

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



**WIDEN YOUR WORLD**



**1 JANUARY – 30 JUNE 2018**

**BOARD ACTIVITY REPORT**

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**BOARD ACTIVITY REPORT  
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The global aviation sector, negatively affected by terrorist incidents in 2016, began to recover in 2017 following a decrease in safety concern, with passenger demand increase. Turkish Airlines closed the year of 2017 with record EBITDAR figure, indicating cash generating ability, and set successive load factor record within the year thanks to positive demand environment and initiatives of Turkish Airlines about cost-cutting program and active capacity management. These positive developments in 2017 affected the first half of 2018 positively. Global passenger demand grew 6.8% year on year terms during the first five months\* of 2018 and it is expected to continue on this growth by the end of 2018. Besides this strong demand pick up, global aviation capacity and load factor increased 6.0% and 0.6 points respectively. Compared to the global aviation sector, during the first five months Turkish Airlines performed better; passenger demand increased by 17.1%, capacity increased by 10.3% and load factor increased by 4.7 points. During the first half of 2018, the number of passengers carried by Turkish Airlines increased by 17.8%, reaching 36 million passengers.

Turkish Airlines continues its success on passenger side in cargo transportation. The Incorporation has achieved to maintain its strong growth trend in the cargo market over the last decade and consequently, cargo carried increased by 27.7% and cargo revenue increased by 35.2%. Turkish Airlines increases the importance of cargo transportation each passing day and plans to expand the cargo fleet in proportionate to passenger fleet. Accordingly, Turkish Airlines takes firm steps forward to be one of the largest air cargo carries in the world by increasing its share of the world air cargo market with the addition of new cargo aircraft to the existing fleet.

Turkish Airlines continued its impressive communication performance in 2018 without slowing down as in 2017. Sponsorship in the international sports organizations, corporate social responsibility projects and other various sponsorships support Turkish Airlines brand image as well as make huge contribution to the development of tourism in Turkey by accurate advertisement of Turkey. Turkish Airlines, titled as airline, which flies to the most countries in the world, underlines that it will maintain its title in the forthcoming years by open and planned to open new destinations. Turkish Airlines' wide flight network and young fleet structure will become stronger and provide significant advantage in intensely competitive aviation sector.

\*Since IATA data is not published for the month of June, comparison is being done in terms of first five months data.

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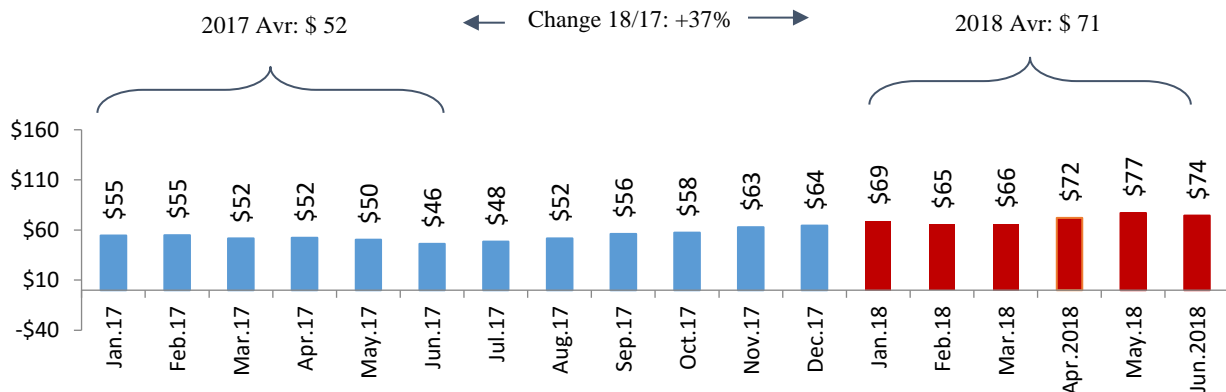
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	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018(*)</u>
<b><u>Aviation Industry Revenue/Expense</u></b>						
<b>REVENUES (\$ billion)</b>	<b>720</b>	<b>767</b>	<b>721</b>	<b>709</b>	<b>754</b>	<b>834</b>
Passenger Revenue	537	538	509	498	534	590
Cargo Revenue	92,1	92,9	83,8	80,8	95,9	104,8
<b>Traffic</b>						
Passenger Km Growth (RPK) %	5,7	6,0	7,4	7,4	8,1	7,0
Cargo Km Growth (FTK) %	1,8	5,8	2,3	3,6	9,7	4,0
<b>OPERATIONAL EXPENSES (\$ billion)</b>						
Fuel	230	224	174	135	149	188
% of expenses	33,2	30,6	26,4	20,8	21,4	24,2
Non-fuel expenses	464	507	485	514	548	590
<b>OPERATING PROFIT (\$ billion)</b>						
25,3	35,5	62,0	60,1	56,3	56,3	
% margin	3,5	4,6	8,6	8,5	7,5	6,8
<b>NET PROFIT(\$ billion)</b>						
10,7	13,8	36,0	34,2	38,0	33,8	
% margin	1,5	1,8	5,0	4,8	5,0	4,1

(\*) Annual forecast published by IATA

Source: IATA Airline Industry Economic Performance, June 2018)

**Oil Price per Barrel (Monthly Average)**



Source: U.S. Energy Information Administration

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

<b>FUEL PRICE ANALYSIS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>6M'17</b>	<b>6M'18</b>
Fuel Expenses (Million \$)	2,997	2,673	2,866	1,284	1,724
Fuel Consumption (000 Tons)	4,272	4,693	4,847	2,229	2,563
Average Unit Cost (\$/Tons)	701	570	591	576	673
Average Change of Unit Cost (%)	-30%	-19%	4%	-3%	17%
Fuel Expense Rate in Operational Expenses (%)	30%	26%	28%	28%	30%

## 2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES

Türk Hava Yolları Anonim Ortaklığı (the “Incorporation” or “THY”) was founded in Turkey in 1933. The Company’s main fields of activity are all types of domestic and international passenger and cargo air transportation.

