions for improvement and development with respect to any matter in relation to the Incorporation through such system and any suggestions deemed appropriate are implemented. Also, the Incorporation pays attention to the opinions and suggestions of all stakeholders as well as the surveys for customer satisfaction.

Further details in relation to the stakeholder groups, interaction subjects, interaction channels and interaction frequency of the Incorporation are given below.

	Stakeholder Groups	Key Interaction Topics	Main Interaction Channels	Frequency
INTERNAL	Shareholders Financial Partners Investors	Minority Rights Operational and Financial Performance Strategy Corporate Governance	E-mail distribution list, "ir@thy.com"	Continuous
			Dedicated "Investor Relations(ir)" website	Continuous
			Shareholders' General Assembly Meeting	Annual
			Investors Meetings	Annual
			Presentations, Reports, Publications	Quarterly
	Labor Unions	Business Ethics Cultural Values Employee Satisfaction Organization and Freedom of association and Right of Collective Bargaining Flight Safety and Security Occupational Health and Safety and Well-Being Anti-Discrimination and Diversity Performance and Career Development Sustainable Use of Resources	Ethical Way	Annual
			E-mails: flightsafety@thy.com; security@thy.com	Continuous
			"Empathy" Corporate TV	Continuous
			"Empathy" Personnel Bulletin	Monthly
			"Empathy" Website "I Have An Idea" Page	Continuous
			Meetings & Events & Forums & Summits	Annual
			Surveys	Annual
			EXTERNAL	Governmental Regulatory Authorities Local Authorities
Audits	Regularly			
Meetings	Ad-hoc meetings			
Certification Organizations	Environmental Management Flight Safety and Security Occupational Health and Safety Noise Quality Management	Audits		Regularly

Customers	Accessibility Customer Satisfaction and Service Quality Customer Rights and Flight Safety and Security Innovative Products and Services Sustainable Catering	Customer Relations Call Center	Continuous
		Web-Based / In-flight Feedback Form	Continuous
		Customer Satisfaction Measurement Tools at Airports	Continuous
		Online Customer Satisfaction Surveys	Annual
		In-Flight Safety Brochures and Videos	Continuous
		In-Flight "Skylife" Magazine	Monthly
		Social Media (Facebook, Twitter, blog)	Continuous
		Corporate Website	Continuous
Society	Social and Economic Development Social Responsibility Projects	Meetings with Associations and Charity Organizations School and Hospital Visits	Ad-hoc meetings
Non-Governmental Organizations	Corporate Social Responsibility Accessibility Projects	Corporate Social Responsibility (CSR) Fair and Events	Ad-hoc meetings
Academic Institutions Universities	Training Employment and Career Opportunities	Meetings	Regularly
		Career Days	Annual
		Social Media (LinkedIn)	Continuous

13. Human Resources Policy

The Incorporation has in place a Human Resources Policy which has been determined by the Board of Directors and any and all actions for sub-departments and all personnel, which are organised based on the processes, are carried out in accordance with the regulations. The principle for equal opportunities for the persons with equal requirements is adopted during recruitment and career planning processes. The procedures and principles of recruitment processes of our Incorporation are specified under the General Employment Procedure of the Incorporation and in the employment process charts. The processes vary according to the work groups as cockpit crew, cabin crew, internal staff and external staff. The procedure outlines the information about the departments having responsibilities at each stage, the announcement criteria, process flows and management of personnel records.

The procedures and principles of the Performance Assessment System, which is implemented within the Incorporation, as well as the performance assessment criteria are set out in the Performance Management System Manual of the Incorporation and is accessible to any and all employees via the intranet of our Incorporation. Any initiatives to improve and extend the Performance Management System are now ongoing.

