

Compliance with Corporate Governance Principles Published in the Annual Report 2011

**Türk Hava Yolları Anonim Ortaklığı
Corporate Governance Principles Compliance Report**

Corporate Governance Principles Compliance Report

1. Declaration of Compliance with Principles of Corporate Governance

The Company has embraced the concept of fairness, transparency as well as promoting Turkey and Turkish Aviation sector internationally by upholding fully to these Principles of Corporate Governance of Capital Market Board (CMB)

2. Shareholder Relations Unit

The Investor Relations Department, which reports to the CFO, has been established as an unit that oversees the communication of accurate and timely information to our investors, maintaining relations and exchanging information with capital market supervisors, monitoring capital increases and public offering transactions and organizing presentations and informational meetings for domestic and international investors. Contact information for the Investor Relations Manager, Suna ÇELEBİ, is as follows: Contact Details: Phone 212- 463-6363, Extension 13630, Fax 212-465-2307, E-mail ir@thy.com

3. Shareholder's Right to Obtain and Evaluate Information

50.88% of our Company's share is Free Floating at Istanbul Stock Exchange (ISE). During the year 2011, 186 requests for information have been submitted to our Company by e-mail. All of the requests mostly related to financial and operational data, were responded to without delay. In addition to those requests, a large number of investors and shareholders were provided with information by telephone. The Company does not discriminate among shareholders on the issue of exercise of shareholders' right to obtain and evaluate information. The Company has created a web site in order to allow shareholders to exercise their right to obtain information effectively.

4. Information on General Assembly Meeting

Pursuant to Article 6 of our Articles of Association, all share certificates of our Company are registered and are categorized into two groups: A and C. There is only one outstanding Group C share, which belongs to the Privatization Administration of the Prime Ministry (OIB) in case such duties of OIB are transferred then the transferee institution. Presently, 49.12% of Group A shares belong to OIB, and 50.88% are traded publicly.

In the course of 2011:

An Ordinary General Assembly Meeting was held on April 08, 2011 to review 2010 accounts and operations. Shareholders representing TL 516.105.263 of our Company's TL 1 billion issued share capital attended the Ordinary General Assembly.

Invitations to the Ordinary General Assembly were promulgated by way of announcements in the agenda of the Trade Registry Gazette and in one newspaper circulated across the country, as well as through announcements on the Investor Relations page of our website.

Information is provided on the grants and donations made during the reporting period at the General Assembly Meeting within the frame of a dedicated agenda item.

As per article 362 of the Turkish Commercial Code (TCC), the income statement, balance

sheet, annual report and proposals for the method of distribution of net income will be made available to shareholders at the Head Office of the Company at least 15 days prior to the Ordinary General Assembly, accompanied by the report to be issued by auditors. In the General Assembly Meeting, existing practice endeavors to respond to shareholder questions orally and to address more comprehensive questions in writing; however, since no questions requiring a written answer were encountered during this period, verbal explanations were deemed adequate.

The powers of authority of the General Assembly are set out in Article 27 of our Articles of Association; as such, the General Assembly is that body holding the powers of authority as stipulated in TCC and other laws. Under Article 14 of our Articles of Association, the validity of any resolution to be adopted by the Board of Directors on the matters listed below is contingent upon the participation of the Board member representing the Group C share in any meeting where such resolutions are to be adopted and upon that member casting an affirmative vote.

- Resolutions which will clearly adversely affect the mission of the Incorporations as indicated in Article 3.1 of this Articles of Association;
- Any suggestion to be made to the Shareholders Assembly for any modification in the Articles of Association;
- Increase of the share capital;
- Approval of transfer of registered shares and registration of the transfer in the Share Register;
- Any transaction, based on each contract, which exceeds 5 % of the total assets of the Incorporation as indicated in the latest balance sheet submitted to the Capital Market Board and which is directly or indirectly binding for the Incorporation, any resolution which will bring the Incorporation under any commitment, (provided that in case the share of the public in the Incorporation has decreased below 20% of the Incorporation's share capital, then the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution about the cancellation of any flight route or for a remarkable decrease in the number of flights, excluding the routes which do not even have 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 High Commission of Privatization or any other public institution which has taken over such duties.

