

# TURKISH AIRLINES CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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## 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) Corporate Governance Communique n: II-17.1 and pays utmost attention to abide by non-mandatory principles thereof.

Pursuant to the Capital Market Board Corporate Governance Communique n: II-17.1 dated on 10.01.2019 and numbered 2/49, corporations are subject to disclose Corporate Governance Compliance Report on the Public Disclosure Platform. Non-mandatory Corporate Governance Principles disclosed on Corporate Governance Compliance Report template and current corporate governance applications disclosed on Corporate Governance Information Form template. Templates of the Incorporation are available on the following website <https://www.kap.org.tr/en/sirket-bilgileri/ozet/1107-turk-hava-yollari-a-o> under the titles of Corporate Governance Principles Compliance Report and Corporate Governance.

Non-mandatory Corporate Governance Principles, which are not observed by the Incorporation and the reasons thereof, are given in the templates and 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.

## PART I – SHAREHOLDERS

### 2. Investor Relations Department

There is an Investor Relations Management, directly reporting to Assoc. Prof. Murat Şeker, Ph.D., 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 organization of Turkish Airlines.

In 2019, Investor Relations Department participated in 6 investor conferences and roadshows, performed 60 teleconferences and held more than 80 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 273 investors/analysts from 140 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 preparation of

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the reports and feedback related to their reports were delivered. 3 teleconferences were organized about financial statements results and their records were published on the Investor Relations website. Approximately 2.300 applications were received by the Incorporation by e-mail within the activity period 2019 for the purpose of obtaining information. Besides the applications received by e-mail, many investors and shareholders were also informed by phone.

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 2019, Turkish Airlines stuck at the studies and investments it has carried out for a sustainable future, and has released its 2018 Sustainability Report, comprised of four pillars, each of which includes a number of material aspects, namely Governance, Economy, Environment and Social. With its sustainability practices and policies in 2019, Turkish Airlines, strongly committed to contributing to sustainable development by conducting its business in a socially, economically and environmentally responsible manner, has been entitled to place in the BIST Sustainability Index, as it has been in the past years. BIST Sustainability Index, is composed of companies traded at Borsa İstanbul that boast high level of corporate sustainability performance.

Aiming to further improve the transparent communication it established with its stakeholders, Investor Relations Department has an 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 2019, to the information of the Board of Directors of the Incorporation.

Contact info of the Investor Relations staff is provided below:  
during the

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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/organizations, 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 2019.

### **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 2018 were

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discussed, was held on 28.06.2019 at VIP Meeting Hall at the General Management Building situated at Yeşilköy Mh. Havaalanı Cad. No: 3/1 Bakirkoy/Istanbul, the principal office address of the Incorporation. The shareholders, representing TRY 943,139,813.07 (68%) of TRY 1,380,000,000, which was the issued capital of the Incorporation, attended the Ordinary General Assembly Meeting and The Meeting was held open to the public including the stakeholders, without having the right to speak. There is no special demand from media to the General Assembly 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. 03.06.2019/9842, in Sabah newspaper dated 10.06.2019 and on the Electronic General Assembly System, which is available within the organization 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 authorized 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 in writing 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

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Assembly Meeting, dated 28.06.2019, was published in the TTSG, dated 23.07.2019 and no: 9874.

Since there was no process where favorable 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 2018 for the purpose of social aid was TRY 434,783 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 General 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

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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 such duties.

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 2019, where the accounting and activities for 2018 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 organization 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 communiques 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

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General Assembly Meeting, dated 04.04.2016 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 01.01.2018-31.12.2018 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 KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., net profit for the period is TRY 4,045,000,000. 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 8,115,218,355 and previous years' loss account has a balance of TRY 10,055,207,776. Accordingly, it has been decided, in the Ordinary General Assembly Meeting dated 28.06.2019, 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 4,045,000,000 (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 2018.