The relations with the employees are carried out through the Personnel Relations Supervisor's Office. This office is responsible for improving the communication with the employees, measuring the employee satisfaction, and reporting on manager basis, taking actions to increase employee satisfaction and motivation,

ensuring the settlement of the questions and issues and carrying out any announcements in relation to the employees. Any questions and issues received by this office through a number of channels are resolved in coordination with the relevant departments. All measures are taken in order not to discriminate based on race, religion, nationality and gender and in order to protect the employees against any physical, mental and emotional abuses. In 2016, 45 reports were received from the employees of our Incorporation through the Ethical Way, which is the designated authority to apply. These reports included the matters such as employee-employee, employee-manager communication problems and criticism about the general practices of the organisation and working conditions. The task definitions of the employees of our Incorporation are regularly published on the intranet page of Turkish Airlines. All employees can access the task definition via the intranet page of Turkish Airlines.

On the other hand, most of the employees of our Incorporation is a member of the labour union. The relations between the employees and the employer, at each level, with respect to the Collective Bargaining Agreement and any matter concerning the staff, are conducted in the most efficient manner and in a manner to obtain result, through the agency of the representatives and union executives assigned by the labour union, in numbers and proportions specified in the legal legislation. All employees get fair treatment in terms of the rights granted and also training programs are conducted to improve their skills, knowledge and experience. The employees are provided with a safe working environment and conditions, both in Turkey and overseas.

14. Code of Ethics and Social Responsibility

Carrying on its activities in accordance with its identity as the flag carrier, our Incorporation pays utmost attention to act sensitively towards its social responsibilities while performing its activities and guides and encourages its subsidiaries accordingly. Code of Conduct Manual of the Incorporation was created by the Board of Directors in accordance with the Corporate Governance Principles and published on the website of the Incorporation.

The Code of Conduct of the Incorporation covers fundamental principles and values of ours as well as various matters such as compliance with the regulations, anti-bribery, anti-corruption and anti-competition, etc. Our employees learn about the Code of Conduct and are informed about the Corporate Code of Conduct Manual of the Incorporation as they commence to work within the Incorporation. Therefore, it is ensured that the employees act respectfully towards the laws, ethical values, social norms and environment in terms of their words and behaviours in line with the generally-recognized principles in business life.

In addition, the Ethical Way, which is an Ethical Reporting Line, established within the Incorporation, is a reporting system created in order to ensure that all kinds of acts that are contrary to the corporate principles, with respect to the discrimination, bribery, conflict of interests and anti-competitive practices, are reported by the employees of Turkish Airlines, on anonymous way. The Ethical Way, managed by a fully independent third party company, is a line specific to the questions and/or reports of the employees of Turkish Airlines, as regards to the ethical issues. The Ethic Committee, consisting of four board members and one chairman, which is in charge of dealing with such applications, hears each personnel in relation to the application submitted to the Ethical Way and receives the opinions of the relevant departments before it submits its decisions and suggestions to the Chief Executive Officer (CEO).

Our Incorporation carries on its domestic and international activities by taking into account both its climatic and environmental as well as social responsibilities. There is no legal action filed against the Incorporation, due to any damage to the environment. The Sustainability Report, which includes all activities performed by the Incorporation with respect to its relevant responsibilities, is accessible through the website of the Investor Relations.

Our Incorporation has built computer classrooms in 7 destinations in Africa and provided the students with coding training courses with its volunteer staff, in an effort to provide equal opportunities in education and support the schools in the destination based in the developing countries.

On the other hand, our Incorporation supported the works allowing the children in our country to be directed to scientific studies and to learn as they play and also sponsored a number of institutions, various scientific festivals and hundreds of children representing our country abroad.

With the participation of over 1000 volunteer employees, humanitarian aid and education supports projects were carried out regarding the disadvantaged groups in our country and over 40 countries all around the world, particularly in Africa, with the participation of our volunteer staff.

An example to this is the projects of cataract which is still the most important cause of visual impairment around the world, despite the treatment techniques. Ethiopia is one of the countries which has the highest blindness rate, with a rate of 1.6% and as Turkish Airlines, a health camp was organised in cooperation with a local hospital of the Ministry of Health in Ethiopia, at which around 1000 patients had cataract operation.