Minutes of General Assembly Meetings are made available to shareholders within our Company all the time and are delivered to shareholders upon request. Furthermore, General Assembly minutes and attendance list are made available on the Investors' Relations section of our website.

5. Voting Rights and Minority Rights

1. Voting Rights are set out in Article 31 of our Articles of Association, as appearing 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."

2. Under Clause 5 of Article 14 of our Articles of Association, it is required for the Board member representing Group C share to attend the meeting and his affirmative vote is required for the effectiveness of the resolutions of the Board of Directors regarding the followings issues:

- Resolutions which will clearly adversely affect the mission of the Incorporations as indicated in Article 3.1 of this Articles of Association;
- Any suggestion to be made to the Shareholders Assembly for any modification in the Articles of Association;
- Increase of the share capital;
- Approval of transfer of registered shares and registration of the transfer in the Share Register;
- Any transaction, based on each contract, which exceeds 5% of the total assets of the Incorporation as indicated in the latest balance sheet submitted to the Capital Market Board and which is directly or indirectly binding for the Incorporation, any resolution which will bring the Incorporation under any commitment, (provided that in case the share of the public in the Incorporation has decreased below 20% of the Incorporation's share capital, then the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution about the cancellation of any flight route or for a remarkable decrease in the number of flights, excluding the routes which do not even have 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 High Commission of Privatization or any other public institution which has taken over such duties.

3. No mutually-affiliated relationship exists with any other company.
4. Our Articles of Association do not contain provisions for accumulated voting.

6. Dividend Policy and Timing of Distribution

The determination and distribution of profits from our Company are set forth in Article 36 of our Articles of Association, as follows.

The net profit, as indicated in the annual balance sheet, found after deducting from the revenue of the Incorporation, the amounts required to be paid or reserved by the Incorporation like general expenses and various depreciations and the taxes required to be paid by the Incorporation, following the deduction of the losses of the past years, will be distributed in compliance with the Capital Market regulations and in the following priority:

- a) Legal reserve fund in the rate of 5% will be reserved. Our Dividend Policy is published at our web site.
- b) First dividend in the rate and amount as determined by Capital Market Board will be deducted from the balance.
- c) After deducting from the net profit the amounts indicated in clauses (a) and (b) above, the Shareholders Assembly will be entitled to resolve either to distribute as second dividend or to reserve as extraordinary reserve fund, the entire or any portion of the balance.
- d) Second reserve fund will be reserved according to Article 466, paragraph 2, clause 3 of Turkish Commercial Code in the rate of one tenth of the amount found after deducting the profit share in the rate of 5% of the issued share capital from the amount resolved to be distributed to the shareholders and those entitled to participate the profit.
- e) Unless legal reserves required by law and the first dividend determined in the Articles of Association for the shareholders are reserved, no resolution may be adopted to reserve other reserve funds, to transfer profit to the coming year, and unless first dividend is paid in cash and/or in share certificates, no resolution may be adopted to distribute profit to the privileged shareholders in profit distribution, to the holders of participation, founder and ordinary interest certificates, to the members of the Board and officers, employees and workers, to the trusts established for various purposes and similar persons and/or institutions.

The General Assembly shall determine the time and method of payment of dividends in accordance with the directives of Capital Market Board. In this regard, our Company's dividend distribution policy as formulated by the Board of Directors by taking the strategic targets, growth trend, financial needs and the expectations of the shareholders of the Incorporation into consideration and under the provisions of the Turkish Commercial Code, Capital Markets Law, other related legislation and its Articles of Association, and the Incorporation will basically distribute profit at the minimum ratio determined by the Capital Markets Board by means of cash and/or bonus shares and upon taking of the potential of the Incorporation to be able to distribute profit, it is always possible for the Board of Directors to resolve for distributing profit above the minimum ratio and submit it to the approval of the General Assembly and the profit share distribution shall be carried out within their legal terms.