The Incorporation is registered in Istanbul, Turkey (Reg. No: 75184) and its head office address is Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mah. Havaalanı Cad. No:3/1 34149 Bakırköy, İstanbul/Türkiye. Detailed information about the Incorporation can be reached via Investor Relations Website. (<http://investor.turkishairlines.com/en>)

The authorized capital of the Incorporation is 5,000,000,000 (five billion) Turkish Lira, while the issued share capital is 1,380,000,000 (one billion three hundred and eighty million) Turkish Lira divided into 138,000,000,000 (one hundred thirty eight billion) shares, each with the nominal value of 1 Kuruş (one kuruş) and is completely paid.

Shares are divided into two groups, the distribution of share groups of the issued capital is as follows:

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

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

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The table below sets out the consolidated subsidiaries and participation rate of the Group in these as of 30 June 2018:

<u>Name of the Company</u>	<u>Principal Activity</u>
THY Teknik A.Ş. (Turkish Technic)	Aircraft Maintenance Service
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Training & Airport Operations
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş.	Investment & Airport Operations

**THY Teknik A.Ş. (Turkish Technic)**

Established on 23 May 2006, the Company is a wholly-owned subsidiary of Turkish Airlines. Turkish Technic conducts its activities with the goal of becoming an important regional air transport technical maintenance base by supplying the full range of maintenance, repair, and technical and infrastructure support the aviation industry requires. Until 2013, Turkish Technic operated out of four hangars in Istanbul and Ankara. In June 2015, Turkish Technic merged with Turkish HABOM, which was also a fully owned subsidiary of Turkish Airlines and which has a total MRO capacity to provide simultaneous maintenance, repair and overhaul services for 30 narrow body aircraft and 10 wide body aircraft. As of 30 June 2018, Turkish Technic has 7,828 employees.

**THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.**

The Company was established on 21 June 2012 as a wholly-owned subsidiary of Turkish Airlines. Yet to commence operations, it was established to operate Aydın Çıldır Airport, provide aviation training, organize sports-training flights and conduct all activities related to the transportation of passengers with aircraft types appropriate to prevailing runway length. The airport is used as a base for Turkish Airlines Flight Academy and since the first half of 2013 provides flight training for Turkish Airlines Pilot Nominees. As of 30 June 2018, Company has 55 employees. Name of the company has been changed from THY Aydın Çıldır Havalimanı İşletme A.Ş. to THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.

**THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş**

The Incorporation has decided to establish, THY Havaalanı Gayrimenkul Yatırım ve İşletme Anonim Şirketi", in order to operate principally in the fields of airport operations and investments and also according to the fields of other activity that is specified in the Articles of Association of the Company. The aforementioned Company, which is wholly-owned by Türk Hava Yolları A.O, has been registered by Istanbul Trade Registry Office on 15 November 2017 and is established with the cash capital of 50.000 TRY. (Fifty thousand Turkish Lira).

The Group has nine joint ventures. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

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The table below sets out consolidated joint ventures and indicates the proportion of ownership interest of the Incorporation in these joint ventures as of 30 June 2018:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Indirect Participation Rate</u>	<u>Country of Registration</u>
Sun Express Turkey	Aircraft Transportation	50%	-	Turkey
Turkish DO&CO	Catering Services	50%	-	Turkey
Turkish Ground Services	Ground Services	50%	-	Turkey
Turkish Opet Aviation Fuels	Aviation Fuel	50%	-	Turkey
Aircraft Seat Manufacturing Industry & Trade, Inc.	Cabin Interior	45%	5%	Turkey
Turkish Cabin Interior Systems Industries, Inc.	Cabin Interior	30%	20%	Turkey
Pratt Whitney THY Turkish Engine Center (TEC)	Maintenance	-	49%	Turkey
Goodrich Turkish Airlines Technical Service Center	Maintenance	-	40%	Turkey
Tax Free Zone, Inc. (Tax Refund)	VAT Return and Consultancy	30%	-	Turkey

#### **Sun Express - Turkey**

Founded in 1989, SunExpress is a joint venture of Turkish Airlines and Lufthansa, in which each holds a 50% stake. The Company has a fleet of 19 aircraft for AnadoluJet operations of THY and with a fleet of 31 aircraft serves its customers in both charter and scheduled business with 2,909 employees as of 30 June 2018. SunExpress flies to 27 domestic and 73 international destinations, which brings the total number to 100 destinations. In 2011, SunExpress Germany was founded as a joint venture of Stiftung and SunExpress, in which each holds %50-50 stake. SunExpress Germany conducts operations to 10 destinations in Germany and 19 international destinations with its 11 Boeing 737-800 and 7 A330 passenger aircraft. As of 30 June 2018, 1,281 employees are working for the Company.

#### **Turkish DO&CO**

Founded in September 2006, commencing operations in 2007, Turkish DO&CO is a joint venture of Turkish Airlines and DO&CO Restaurants & Catering AG (Austria based), in which each holds a 50% stake. The Company provides inflight catering services to Turkish Airlines and other domestic and international airlines. As of 30 June 2018, 5,084 employees are working for the Company.

#### **Turkish Ground Services (TGS)**

The Company was established on 26 August 2008 as a wholly-owned subsidiary of Turkish Airlines, in order to provide ground-handling services. By signing the articles of association in the framework of the Board Decision dated on 19.12.2008, 50% of shares was transferred to HAVAŞ Havaalanları Yer Hizmetleri A.Ş. On 1 January 2010, the Company began to provide services to Turkish Airlines. The Company provides ground services for Turkish Airlines in 8 airports in Turkey. TGS is employing 10,354 personnel as of 30 June 2018.