Our Incorporation support Special Athletes Sports Federation of Turkey which aims to rehabilitate the disabled athletes in our country which has a population of around 8,5 million disabled people, by providing them with sports services and activities to reintegrate them into the society, without discriminating among disabled and healthy people and the Physically Handicapped Sports Federation of Turkey which aims to increase the recognition of special athletes, ensure that they are integrated with the society and represent them at the highest level in international activities; and also becomes the main transport sponsor in the national and international activities of both federations.

For the first time in its history, the Incorporation sponsored the Humanitarian Summit organised by the United Nations, which brought together more than 5.000 participants, including the presidents of the countries, non-governmental organisation and public institutions.

In addition to all these, as the main sponsor of the championship “Euroleague Basketball”, which is the biggest basketball organisation in Europe, the Incorporation was supported by the basketball teams through the project “One Team” and continued to initiate many social projects aimed at mentally and physically disabled people and take the disadvantaged groups such as TOSIDO in a tour at our facilities and around Istanbul and carry out dozens of sustainable projects during 2016, which were already started in 2015.

All kinds of actions are taken in order to ensure customer satisfaction with respect to the marketing and selling the services of the Incorporation.

And any requests from the customers as regards the services they purchase are satisfied rapidly. The Incorporation complies with the quality standards with respect to the services it renders. Attention is paid for the confidentiality of any details about the customers and suppliers, within the framework of trade secrets.

PART IV – BOARD OF DIRECTORS

15. Structure and Composition of the Board of Directors

The Board of Directors of our Incorporation manages and represents the Incorporation, primarily by observing the long-term interest of the Incorporation and optimising the risk, growth and yield balance with the decisions it takes, with a rational and tactical risk management approach. Our Board of Directors sets

strategic targets of the Incorporation, determines the required work force and financial resources and audits the performance of the management.

Board of Directors consists of nine members appointed by the General Assembly. It is obligatory to appoint 8 members of the Board of Directors, by electing amongst the candidates nominated by the Group A shareholders having highest votes, and to appoint one member by electing amongst the candidates nominated by the Group C shareholder. Minimum six members of the Board, including the member representing the Group C shares, must be Turkish Citizens. The term of office for the Board Members is two (2) years as per the Article 10 of the Articles of Association. The General Assembly may discharge the Members of the Board before the expiry of their term of office. The Members of the Board, whose term of office is expired, may be reappointed.

Three members of the Board are assigned to serve in the Executive Committee while other six members are non-executive members. Three of the non-executive members serve as Independent Board Members, as set out in the Corporate Governance Principles of CMB. Due to the dynamic nature of the aviation industry it would be more favorable in terms of uniformity, if the Chairman of the Board and the Executive Committee is the same person. Therefore, the Chairman of the Board and the Executive Committee of our Incorporation is the same person.

CEO is not the Chairman of the Board. No individual member has unlimited decision-making power at the Incorporation since all strategic and managerial decisions are taken by the Executive Board by majority of votes.

Although the Board of Directors does not have a specific target in terms of the ratio of female members, the Board of Directors had one female member as of 2016. Significant changes made in the structure of our Board of Directors in 2016 are listed below.

- » It has been decided to appoint Mr. Oğün ŞANLIER as Independent Board Member, by majority of votes, in the Ordinary General Assembly Meeting dated 04.04.2016.
- » Due the resignation of Assoc. Prof. Dr. Temel KOTİL from Vice Chairman and the Member of the Board on 21.10.2016, the Board of Directors has decided to appoint Mr. Bilal EKŞİ as the Member of the Board, to be submitted to the approval at the next General Assembly Meeting, pursuant to Article 10 of our Articles of Association.

It has also been decided to appoint Bilal EKSI as the Deputy Chairman of the Board.

- » On the same date, due to the resignation of Assoc. Prof. Dr. Temel KOTİL from Deputy Chairman and the Member of the Executive Committee, it has been decided to appoint Mr. Bilal EKSI as the Deputy Chairman and the Member of the Executive Committee.