7. Transfer of Shares

Article 6 of our Articles of Association;

Shareholders Nature

The shares held by the foreign shareholders may not exceed 40% of the issued share capital of the Incorporation. In calculating the rates of the shares held by the foreign 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.

Foreign shareholder shall mean:

- foreign natural or legal persons;
- Turkish companies, share capital of over 49% of which are owned by foreigners;
- Turkish companies in which majority members of administrative and representative boards are not Turkish citizens and in which majority votes are not on Turkish partners according to their articles of associations;
- Turkish companies under actual control of the aforementioned.

In order to ensure that the aforementioned share rate limitations on the foreign partners will be complied with the provisions of the Articles of Association, the Incorporation will use separate parts for foreign shareholders in registering the shareholders and their related share rates in the Share Register.

It is obligatory to promptly notify the Incorporation of any share purchase and sale reaching to 1% of the issued share capital of the Incorporation. Moreover, the shareholders who have reached or exceeded the maximum foreign shareholding rates as indicated in this Articles of Association, are obliged to promptly notify the Incorporation as they become aware of this.

The purpose of such notification is to follow the foreigner element and remarkable share movements and to ensure the Board of Directors to perform its powers based on these, and only notification will not result with the nature of being a shareholder unless registered in the Share Register, and only the records in the Share Register will be relied on in such cases.

In cases where it is understood through the notifications or through other means that the total shares held by the foreign shareholders have exceed 40% of the issued share capital of the Incorporation, then the Board of Directors will be under the obligation, to promptly notify the related shareholders lately within 7 (seven) days, starting from the latest share transfer, to dispose of the shares which exceed the foreign shareholding limit, in amounts and rates to be in conformity to the foreign shareholding limit and otherwise the Incorporation will be entitled to apply any of the measures indicated below. The foreign shareholder to whom the notice to dispose of its exceeding shares has been served, will be under the obligation to sell such shares which have caused the foreign shareholding limit to be exceeded, to a person who is not included in the foreign shareholder definition in this Articles of Association, within the period stated in the notice. In case such shares are not disposed despite the notification, then

the Board of Directors will be under the obligation to meet in 3 (three) days and to take a resolution to cover the measures indicated below in regard to the shares exceeding the limit.

(i) To redeem with the nominal value, the shares held by the foreign shareholder which has caused the foreign shareholding limit to be exceeded, through decreasing the share capital; with this purpose, the Incorporation will first notify the shareholder who has exceeded the foreign shareholding limit that his shares will be redeemed. In case such a notice may not be served then the fact will be announced in two newspapers published at the place where the head office of the Incorporation is located. Expenses related with such redemption, will be collected from the shareholder who has caused the redemption, through deduction from the redemption amount.

(ii) In cases where the total share rate of the foreign shareholder is over the limit indicated in this Articles of Association, then the Board of Directors will be entitled to increase the share capital in order to reduce the rate of the shares exceeding the limit. In this case, new shares may be issued by limiting the preferential purchase options of the existing shareholders according to the rules of the Capital Market Board.

REASONING FOR THE ARTICLE

The reasoning for the rule in this Article is provided in the final paragraph of Article 7 of our Articles of Association and in paragraph below. The regulations to which our company is subject in its capacity as an airline and to which it must adhere are also explained.

a) An airline company that does not qualify as Turkish on account of provisions listed in Articles 31 and 49 of Turkish Civil Aviation Act No. 2920 may not obtain an operating license or, if it does possess an operating license, such operating license shall be revoked in the event it ceases to qualify as Turkish due such factors or events such as the transfer or sale of shares of the airline or due to the majority of the members of its Board of Directors being foreign, etc.

b) In order for flights to be possible from one state to another, that is, to secure rights to international traffic, bilateral inter-governmental aviation treaties must first be executed between the two given countries, and the majority ownership of the airline to be designated by the Turkish Government and the control of such company must lie in the hands of Turks (natural or legal persons). The criteria of nationality that qualifies our company as Turkish is also a sine qua non condition for holding the right to traffic under the bilateral aviation treaties executed between states.