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**Turkish Opet Aviation Fuels**

Turkish Opet Aviation Fuels, established in 2009, engages in the domestic and international sale, importation, exportation, distribution, and transport of various petroleum products, chemicals, lubricants, and paints for all kinds of aircraft. The Company commenced operations on 1 July 2010. Kuzey Tankercilik A.Ş. and Güney Tankercilik A.Ş., were established on 1 November 2012, as wholly owned subsidiaries of THY Opet Havacılık Yakıtları A.Ş. in order to provide transportation of petroleum and petroleum products. As of 30 June 2018, the Company has 453 employees.

**TSI Aviation Seats**

Founded in 2011, the Company was set up to design and manufacture airline seats, and to make, modify, market, and sell spare parts to Turkish Airlines and other international airline companies. Stakes of 50%, 45%, 5% are respectively held by Assan Hanil Group, Turkish Airlines, and Turkish Tecnic. As of 30 June 2018, 90 employees are working for the company.

**Turkish Cabin Interior Systems Industries, Inc.**

Established in December 2010, TCI's objective is to undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components. Stakes of 30%, 20% and 50% are held respectively by Turkish Airlines, Turkish Technic and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ – TAD). As of 30 June 2018, the Company has 177 employees.

**Pratt Whitney THY Turkish Engine Center (TEC)**

The Company provides aircraft engine maintenance, repair, and overhaul services to customers in Turkey and its hinterland. Established on 10 October 2008, stakes of %49 and %51 are held respectively by United Technologies, a subsidiary of Pratt&Whitney, and Turkish Airlines. Operating out of a maintenance center with an area of around 25,000 m<sup>2</sup> at Istanbul Sabiha Gökçen International Airport, the company has 388 employees as of 30 June 2018.

**Goodrich Turkish Airlines Technical Service Center**

Established in 2010, the Goodrich Turkish Airlines Technical Service Center is a joint venture of Turkish Technic (40%) and TSA-Rina Holdings (60%), the latter a subsidiary of Goodrich Corporation. Services for maintenance and repair of nacelles, thrust reversers, related parts and rotatable support is provided. As of 30 June 2018, the Company has 44 employees.

**Tax Free Zone, Inc. (Tax Refund)**

The Company is established on 1 September 2014 as a joint venture of THY (30%), Maslak Oto (45%) and VK Holding (25%) to carry out brokerage operations of value added tax return regarding the goods bought in Turkey by non-residents. As of 30 June 2018, 23 employees are working for the company.

The Incorporation is responsible for the full and joint control over subsidiaries and affiliates through Board of Directors. In addition, operations of subsidiaries and affiliates are monitored by Senior Vice President of Subsidiaries located within the means of the Parent Company. The internal audit and control functions in the Incorporation are carried out by SVP of Inspection Board, SVP of Quality Assurance and other relevant expertise and financial departments.

### 3. ORGANIZATIONAL STRUCTURE

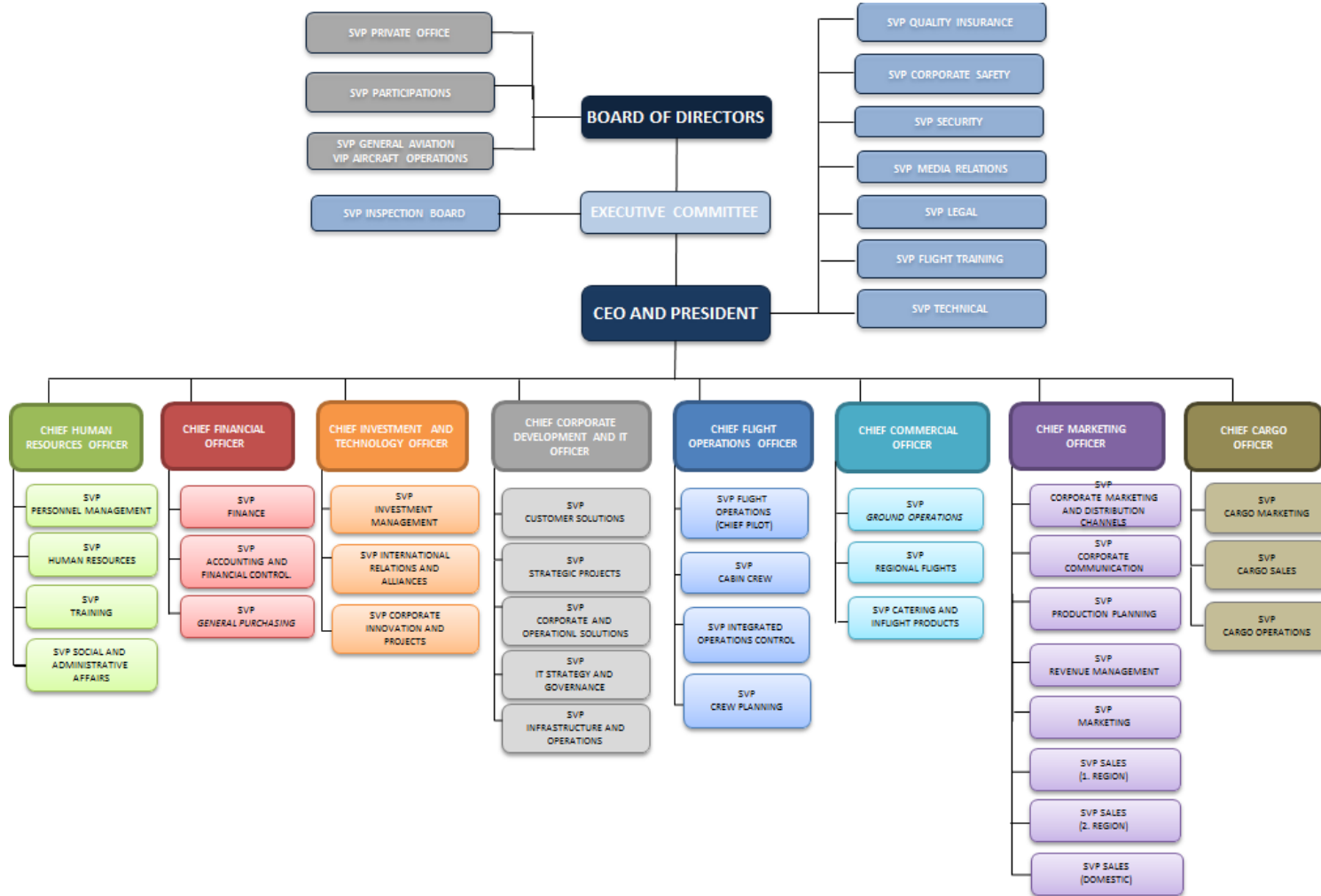
As of 30 June 2018, the number of countries served has reached to 122.