### **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 Civil 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 Communiqué of CMB and Corporate Governance Communiqué, the relevant provisions of TCC

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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, 46 Material Disclosures were made by our Incorporation in 2019 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 organizations 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](http://www.turkishairlines.com) and the website of Investor Relations, which is also accessible through the corporate website, is [investor.turkishairlines.com](http://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



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“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.

“UP” mobile application developed in order to ease the employees’ daily lives, is the most active channel used in our Incorporation, and currently has 39.000 users. Thanks to the application, the employees can access information of load factor of any flight, discounted brands special to employees, transportation services and food menu, smart address book, employees’ birthdays, surveys, opinions and suggestions delivery through their mobile devices.

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

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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 organization of the Incorporation on regular basis every year, in addition to the meetings in which the suppliers, domestic and international sales agencies, sales organizations 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.

## **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 organized 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 relations with the employees are carried out through the Employee Relations Management department. This department is responsible for improving the communication with the employees, measuring the employee loyalty/satisfaction on a yearly basis, and reporting on department basis, taking actions to increase employee satisfaction and motivation, following the trends that boost the motivation with benchmark studies and implementing them within the Incorporation and carrying out any announcements in relation to the employees. 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. 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 labor union.

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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 labor 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. In addition, The Ethic Committee procedure coded as PR.10.32.084 has been updated and gone into operation on 08.05.2019. 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 behaviors in line with the generally-recognized principles in business life. For this purpose, The Code of Conduct and The Ethic Committee trainings are assigned to Incorporation employees to enhance their awareness about The Code of Conduct.

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 an 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 in the light of studies that is carried out by members of the Subcommittee before it submits its advisory decisions or proceeds administrative act about the personnel. In 2019, 278 reports were received from the employees of our Incorporation through the Ethical Way. These reports included the matters such as employee-employee, employee-manager communication problems and criticism about the general practices of the organization and working conditions.

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

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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 carried out various activities in the fields of humanitarian aid, sport, science-technology and culture in 2019. With the agreement between United Nations Alliance of Civilizations and us, we announced a social responsibility project which will use sport's unifying power to recover social inequalities. The project called sports for peace will maintain during 2020.

Having sponsored sporting events all over the world, Turkish Airlines is carrying out various activities to integrate disabled individuals into sports activities more. In this context, the sponsorship agreement with the "Physically Disabled Sports Federation" continues.

To improve the interest towards scientific research of the young and the children in our country, Turkish Airlines is supporting various NGOs operating activities in fields of science, technology and innovation. Our sponsorship for Teknofest Aeospace and Technology Festival took place in Ataturk Airport in September, and ended with a huge participation of guests interested in aviation.

Turkish Airlines 7th Science Ambassadors Summit occurred with the participation of various scientists. We provided equality in opportunities to hundreds of university students. With the Turkish Airlines Science Expo sponsorship, we supported the developments in technology, aviation and science regionally.

TOSIDO, the project considers aviation and cultural tours to our Flight Training Center (Simulator), Tour Istanbul and Do&Co. In the year of 2019 we hosted many disadvantaged people of child, young and elderly from various NGOs.

Our supports for Zero Waste Summit is in progress.

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 optimizing 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

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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. General Manager 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 2019. Significant changes made in the structure of our Board of Directors in 2019, are listed below.

- Mr. İsmail Cenk Dilberođlu resigned from his office as the Member of the Board of Directors at the Ordinary General Assembly dated 28.06.2019.
- Due to the resignation of Ms. Arzu Akalın from the Independent Member of the Board on 04.05.2018, the appointment of Ms. Fatmanur Altun as the Independent Member of the Board was submitted to the approval of the General Assembly dated 28.06.2019 and was approved by majority votes of the attendees.
- Due to the resignation of Mr. İsmail Gerçek from the Member of the Board on 04.05.2018, the appointment of Mr. Mithat Gökem Aksoy as the Member of the Board was submitted to the approval of the General Assembly dated 28.06.2019 and was approved by majority votes of the attendees.
- At the Turkish Airlines Ordinary General Assembly dated 28.06.2019, it was resolved by majority of votes that Mr. Mehmet İlker Aycı be elected the Chairman of the Board of Directors representing group C shares; Mr. Mecit Eş as the Deputy Chairman of the Board of Directors, Mr. Bilal Ekşi, Mr. Orhan Birdal, Mr. Mithat Gökem Aksoy, Mr. Salim Arda