Information regarding the Members of the Board as of 31.12.2016 is given below and the majority of the Members of the Board are non-executive members, in accordance with the Corporate Governance Principles of CMB:

Name	Position	Start of Office	Status	Other Committee Roles
M. İlker Aycı	Chairman of the Board of Directors	04.04.2014	Non-Independent	Executive Committee /Chairman
Bilal Ekşi	CEO, Deputy Chairman of the Board of Directors and the Executive Committee	21.10.2016	Non-Independent	Executive Committee / Deputy Chairman
İsmail Cenk Dilberoğlu	Member of the Board	06.04.2015	Non-Independent	Executive Committee / Member
İsmail Gerçek	Member of the Board	08.04.2011	Non-Independent	Corporate Governance Committee / Member
Prof. Dr. Mecit Eş	Deputy Chairman of the Board of Directors	29.03.2013	Non-Independent	
Mehmet Büyükeksi	Member of the Board	03.03.2004	Non-Independent	Corporate Governance Committee / Member
Ogün Şanlıer	Member of the Board	06.04.2015	Independent	Audit Committee / Member, Early Identification of Risks Committee / Chairman
M. Muzaffer Akpınar	Member of the Board	24.04.2007	Independent	Audit Committee / Chairman, Early Identification of Risks Committee / Member
Arzu Akalın	Member of the Board	04.04.2014	Independent	Corporate Governance Committee / Chairman

The resumes of the Members of the Board and other roles they assume outside the Incorporation are available in the section “Board of Directors” of the Activity Report and under the Corporate Governance section of the website of Investor Relations of our Incorporation. The Statements of Independence of the Independent Members were submitted to the Public Disclosure Platform. No circumstance, which would remove the independency, occurred as of the relevant activity period.

Information, regarding the executives who held office as a Member of the Board in 2016, but are no longer in office as of 31.12.2016, is given below.

Name	Position	Start of Office	Status	Other Committee Roles
Assoc. Prof. Dr. Temel Kotil	CEO, Deputy Chairman of the Board	26.04.2005	Non-Independent	Executive Committee/Deputy Chairman

16. Principles of Operation of the Board of Directors

The activities of the Board of Directors of our Incorporation are regulated in the article no: 14 of the Articles of Association and;

The Board of Directors convenes as required by the business and in any case at least once a month. The venue of the meeting is the head office of the Incorporation. Meeting can be held anywhere else upon the decision of the Board of Directors. The activities to be discussed at the meetings should be determined as an agenda and the members of the board should be informed of such agenda prior to the meeting. The Chairman of the Board sets the agenda of the meetings of the Board of Directors in

consultation with other board members and the CEO. The Members pay utmost attention to attend each meeting and submit opinions during the meetings. Invitation for the meetings of the Board of Directors and any information and documents in relation to the agenda items are submitted to the members at least three days before the date of the meeting for the purpose of ensuring the equal flow and distribution of information. Opinions of any members who cannot attend the meetings, but present their opinions to the Board of Directors in writing, are submitted to the information of other members.

The Board of Directors convenes upon the attendance of at least six members. The Board of Directors takes its resolutions with the favourable vote of at least five members. Any member who fails to attend four consecutive meetings or six meetings in total within a period of one year, without being deemed to be on leave by the Board of Directors or without any justified reason, shall be considered to have resigned.

Each Member of the Board is entitled to one vote. Any matters to be valid, provided that the Members of the Board of Directors, representing the group C shares, attend the meeting and cast a favourable vote, are provided in “5. Voting Rights and Minority Rights” of this report.

Agenda items are discussed explicitly and in all aspects during the Meetings of the Board of Directors.

The Chairman of the Board makes his/her own best efforts to ensure the efficient participation of non-executive members to the Meetings of the Board of Directors. Any opposing votes cast by the Members of the Board of Directors are also recorded in the resolution book with their reasonable and detailed justifications.