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 30 June 2018 is shown on the next page.

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**4. BOARD OF DIRECTORS AND COMMITTEES**

**BOARD OF DIRECTORS**

The Board of Directors is comprised of nine members, out of 3 independent, elected by the General Assembly. The Board of Directors shall approve the strategic targets, continuously and effectively monitor these targets, as well as the activities of the Incorporation and its' past performance. In doing so, the Board shall strive to ensure compliance with international standards, and whenever necessary, take preemptive action to potential problems.

Members of the Board who were on duty as of 30 June 2018 are listed below:

<b>M. İlker AYCI</b>	: Chairman of the Board and the Executive Committee
<b>Bilal EKŞİ</b>	: Vice Chairman of the Board and the Executive Committee, General Manager
<b>İsmail Cenk DİLBEROĞLU</b>	: Member of the Board and the Executive Committee
<b>Mithat Görkem AKSOY</b>	: Member of the Board
<b>Prof. Dr. Mecit EŞ</b>	: Member of the Board
<b>Orhan Birdal</b>	: Member of the Board
<b>Ogün ŞANLIER</b>	: Independent Board Member
<b>Fatmanur ALTUN</b>	: Independent Board Member
<b>M. Muzaffer AKPINAR</b>	: Independent Board Member

Brief resumes of our Board of Directors are reachable via Turkish Airlines Investor Relations Website. (<http://investor.turkishairlines.com/en/governance/board-of-directors>)

**COMMITTEES**

**Audit Committee**

Chairman: M. Muzaffer Akpınar

Member: Ogün Şanlıer

**Corporate Governance Committee**

Chairman: Fatmanur Altun

Member: Orhan Birdal, Mithat Görkem Aksoy, Kadir Coşkun (Investor Relations Manager)

**Early Identification of Risks Committee**

Chairman: Ogün Şanlıer

Member: M. Muzaffer Akpınar

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## 5. SENIOR MANAGEMENT

Information about the Senior Management of the Incorporation are presented below (as of 30 June 2018):

Name	Title	Starting Date of Position	Profession
Bilal Ekşi	Chief Executive Officer	24.10.2016	Electronics and Communications Engineer
Murat Şeker, Ph.D.	Chief Financial Officer	26.07.2016	Industrial Engineer
Ahmet Olmuştur	Chief Marketing Officer	30.04.2014	Business Management, Manager
Mehmet Akif Konar	Chief Commercial Officer	16.04.2013	Operating Engineer
Ahmet Bolat, Ph.D.	Chief Investment and Technology Officer	23.01.2012	Industrial Engineer
Abdulkerim Çay	Chief Human Resources Officer	21.04.2015	Business Management, Manager
Ali Serdar Yakut	Chief Corporate Development and IT Officer	01.06.2015	Computer Engineer
Aykut Alpa	Chief Flight Operations Officer	25.05.2018	Pilot
Turhan Özen	Chief Cargo Officer	12.12.2016	Business Management, Manager

## 6. HUMAN RESOURCES

Number of personnel increased by 4% to 24,910 during the period of January-June 2018 from 23,852 for the period of January-June 2017. Personnel numbers according to classes are as follows:

	31.12.2017	30.06.2017	30.06.2018	Change(%)
Cockpit Personnel	4,509	4,401	4,574	4%
Cabin Personnel	9,798	9,828	10,212	4%
Aircraft Maintenance Tech.	71	73	70	-4%
Staff Abroad	3,191	3,178	3,258	3%
Domestic Staff	6,506	6,372	6,796	7%
<b>TOTAL</b>	<b>24,075</b>	<b>23,852</b>	<b>24,910</b>	<b>4%</b>

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**7. DEVELOPMENTS WITHIN THE INCORPORATION**

**I. Developments During the Period**

**New Route Announcement**

The Incorporation will start operating scheduled flights, based on market conditions, to Banjul, the capital of Gambia, Marrakesh of Morocco, Palermo of Italy and Moroni, the capital of Comoros, Rovaniemi of Finland and Port Sudan of Sudan.

**2017 Corporate Governance Principles Compliance Report**

The report is published at the link indicated below.

<http://investor.turkishairlines.com/en/governance/corporate-governance-guidelines/1/2017>

**Credit Rating Update**

International Credit Agency Standart & Poor's (S&P) removed the rating of Turkish Airlines from CreditWatch with negative implications, improved the stand-alone credit profile from B+ to BB- and affirmed its BB- long-term issuer credit rating on 27.06.2018. S&P also revised the outlook from negative to stable and affirmed BBB-issue rating on our aircraft-backed enhanced-equipment trust certificate.

**Turkish Cargo - ZTO - PAL Air Memorandum of Understanding**

Turkish Cargo, air cargo brand of Turkish Airlines, targets to integrate the door-to-door express / courier transportation business model into the traditional air cargo transportation service, from the airport to the airport, in order to create a solution platform for the e-commerce sector. With this in mind, a new joint global express company, to be established with China-based ZTO, an express delivery company that delivers the most shipments in the world and Hong Kong-based PAL Air, aims to perform all kinds of logistics activities to provide integrated services in the global e-commerce sector. With this cooperation planned to be based in Hong Kong, our Incorporation has signed a memorandum of understanding (MoU) between ZTO and PAL Air and the developments will be shared with the public.