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Ermüt, as Members of the Board of Directors; and Ms.Fatmanur Altun, Mr. Ogün Şanlıer and Mr. Mehmet Muzaffer Akpınar as Independent Members of the Board of Directors.

- Independent Board Member Mr. Mehmet Muzaffer Akpınar has been assigned as the Chairman and Mr. Ogün Şanlıer as the Member of the Audit Committee; Independent Board Member Ms. Fatmanur Altun as the Committee Chairman, Board Members Mr. Mithat Görkem and Mr. Orhan Birdal and Investor Relations Manager Mr. Kadir Coşkun, in compliance with the Capital Market Board's Communique on Corporate Governance (II-17.1), as the members of the Corporate Governance Committee; Independent Board Member Mr. Ogün Şanlıer as the Chairman and Mr. Mehmet Muzaffer Akpınar, as the Member of the Early Identification of Risks Committee; Chairman of the Board Mr. Mehmet İlker Aycı as the Chairman of the Executive Committee, Deputy Chairman of the Board Mr. Mecit Eş as the Deputy Chairman of the Executive Committee, Mr. Salim Arda Ermüt as the Member of the Executive Committee.

Information regarding the Members of the Board as of 31.12.2019 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
Prof. Dr. Mecit Eş	Deputy Chairman of the Board of Directors	29.03.2013	Non-Independent	Executive Committee / Deputy Chairman
Salim Arda Ermüt	Member of the Board	28.06.2019	Non-Independent	Executive Committee / Member
Bilal Ekşi	General Manager and Member of the Board	21.10.2016	Non-Independent	
Orhan Birdal	Member of the Board	09.06.2017	Non-Independent	Corporate Governance Committee / Member
Mithat Görkem Aksoy	Member of the Board	04.05.2018	Non-Independent	Corporate Governance Committee / Member
Ogün Şanlıer	Member of the Board	06.04.2015	Independent	Early Identification of Risks Committee / Chairman, Audit Committee / Member
M. Muzaffer Akpınar	Member of the Board	24.04.2007	Independent	Audit Committee / Chairman, Early Identification of Risks Committee / Member
Dr. Fatmanur Altun	Member of the Board	04.05.2018	Independent	Corporate Governance Committee / Chairman

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Information, regarding the executives who held office as a Member of the Board in 2019, but are no longer in office as of 31.12.2019, are given below.

Name	Position	Start of Office	Status	Other Committee Roles
İsmail Cenk Dilberoğlu	Member of the Board	06.04.2015	Non-Independent	Executive Committee / Member

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 and given in the appedices. No circumstance, which would remove the independency, occurred as of the relevant activity period.

### 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 General Manager. 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 favorable 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 favorable 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

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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 spares 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 subject to certain prescribed rules or otherwise restricted.

In 2019, 53 Meetings of the Board of Directors were held and 288 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, Organization 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 2019 and Corporate Governance Committee was adopted to carry out such duties, as well. 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



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provided by the Board of Directors.

The Chairman of the Executive Committee and the General Manager 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: Dr. Fatmanur Altun

Members: Orhan Birdal, Mithat Görkem Aksoy, 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 2019.

### **Turkish Airlines, Inc.**

#### **Audit Committee**

Chairman: Mehmet Muzaffer Akpınar

Member: Oğün 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 at least quarterly, before the announcement of the quarterly

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financial results. In 2019, the Audit Committee presented six written reports to the Board of Directors.

## **Turkish Airlines, Inc.**

### **Early Identification of Risks Committee**

Chairman: Oğün 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.