The Members of the Board spare sufficient time for the activities of the Incorporation. In the event that any Member of the Board serves as an executive or a Member of the Board at any other company or that he/she provides any other company with a consultancy service, then such situation will not lead to a conflict of interest nor will it hinder his/her duty within the Incorporation. Therefore, the fact that the Members of the Board carry out any duty or duties outside the Incorporation is not subjected to certain prescribed rules or otherwise restricted.

In 2016, 48 Meetings of the Board of Directors were held and 269 resolutions were taken. In respect of such meetings, there are no associated party transactions or any material transactions which were discussed in these meetings and not approved by Independent Board Members and required to be submitted to the approval of the General Assembly.

The Board of Directors plays a leading role in establishing an effective communication between the Incorporation and shareholders and in settling and resolving the disputes which might be experienced and collaborates closely with the Corporate Governance Committee and Investor Relations Department for such purposes.

An Executive Liability Insurance, covering any damages/losses requested from the executives due to any failure in fulfillment of their responsibilities by paying utmost attention and care as expected from them, and due to any error, negligence or failure during the performance of their duties, has been maintained by the Incorporation and the amount of insurance coverage is 25 Million US Dollars.

17. The Number, Organisation and Independency of Committees of the Board of Directors

Following committees were established within the Board of directors in accordance with TCC and CMB regulations in order to ensure that Board of Directors fulfills its duties and responsibilities properly.

Also a Nomination Committee or Remuneration Committee were not established in 2016 and Corporate Governance Committee was adopted to carry out such duties, as well. Early Identification of Risks Committee was established in April 2014 and its duties and working principles were set out. The Members

of the Audit Committee, Corporate Governance Committee and Early Identification of Risks Committee were determined by the Board of Directors and disclosed to the public. The fields of duty and working principles of such committees were also determined by the Board of Directors. All kinds of sources and supports, required for the performance of duties by the committees, are provided by the Board of Directors.

The Chairman of the Executive Committee and The CEO do not assume any duty at the committees at our Incorporation. Although attention is paid not to assign any Member of the Board in more than one committee, Mr. Ogun Şanlıer, one of the members of the Board of Directors, serves as both the Chairman of the Early Identification of Risks and as a Member of the Audit Committee and Mr. Mehmet Muzaffer Akpınar, one of the Members of the Board of Directors, serves as both a member of the Early Identification of Risks and as the Chairman of the Audit Committee, since the chairmen of three committees which were established within the Board of Directors and the Members of the Audit Committee are required to be elected among the Independent Members of the Board of Directors.

Turkish Airlines, Inc.

Corporate Governance Committee

Chairman: Arzu Akalın

Members: Mehmet Büyükeksi, İsmail Gerçek, Kadir Çoşkun (Investor Relations Manager)

Corporate Governance Committee, reporting directly to the Board of Directors, supports and assists the Board of Directors by carrying out activities for compliance of the Incorporation with the internationally recognised Corporate Governance Principles and determination of the Members of the Board of Directors and senior executives and for assessment of remuneration, reward and performance and career planning as well as for investor relations and public disclosures. Corporate Governance Committee reviews and assesses the systems and processes established or to be established by the with respect to the implementation of the managerial practices ensuring the increase of performance of the Incorporation and submits its opinions in this respect and also observes the activities of the Investor Relations Department. Corporate Governance Committee submitted one written report to the Board of Directors, in 2016.

Turkish Airlines, INC.

Audit Committee

Chairman: Mehmet Muzaffer Akpınar

Member: Ogün Şanlıer

The Audit Committee, directly reporting to the Board of Directors, assists the Board of Directors by coordinating the activities to be carried out for ensuring the compliance of the Incorporation practices with the national and international laws and regulations, improving the work processes through regular audits and ensuring transparency of information. The Audit Committee is responsible for taking all necessary measures to ensure conduct of any internal and independent audits in a proper and transparent manner and carrying out any duty assigned by the Capital Market Regulations. The members of the Audit Committee are elected among the Independent Members of the Board of Directors and both members have five-year experience in audit/accounting and finance. The committee convenes quarterly, before the announcement of the quarterly financial results. In 2016, the Audit Committee presented four written reports to the Board of Directors.