**Ground Services Contract**

As a result of the negotiations to continue our partnership with Havaalanları Yer Hizmetleri A.Ş. ("HAVAŞ"), in Turkish Ground Services (TGS), which is a subsidiary of our Incorporation, subject to the applicable laws and rules of competition, it has been decided to sign a ground service contract between our Incorporation and a ground services subsidiary of HAVAŞ, for 5+5+5 years (15 years) to provide ground services in Istanbul New Airport ("İYH") and other 7 airports currently served by TGS in Turkey, commencing as of the opening date of İYH.

**Rating Change**

International credit rating agency Moody's Investor Services announced that, as a result of the placement of the Turkish sovereign rating under review for downgrade, together with other companies in similar position, credit ratings of Turkish Airlines have also been placed under review for downgrade. The initiation of a review shall not necessarily result in a downgrade in the credit ratings of our Incorporation.

Along with this, issue ratings of Turkish Airlines' Enhanced Equipment Trust Certificates (EETCs), which have been issued in 2015, have also been reviewed and as a result, USD denominated certificate was lowered to Baa2 from Baa1 and JPY denominated certificates were placed under review for a possible downgrade.

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The Incorporation has signed a protocol with Hava-Is Union regarding the amendment of the article related to the wages and wage increase of the 25th Term Collective Bargaining Agreement. According to the signed protocol; by taking into account the sector dynamics, effective as of 01.06.2018; for pilots %20 increase, for other personnel, 10% increase on the wages dated 31.05.2018, will be applied. Due to this adjustment, the wage increase for the second half of 2018 and the inflation difference that is stated on the current Collective Bargaining Agreement will not be reflected to the wages.

**Independent Board Member Approval**

Upon Board of Directors' decision dated 04.05.2018, related to the Independent Board Member Nominee, Ms. Fatmanur Altun has been approved by the Capital Markets Board letter dated 25.05.2018, as Independent Board Member.

**Land Plots Purchase From Emlak Konut GYO**

Our 100% subsidiary, Türk Hava Yolları Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş., has signed a protocol to buy 50% share of Emlak Konut GYO's approximately 350 acres of land, which is located at Dursunköy quarter, nearby Istanbul New Airport.

Within the scope of the said protocol, Türk Hava Yolları Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş. and Emlak Konut GYO are planning to develop residential projects for the employees of Turkish Airlines and its subsidiaries, on the aforementioned land plot.

**Management Change**

The Incorporation has decided to appoint Mr. Aykut ALPA, SVP, Flight Training as Chief Flight Operations Officer.

**Statement of Profit Distribution**

The table about Statement of Profit Distribution is disclosed in the Public Disclosure Platform.

**Board Member Appointment**

Due the resignation of Ms. Arzu Akalın from the Member of the Board, the Board of Directors has decided to appoint Ms.Fatmanur Altun as Member of the Board, until the approval of the next General Assembly in accordance with our Incorporation's Articles of Association, Article 10.

Due the resignation of Mr.İsmail Gerçek from the Member of the Board, the Board of Directors has decided to appoint Mr.Mithat Görkem Aksoy as the Member of the Board, until the the approval of the next General Assembly in accordance with our Incorporation's Articles of Association, Article 10.

Due to the resignations of Ms. Arzu Akalın, Chairman of Corporate Governance Comittee and Mr. İsmail Gerçek, Member of Corporate Governance Comittee, the Incorporation has decided to appoint Ms.Fatmanur Altun as the Chairman of Corporate Governance Comittee upon the Independence Board Member Approval of Capital Market Board and Mr.Mithat Görkem Aksoy as the Member of Corporate Governance Committee

**General Assembly Meeting**

Ordinary General Assembly Meeting of Türk Hava Yolları Anonim Ortaklığı was held on 04.05.2018 Friday at 14.30 hours at its Headquarter, in the Conference Hall located at Yeşilköy Mahallesi, Havaalanı Cad. No:3/1 Bakırköy.

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Our Incorporation has decided to select GENx-1B74/75 type engines of GE Aviation, for the previously announced (public disclosure dated 09.03.2018) 25 firm orders and 5 options, a total of 30 B787-9 aircraft orders and to purchase engine maintenance services from GE Engine Services.

**Joint Venture Company**

The Board of Directors of Turkish Technic, a wholly-owned subsidiary of our Incorporation, decided to establish a Joint Venture Company with Havelsan, to operate in "In-Flight Entertainment Systems and Internet Service". ,

**Additional Contract**

Previously, we have informed that Turkish Airlines has entered into a memorandum of agreement (MOA) with SATS Investments Pte. Ltd. ("SIPL"), a subsidiary of SATS Ltd (SATS) regarding the procurement of catering services at Istanbul new airport applicable upon transfer of Turkish Airlines' operations thereto. Negotiations between the parties are still ongoing and an additional contract has been signed, extending the period of the aforementioned MOA.

**Simulator Purchase**

Our Incorporation has decided to purchase one B737MAX, two A320CEO/NEO, one A330, one B777-300ER, two B787-9 and two A350-900 simulators, a total of 9 simulators from CAE.

**Cargo Aircraft Purchase**

In order to insure the need for cargo aircraft for the year 2018 and afterwards, the Incorporation has decided to purchase 1 A330-200F cargo aircraft from DVB Bank SE.

**Wide Body Aircraft Purchase**

In order to insure the need for wide body aircraft, the Incorporation has decided to purchase 50 firm and 10 optional aircraft, a total of 60 wide body aircraft, of which 6 to be delivered in 2019, 14 in 2020, 10 in 2021, 12 in 2012, 11 in 2023 and 7 in the year 2024. According to this, total of 30 B787-9 aircraft, of which 25 firm and 5 optional, will be purchased from Boeing and a total of 30 A350-900 aircraft, of which 25 firm and 5 optional will be purchased from Airbus.