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 2019 and submitted risk assessment reports to the Board of Directors.

## **18. Risk Management and Internal Control Mechanism**

### ***Risk Management Mechanism***

In order to control potential risks in the highly competitive aviation industry and to establish sustainable growth, executing an effective risk management strategy is crucial for Turkish Airlines. The Company aims to provide reasonable assurance against possible shocks and to minimize the effects of fluctuating fuel prices, interest rates and foreign exchange rates on its cash flow together with any other possible risks resulting from its financial counterparties.

In order to determine the financial risk management strategy of the Company and to carry out the necessary actions in the scope of financial risk management, the Treasury and Risk Management Commission has been established. The Commission holds meetings on regular basis under the chairmanship of CFO and participation of SVP Finance, SVP Accounting and Financial Control, VP Treasury and all other related managers.

Within the scope of the financial risk management strategy, the Company started to implement its fuel price hedging strategy in 2009, in order to control the possible cash flow effect that may arise from the fluctuation in the oil market. Fuel price risk management strategy was updated several

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times over the years with the experience gained. In line with market conditions, Turkish Airlines chooses the most suitable derivative instrument among swap, zero-cost collars and premium-paid options in order to minimize the fuel price risk.

In order to minimize the foreign exchange risk, Turkish Airlines gives priority to the natural hedging methods by contract management. In this regard, the basis currency for all contracts are determined to equilibrate the income and expense in each currency. In addition to natural hedging strategy, Turkish Airlines developed and started to implement a FX risk management strategy in 2013. This strategy was updated in 2015 and 2018, in line with the market developments and experienced gained.

In accordance with the FX risk management strategy, Turkish Airlines aimed to hedge its short USD and TRY position by using its long EUR position. Such that, Turkish Airlines currently uses the most convenient derivative instrument based on the market conditions among forward and zero-cost option collars to manage the fluctuations in FX rates. Furthermore, in order to increase the effectiveness of natural hedging, the ticketing currency of international flights originated from domestic airports was changed from EUR to USD in 2015, so the need for derivative products was reduced.

Turkish Airlines is exposed to financial risk arising from the fluctuations in the interest rates, by nature of the aviation industry and its operations. Monitoring and analysis of the interest rate market, preparation of indebtedness structure, sensitivity to changes in interest rates, weighted average maturity analysis and follow-up of possible cost changes due to interest rates are carried out on a regular basis within the scope of interest rate risk management. Besides, derivative instruments are used for a portion of the debt, to either by fully fixing the interest rate liabilities at a certain level or keeping it within a certain band until the maturity.

Also, sustaining a healthy liquidity structure and cash management is so critical issue for airlines due to nature of the sector. For that purpose, Turkish Airlines prepares prospective cash flow projections on monthly basis and the required minimum cash amount is determined based on this analysis. By the help of monthly projections, necessary action plans are scheduled in order to prevent the cash amount falls below this level. Realized and forecasted cash flows are strictly tracked and analyzed by the Treasury and Risk Management Commission.

Various measures are also taken in order to minimize the possible loss that will come up in case of default of the financial counterparties. In this context, main practice of Turkish Airlines is to apply a fair methodology to evaluate all counterparties in deposit and derivative transactions with equal and objective criteria and to reduce the long-term counterparty risk. In particular, specific agreements are signed with the counterparties against the credit risk that may arise as a result of the derivative transactions. All transactions are made within certain limits with each counterparty and these limits are monitored and updated dynamically.

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## *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 organization,
- » 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 organization 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.

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The responsible persons/managers are assigned to the relevant units in accordance with the General Instruction On Responsible Units Of Company Objectives and target achievements are monitored regularly through the Corporate Performance Monitoring System and reported to the Board of Objectives' Status that convene quarterly. Chaired by the General Manager, 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, which is published 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 2019, the sum of all financial benefits, including remuneration and bonus paid to the members of the Board of Directors, General Manager and Chief Officers, was TRY 25,224,200.