The Committee documents and keeps records of all its activities and submits an assessment report on current developments along with its opinions and recommendations to the Board of Directors every two months. The Committee convened six times in 2016 and submitted risk assessment reports to the Board of Directors.

Turkish Airlines, Inc.

Early Identification of Risks Committee

Chairman: Ogün Şanlıer

Members: Mehmet Muzaffer Akpınar

Early Identification of Risks Committee was formed and authorised by the Board of Directors in April 2014. The Committee is made up of two members and the Chairman of the Committee is selected among the Independent Members of the Board.

Early Identification of Risks Committee;

a) carries out activities in relation to early identification of the risks threatening the existence, growth and continuity of the Incorporation as well as implementation of the relevant measures against any risks detected and management of such risks.

b) reviews the risk management systems at least once a year.

18. Risk Management and Internal Control Mechanism

Risk Management Mechanism

It is critical for the Incorporation to adopt an effective risk management strategy in order to keep the potential risks under control and ensure a sustainable growth, in the aviation industry with a high competition. In order to minimize the impact of fuel oil, carbon emission, interest rates, cash flow and fluctuations in exchange rates as well as counterparty risk and to provide a reasonable assurance against potential risks, a Treasury and Risk Management Committee was established within our Incorporation, consisting of the Head of Financing, Head of Accounting and Financial Control, Financial Risk Management Manager, Treasury Manager, General Finance Manager, Budget Manager, Financial Control Manager, Financial Analysis Manager and Investor Relations Manager, chaired by the Chief Financial Officer, under the coordination of Financial Risk Management Department. The Committee establishes the Financial Risk Management strategy of our Incorporation and carries out necessary works as regards the Management of Financial Risks that our Incorporation encounter/may encounter. In this context, the procedures as regards the risks related to the fuel oil prices, among the financial risks to which the Incorporation was exposed, were initiated in June 2016 and the number of instruments used throughout the years were increased within the market experience gained and also the risk protection procedures are continued within the constantly developing, dynamic strategy. Currently, we try to minimize the fuel oil risk by using Swap and option-based costless banded structures although they vary according to the price levels.

An effective exchange rate policy is implemented based primarily on the natural risk management, for the exchange rates by also taking into account the assessment of the portfolio of the current cash, in order to minimize the impact of the fluctuations in exchange rates predicted as a serious element of risk given the area of activity of the Incorporation and to keep under control the risks which might arise from the potential risks likely to occur between the income and expense which was planned and realised on the basis of exchange rates.

In addition, it is aimed to minimize the mentioned risks likely to occur as a result of potential negative fluctuations which might be experienced in the exchange rates, by using derivative transactions, upon a strategy which was initiated in 2013. In this context, following the determination of Euro, US Dollar and Turkish Lira currency positions predicted to occur each month, based on the Incorporation's monthly-updated forward-looking cash flow forecast; forward contracts were used in order to sell Euro at a fixed and single rate and buy US Dollar and Turkish Lira in the next 24-month period for certain part of the mentioned positions. Upon the changes made in early 2015, a dynamic strategy, involving option-based banded structures and forward contracts, was introduced in order to close US Dollar open positions with Euro and the forward contract continued to be used to close Turkish lira open positions. On the other hand,

while the ticket prices for the international flights departing from domestic terminals were determined in Euro, the mentioned pricing has been made in US Dollar as of May 2015, as a natural hedging, with a view to reducing the need to use derivative products.

Our Incorporation can be affected by the financial risks related to the fluctuations in exchange rates, due to the nature of the industry it is involved and its activities. The Incorporation regularly carries out the implementations of monitoring and analysing the interest rate market, preparing the structure of indebtedness, conducting the analyses of the sensitivity against interest rates and weighted average maturity and following up the potential cost changes stemming from the interest. In an effort to manage the mentioned interest rate risk, hedging procedures are carried out by ensuring that the loan interest rates remain completely fixed in certain rates or between certain rates (range) for a portion of the debt portfolio over the course of the loan maturity date.