**2018 Budget**

According to the non-consolidated 2018 budget that was approved by the Board of Directors, the guidance regarding the Incorporation's targets and expectations for the year 2018 is as follows:

**Traffic Development**

- Total number of passengers carried is targeted to reach 74 million including 33 million on domestic routes, 41 million on international routes.
  - While passenger load factor is expected to be in the band of 79% and 80%, total Available Seat Kilometers (ASK) will approximately reach to 183 billion with an increase of between 5% and 6% compared to 2017. Capacity (ASK) increase is expected to be 10% in Turkey, 9% in Middle East, 6% in Europe, 6% in Far East, 4% in America and 3% in Africa regions.
  - In 2018, cargo/mail carried is expected to increase by 21% reaching 1.3 million tonnes.
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**Financial Development (Unconsolidated)**

- In 2018, jet fuel consumption is expected to increase by 9% compared to 2017.
- Average jet fuel (including fuel hedge) is expected to be 633\$/ton in 2018.
- The Incorporation is targeting to generate 11.8 billion USD of sales revenue.
- Cost per available seat kilometer (CASK), excluding fuel is expected to increase by between 3%-5%.
- Unconsolidated EBITDAR margin is targeted to be between 21% and 22%, whereas consolidated EBITDAR margin is targeted to be in the band of 23% and 24%.

**II. Subsequent Events**

**New Route Announcement**

The Incorporation will start operating scheduled flights, based on market conditions, to Sharjah of United Arab Emirates, to Newark of United States of America and to Cancun of Mexico.

**Catering Services**

Our Incorporation has started negotiations with our current catering provider, THY DO&CO İkrâm Hizmetleri A.Ş., a joint venture between DO&CO AG and Turkish Airlines, regarding the procurement of catering services at Istanbul New Airport and other airports in Turkey. The material developments will be disclosed to public.

**Negotiations with SATS Ltd (SATS)**

Previously, we have informed that Turkish Airlines has entered into a memorandum of agreement (MOA) with SATS Investments Pte. Ltd. ("SIPL"), a subsidiary of SATS Ltd (SATS), regarding the procurement of catering services at Istanbul New Airport, applicable upon transfer of Turkish Airlines' operations thereto and subsequently that an additional contract has been signed between the parties, extending the period of the aforementioned MOA.

Following our discussions with SIPL and in accordance with the decision of the Board, the parties would like to announce that the parties have mutually agreed to terminate the MOA.

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**8. TRAFFIC RESULTS**

January-June 2018 traffic results are shown below:

	<b>TOTAL</b>		
	<b>2017</b>	<b>2018</b>	<b>Change (%)</b>
Number of Landing (Passenger Flights)	216.780	239.053	10,3%
Available Seat Km ('000)	80.618.769	88.068.276	9,2%
Revenue Passenger Km ('000)	61.284.068	70.771.369	15,5%
Passenger Load Factor (%)	76,0%	80,4%	4,3 pt
Passengers Carried	30.271.703	35.646.661	17,8%
Int-to-Int Transfer Passengers Carried	9.834.917	10.921.614	11,0%
Cargo and Mail (Tons)	517.884	661.234	27,7%
Fleet	336	326	-3,0%
Seat Capacity	67.253	65.127	-3,2%
Number of Destinations	299	304	1,7%
Km Flown ('000)	386.122	418.143	8,3%
Hours Flown	634.408	692.567	9,2%
Utilization*	11:12	11:56	6,5%

\* Based on 312 aircraft for 2017, 319 aircraft for 2018.

	<b>DOMESTIC</b>		
	<b>2017</b>	<b>2018</b>	<b>Change (%)</b>
Number of Landing (Passenger Flights)	93.620	108.115	15,5%
Available Seat Km ('000)	10.133.416	11.814.785	16,6%
Revenue Passenger Km ('000)	8.338.039	9.970.526	19,6%
Passenger Load Factor (%)	82,3%	84,4%	2,1 pt
Passengers Carried	13.316.382	16.019.160	20,3%
Cargo and Mail (Tons)	29.451	39.702	34,8%
Km Flown ('000)	57.943	67.234	16,0%

	<b>INTERNATIONAL</b>		
	<b>2017</b>	<b>2018</b>	<b>Change (%)</b>
Number of Landing (Passenger Flights)	123.160	130.938	6,3%
Available Seat Km ('000)	70.485.352	76.253.491	8,2%
Revenue Passenger Km ('000)	52.946.029	60.800.843	14,8%
Passenger Load Factor (%)	75,1%	79,7%	4,6 pt
Passengers Carried	16.955.321	19.627.501	15,8%
Excl. Int-to-Int Transfer Passenger	7.120.404	8.705.887	22,3%
Cargo and Mail (Tons)	488.433	621.532	27,3%
Km Flown ('000)	328.179	350.909	6,9%



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**I. Scheduled Domestic Flights:**

During January - June 2018, the Incorporation didn't start operating any new domestic scheduled flights with TK main brand.

**II. Scheduled International Flights:**

During January - June 2018, the Incorporation started operating scheduled flights with TK main brand to new international destinations stated below:

<u>Flight Destination</u>	<u>Flight Inaugural Date</u>
FREETOWN - Sierra Leone	24.02.2018
SAMARKAND - Uzbekistan	16.03.2018
KRASNODAR - Russia	07.05.2018
MORONI - Comoros	18.06.2018

**III. Additional, Charter and Hajj-Umrah Flights**

During January - June 2018, number of additional, charter and Hajj-Umrah flights and number of passengers carried on these flights are stated on the table below:

	Number of Flights		Number of Passengers
	Domestic	International	
Additional	702	408	92.388
Charter	654	1.429	294.897
Hajj-Umrah	-	2.833	339.276

**IV. AnadoluJet Flights:**

Scheduled and Additional Flights	6M'17	6M'18	Change (%)
Revenue Passenger (000)	5.792	7.763	34%
Avaliable Seats*Km (Millions)	4.699	5.904	26%
Passenger Load Factor (%)	80,2	84,2	+4 pt

- In the period of January – June 2018, AnadoluJet has been pursuing its operations with 19 aircraft (wetlease) from SunExpress and 20 aircraft from TK fleet (A total of 39 B737-800).
- As of June 2018, 19 aircraft is based in Ankara Esenboğa and 15 in İstanbul Sabiha Gökçen.
- As of June 2018, AnadoluJet flies to a total of 41 destinations. (Esenboğa based 33, Sabiha Gökçen based 31, point to point (cross) flights 5)
- As of June 2018, Sabiha Gökçen and Ankara Esenboğa based ASK has increased by 29% and 22%, respectively. (Total rate of ASK increase 26%)
- As of June 2018, the load factor is 84.2%.