Hence, since the right of traffic may only be granted to an airline domiciled in Turkey if the majority of its shares of effective control thereof belong to Turkish citizens or companies, and since in the event such airline ceases to qualify as Turkish (or it fails to prove that it has not ceased to do so or if other contracting states to which flights will be made fail to believe that it has not done so) then the relevant airline shall lose its right to traffic, the criterion of nationality is an element of vital importance for an airline.

Hence, Article 6 of our Articles of Association contains provisions governing the foreign element in order to ensure that our airline's operating license and also our international traffic rights are secured, as explained above. Accordingly, restrictive rules were set out in terms of the limitations imposed on the foreign shareholding ratio for the protection of the traffic rights of our Company based on the criterion of nationality, should such limit be exceeded.

2- Articles of Association Article 7 (Transfer of Shares)

Transfer of shares is subject to the provisions of Turkish Commercial Code, Capital Market regulations and Civil Aviation regulations.

Transfer of registered shares will be effective with regard to the Incorporation upon registration in the Share Register. The shareholders will be under the obligation to evidence when required, according to the format as determined by the Board of Directors, their

identities and nationalities and, if available, the “Foreign shareholding” relation as indicated in Article 6, before registration of the registered shares in the Share Register.

Until registration of the share transfer in the Share Register, the holder registered in the Share Register will be deemed as the holder of the shares by the Incorporation.

Share transfers will be registered in the Share Register upon resolution of the Board of Directors. The Board of Directors may refrain from registering any share transfers in the share Register in cases which are not in consistency with this Articles of Association or the law or without indicating any reason therefore.

Share transfers which are not in compliance with the foreign shareholding rate limits as indicated in Article 6 above, may not be registered in the Share Register. The Board of Directors will be under the obligation to reject the registration of such share transfers in the Share Register. Share transfers which are not registered in the Share Register by the Board of Directors will not be recognized by the Incorporation and the related transferee will not be granted to be a shareholder. The affirmative vote of the member, appointed to the Board of Directors to represent Group C share is required in the resolutions of the Board of Directors to affirm the share transfer and to register this in the Share Register.

Group C share may be transferred to any Turkish public institution substantially having the same powers granted to the Prime Ministry Privatization Directorate by Law No: 4046. In case of such a transfer then this will promptly be registered in the Share Register without requirement for any resolution of the Board of Directors.

The Board of Directors will be under the obligation to limit the transfer of the shares to the foreigners, in order to comply with the provisions of Civil Aviation and/or other laws, it is subject to, and with the limitations as indicated in this Articles of Association and to avoid from endangering the traffic and cabotage rights held by the Incorporation.

8. Company Public Disclosure Policy

Our Board of Directors has established Disclosure Policy to share information on the performance and forward looking developments within the scope of generally accepted accounting principles and Capital Market Legislation (CML), Capital Markets Board and Istanbul Stock Exchange regulations and Capital Markets Board Corporate Governance Guidelines in a fair, complete, accurate and comprehensible way with the capital market participants equally and keep an active and open dialogue always available.

Turkish Airlines’ policy to give correct, complete, understandable, analyzable and cost effective easily accessible information, except trade secrets, to the capital market participants and personnel about its activities and related strategies, critical subjects, risks and developments. The comprehensive public disclosure policy of our Company as approved by the Board of Directors may be found on our Company’s website.