Internal Control Mechanism:

Our Incorporation has an Inspection Board to inspect the Incorporation's activities and efficiency of the corporate governance, risk and control processes in a systematic and disciplined approach, to advise and provide assurance on the efficiency and effectiveness of such processes and submit opinions and recommendations in this respect.

To that end, the Audit Board reports to and advises senior management to ensure;

- » the conduct of the Incorporation's activities in accordance with the statutory and internal regulations of the Incorporation, agreements and defined strategies, policies and targets,
- » Good governance, effective management of internal control and risk processes,
- » Effective and efficient use of the resources of the Incorporation,
- » Provision of reliable, consistent and updated data,
- » Continuous improvement of the divisions and processes,
- » Improvement of the quality of the Incorporation's services to ensure highest customer satisfaction level,
- » Effective communication of the information obtained during the audits to the relevant units of the organisation,
- » Ensuring coherence and coordination between the divisions,
- » Detection of any faults, frauds and misconducts which might lead to a loss of income and assets of the organisation and implementation of necessary actions,

and follows up whether the findings and recommendations in the report are fulfilled.

19. Strategic Targets of the Incorporation

An Operating Budget, covering the operational and financial plans regarding the next 1-year activity period and a Business Plan, covering the 10-year operational and financial plans, that give detailed information about the first five years, while giving macro information about the second five years, are prepared within the participation of all units and discussed in detail, finalized and approved during the budget meetings in which the top management and the Board of Directors attends.

In addition, the Strategic Targets, which include the off-budget, long-term targets of the Incorporation, such as the market share, customer satisfaction and brand equity as well as the annual Corporate Objectives, which will help to achieve these targets, are determined according to the Target management Procedure.

The responsible persons/managers are assigned to the relevant units in accordance with the Annual Corporate Objectives Managers General Instruction and target achievements are monitored regularly through the Corporate Performance Monitoring System and reported to the Compliance Review Board that convene monthly. Chaired by the CEO, this Board reviews the level of accomplishment of the targets, by taking the performance of previous periods into account, as well, and therefore the deviations in the objectives, if any, are identified and necessary actions are taken.

The Board of Directors approves the strategic targets set by the managers of our Incorporation and continuously and effectively reviews the level of accomplishment in such targets as well as the activities and previous performance of the Incorporation. In doing so, the Board always strives to ensure compliance with the international standards and takes immediate and proactive actions, where necessary.

In order to monitor the strategic targets and previous performance of the Incorporation, reports are submitted to the Board of Directors, including

- i) A summary as regards the up-to-date financial and operational status of the Incorporation and budget deviations, at every Board Meeting and,
- ii) Informative presentations on the assessments of the performance of the Incorporation for the previous period, the rate of accomplishment of its annual corporate targets, the reasons for deviations, if any, and cost analyses, following the announcement of quarterly financial results.

Necessary measures and actions are determined based on these assessments and the budget and business plan are revised, if necessary.

20. Financial Rights

Any rights, benefits and remuneration provided to the members of the Board and senior management of our Incorporation as well as the criteria used to determine such rights, are set out in our Corporate Remuneration Policy. The proposal of our Incorporation regarding the amendment of the Remuneration policy was approved at the General Assembly Meeting, dated 04.04.2016 and up-to-date Remuneration Policy was disclosed to the public and announced on the website of the Investor Relations, as well.

The remuneration of the Members of the Board of Directors is discussed as a separate item on the agenda of the General Assembly Meeting. No payment plan based on dividends, stock options or the performance of the Incorporation is used for the remuneration of the Independent Members of the Board of Directors. The Incorporation may not lend money or extend credit to any member of the Board of Directors. Net wage is paid to the members of the Executive Committee and the Board of Directors. Bonus payment is paid but honorarium is not given.

Moreover, a gross bonus payment, equivalent of their net monthly wages, is made quarterly. In 2016, the sum of all financial benefits, including remuneration and bonus paid to the members of the Board of Directors, CEO and Chief Officers, was TRY 12.511.140