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**9. FLEET**

30.06.2018	Type	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Total
<b>Wide Body</b>	A330-200	4	1	13	4.680	10,4	18
	A330-300		29	8	10.807	4,4	37
	A340-300	4			1.332	20,2	4
	B777-3ER		27	6	11.670	4,6	33
	<b>Total</b>	<b>8</b>	<b>57</b>	<b>27</b>	<b>28.489</b>	<b>6,3</b>	<b>92</b>
<b>Narrow Body</b>	B737-900ER		15		2.355	5,1	15
	B737-800	25	42	16	13.780	9,6	83
	B737-700			1	124	12,4	1
	A319-100		6	1	924	7,7	7
	A320-200	5	7	10	3.504	11,4	22
	A321-200		62	6	12.360	6,0	68
	B737-800 WL			19	3.591	12,6	19
	<b>Total</b>	<b>30</b>	<b>132</b>	<b>53</b>	<b>36.638</b>	<b>8,6</b>	<b>215</b>
<b>Cargo</b>	A330-200F		9			4,5	9
	B777F		2			0,6	2
	Wet Lease			7		22,9	7
	<b>Total</b>		<b>11</b>	<b>7</b>		<b>11,2</b>	<b>18</b>
<b>GRAND TOTAL</b>		<b>38</b>	<b>200</b>	<b>87</b>	<b>65.127</b>	<b>8,1</b>	<b>325</b>

**10. FINANCIAL SITUATION****SUMMARY OF BALANCE SHEET (Mn TRY)**

	30 June 2018	31 December 2017
<b><u>ASSETS</u></b>		
Current Assets	22.704	13,699
Non-Current Assets	67.671	54,948
<b>Total Assets</b>	<b>90.375</b>	<b>68,647</b>
<b><u>LIABILITIES</u></b>		
Total Current Liabilities	23.647	16,209
Total Non-Current Liabilities	41.785	32,267
Total Equity	24.943	20,171
<b>Total Liabilities and Equity</b>	<b>90.375</b>	<b>68,647</b>
Debt to Assets Ratio	0,72	0,71
Equity Ratio	0,28	0,29

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**SUMMARY OF INCOME STATEMENT (TRY)**

	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Sales Revenue	24.375	16.674
Gross Profit	4.488	2.251
Operating Profit Before Investment Activities	1.081	39
Profit/Loss Before Tax	127	(2.004)
<b>Profit/Loss for the Period</b>	<b>127</b>	<b>(1.615)</b>
<b>Earnings Per Share (Kr)</b>	<b>0,09</b>	<b>(1,17)</b>

**SUMMARY OF BALANCE SHEET (Mn USD)**

	30 June 2018	31 December 2017
<b><u>ASSETS</u></b>		
Current Assets	4,979	3,631
Non-Current Assets	14,836	14,566
<b>Total Assets</b>	<b>19,815</b>	<b>18,197</b>
<b><u>LIABILITIES</u></b>		
Total Current Liabilities	5,184	4,297
Total Non-Current Liabilities	9,163	8,554
Total Equity	5,468	5,346
<b>Total Liabilities and Equity</b>	<b>19,815</b>	<b>18,197</b>
Debt to Assets Ratio	0.72	0.71
Equity Ratio	0.28	0.29

**SUMMARY OF INCOME STATEMENT (USD)**

	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Sales Revenue	5,940	4,597
Gross Profit	1,087	625
Operating Profit/Loss Before Investment Activities	258	17
Profit/Loss Before Tax	40	(541)
<b>Profit/Loss for the Period</b>	<b>41</b>	<b>(434)</b>
<b>Earnings Per Share (USc)</b>	<b>0.03</b>	<b>(0.31)</b>

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<b>EBITDAR</b>	<b>1.278</b>	<b>925</b>
<b>EBITDA</b>	<b>856</b>	<b>581</b>
<b>EBIT</b>	<b>320</b>	<b>74</b>
EBITDAR Margin	21,5%	20,1%
EBITDA Margin	14,4%	12,6%
EBIT Margin	5,4%	1,6%
Operating Profit Margin	4,3%	0,4%
Net Profit Margin	0,7%	(9,4%)

### 11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES

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

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

By the end of June 2018, the operation has been carried out by 92 double-aisle passenger aircraft, 215 single-aisle passenger aircraft and 18 cargo aircraft. Double-aisle aircraft constitute about 28 % of the total number of aircraft in fleet. Due to the effect of stage length and seat capacity, contribution of wide body aircraft to the production is more than 50%.

Type		2011-2023 Aircraft Purchases														
		Delivered								To Be Delivered						
		2011	2012	2013	2014	2015	2016	2017	TOTAL	2018	2019	2020	2021	2022	2023	TOTAL
Wide Body	A350-900											5	4	8	8	25
	B787-9										6	9	6	4		25
	A330-300	3	3	2	6	7	5		26							
	B777-3ER	7			4	7	6	1	25							
	<b>Total</b>	<b>10</b>	<b>3</b>	<b>2</b>	<b>10</b>	<b>14</b>	<b>11</b>	<b>1</b>	<b>51</b>		<b>6</b>	<b>14</b>	<b>10</b>	<b>12</b>	<b>8</b>	<b>50</b>
Narrow Body	B737-900ER	2	7	1		5			15							
	B737-9 MAX										5	5				10
	B737-800	2	2	6	10		20		40							
	B737-8 MAX									7	12	19	15	12		65
	A321	8	7	9		13	10		47							
	A321 NEO									3	18	18	20	18	15	92
A319	6							6								
<b>Total</b>	<b>18</b>	<b>16</b>	<b>16</b>	<b>10</b>	<b>18</b>	<b>30</b>		<b>108</b>	<b>10</b>	<b>35</b>	<b>42</b>	<b>35</b>	<b>30</b>	<b>15</b>	<b>167</b>	
Cargo	A330-200F	1	1	2		1	2	1	8							
	B777F							2	2	3						3
	<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>10</b>	<b>3</b>						<b>3</b>
<b>GRAND TOTAL</b>	<b>29</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>33</b>	<b>43</b>	<b>4</b>	<b>169</b>	<b>13</b>	<b>41</b>	<b>56</b>	<b>45</b>	<b>42</b>	<b>23</b>	<b>220</b>	

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**Decree on State Aids for Investments**

The incorporation had completed 13,267,897,367 TRY in total value of aircraft investments since 31.05.2010 in scope of the Investment Incentive Certificate obtained within the framework of “Decree on State Aids for Investments” put to force by the Cabinet on 14.07.2009. According to the incentive certificate, a 50% discounted corporate tax will be applied to the income generated by the related aircraft until the total amount of contributions invested of 20% of total investment is reached.

The incorporation has decided to terminate the aforementioned certificate and apply for a new certificate for the aircraft investment that is planned to be made as of 01.12.2014 within the framework of “Cabinet Decree on State Aids for Investments” put to force on 15.06.2012. Pursuant to new certificate, The incorporation had completed 16,968,269,342 TRY in total value of aircraft investments. According to this new certificate, a 50% discounted corporate tax will be applied to the income generated by the related aircraft, until this amount reaches 15% of total investment.

The contribution amount of investment which is not utilizable when there is no tax base, is transferrable by indexing with revaluation rate.

**12. RISK MANAGEMENT MECHANISM**

To be able to control the potential risks in the aviation sector, where competition is high, and to ensure sustainable growth, it is crucial for the Company to have an effective risk management strategy. In order to ensure reasonable level of assurance against possible shocks by reducing fluctuations in fuel prices, interest rates, cash flow and foreign exchange rates and counterparty risk to minimum levels within the scope of our Company; a Treasury and Risk Management Committee, chaired by Chief Financial Officer and composed of Senior Vice President (Finance), Senior Vice President (Accounting and Financial Control), Manager of Financial Risk Management, Treasury Manager, General Finance Manager, Budget Manager, Financial Control Manager, Financial Analysis Manager and Investor Relations Manager – was established under the coordination of the Financial Risk Management Department. The Committee sets the Financial Risk Management strategy of the Company and carries out necessary activities in relation to management of any Financial Risks to which the Company is or might be exposed.

In this context, the number of instruments used for years has been increased within the scope of the acquired market experience, which started as of June 2009, primarily for the hedging of fuel prices among the financial risks to which the Company has been exposed and our hedging process continues in line with a constantly developing, dynamic strategy. Currently, Swap and option based structures are used to hedge fuel price risks.

In order to minimize the impact of exchange rate fluctuations, regarded as a major risk element in view of the Company’s field of activity and to keep the risks that may arise from potential differences between forecasted and realized revenues and expenses under control, a proactive exchange rate policy is implemented based primarily on natural risk management for exchange rates, by also taking into account the evaluation of the available cash portfolio. In addition, a corporate strategy was launched in June 2013 in order to use derivative transactions to minimize any financial risks that may arise from potential negative fluctuations in foreign exchange rates.

In this context, EUR, US Dollar and TRY currency positions anticipated for each month are established based on the Company’s monthly updated forward-looking cash flow forecast, and accordingly, forward contracts are used with the aim of selling EUR at a fixed rate and buying USD and TRY within the next 24-month period for a

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portion of these currency positions. With the changes in early 2015, we have adopted a dynamic strategy involving option-based collars and forward contracts to manage USD/EUR open positions by selling EUR; and forward contracts are also used to hedge TRY open positions. On the other hand, in order to reduce the need for use of derivative products, USD is used as the pricing currency for international flights originated from domestic airports as of May 2015 instead of EUR as a natural hedge against currency risk.

Financial risks arising from the changes in interest rates may have impacts on the Company due to the nature of business and the industry environment. In order to manage the interest rate risk, the Company regularly monitors and analyzes interest rate markets, determines the structure of corporate indebtedness, conducts interest rate sensitivity and weighted average maturity analyses and keeps track of potential cost variations due to changes in interest rates. In order to manage the interest rate risk; derivative instruments such as interest rate swaps and options are used.

**13. PROJECTIONS ABOUT THE COMPANY**

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to the cities Abha of Saudi Arabia, Juba of South Sudan, Aswan and Luxor of Egypt, Krasnodar, Voronezh, Samara and Makhachkala of Russia, Krakow of Poland, La Coruna of Spain, Lenkeran of Azerbaijan, Luanda of Angola, Mexico City and Cancun of Mexico, Nantes of France, Denpasar of Indonesia, Banjul, the capital of Gambiya, Moroni, the capital of Comoros, Marakesh of Morocco, Palermo of Italy, Rovaniemi of Finland, Port Sudan of Sudan, Sharjah of United Arab Emirates, Newark of United States of America.

Flying to more countries than any other airline in the world, the Incorporation aims to be among the leading airlines in the world by maintaining its steady growth in parallel to the growth in number of transfer passengers by providing wide-body fleet investments, capacity increases mainly in long-range flights and new routes. In addition, the Incorporation is targeting to increase unit revenue by increasing passenger revenue of Business Class through the improvement of service quality and the expansion of cargo operations.

**DISCLAIMER**

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