9. Material Disclosure

Our Company made 68 Material Disclosures during 2011 fiscal year in accordance with CMB’s Directive Series: VIII, No: 54 on Public Announcements of Special Circumstances, and no supplementary announcements were required by the CMB and ISE regarding such announcements. Our company has used its best efforts to ensure that its material disclosures were communicated to investors, deposit holders, agencies and organizations simultaneously, in due time and in an understandable, accurate and interpretable form. Since no Material Disclosure was made by our Company that was not delivered in a timely manner, no sanctions were imposed by the CMB or ISE during the applicable period. Furthermore, since our Company shares are not listed on any International Stock Exchange, no Material Disclosures were made to any International Stock Exchange.

10. Company's Website and Its Contents

Our Company's web address is www.turkishairlines.com, and the Investors' Relations page may be accessed via this website. The website also has an English version. The Investor Relations page contains information on shareholding composition, Minutes of General Assemblies, proxy specimens, annual reports, financial statements, commercial operating data, presentations, Corporate Governance Guidelines, details on the Board of Directors, Material Disclosures, share information, analyst information, Articles of Association, Board Committees and contact information. Furthermore, a section with live data as well as historical data on Share performance of the Company procured from a data distribution company is available on the relevant page.

11. Disclosure of Natural Person(s) with Final Controlling Shareholding

No natural person exists with final controlling shareholding in our Company.

12. Disclosure of Ultimate Controlling Individual(s)

The members of the company's Board of Directors, Statutory Auditors, CEO, Executive Vice Presidents, and Presidents, Directors and staff who have access to insider information, as well as real persons and legal entities who become aware of such information during the course of their duties by reason of their professions or fields of activity take place in the List of Insiders on the Central Registry System. Individuals named in this list are informed on the obligations contained in applicable laws and legislation, and on the sanctions imposed in case of misuse or improper distribution of such information.

13. Informing the Stakeholders

In our announcements to the public of information regarding our Company, in addition to forecast and material disclosure announcements other information and statements that are deemed to be of interest to other beneficiaries are delivered to the public in a timely and clear manner through the appropriate communications channels.

Not only stakeholders and investors, but also suppliers, financial institutions and other interested parties may obtain information about our company via our website. Personnel receive information regarding the Company's general practices and operations through internal announcements through the Company intranet site.

14. Human Resource Policy

Our Company adheres to a Human Resource Code established by our Board of Directors, and the Company act in accordance with Labor Law No. 4857 regarding the personnel policies. In addition, our Company's personnel are unionized and as such work under a collective bargaining system. Employee/ employer relations are conducted in an effective and result-oriented manner at all levels and on any subject concerning collective bargaining and representatives appointed by the union in numbers and percentages as specified in Article 34 of Unions Law No. 2821 and by union directors. Training services are provided to all our personnel. No complaints of discrimination have been received from any employee.

15. Relations with Customers and Suppliers

Since the Company is an IATA member, ticket sales are subject to certain rules and regulations determined by IATA. In addition, forms for complaints and suggestions are made available to customers on board and at all airports and these are evaluated in an effort to improve customer satisfaction. Other efforts geared toward customer satisfaction include the practice of allowing a commitment and penalty-free 24-hour option for changes or

cancellations on reservations made over phone, assistance provided to passengers with special needs or with disabilities, meeting basic passenger needs at times when flights are grounded during delays, taking the necessary measures to facilitate check-in. Customer satisfaction principles adopted by the Company in direct passenger relations form the basis of the agreements signed with agencies. Only agencies that comply with these principles are allowed to work with Turkish Airlines. Agencies that do not comply with the rules are issued the necessary warnings and the business relationship is terminated in the event of repeated violations.

The Company engages in the purchase of goods and services in accordance with the Purchasing/Sale Regulations that have been drawn up with the resolution of the Company's Board of Directors and revised regularly since 1952. Announcements for tenders are made in newspapers that have highest circulation nationwide within the timeframes set forth by Company, and also announced on the website www.turkishairlines.com.

To achieve our objectives of enhancing the service quality and becoming a five-star airline, customer satisfaction measurement, customer loyalty analyses and Skytrax service quality measurement have been taken on within the frame of Customer Relationship Management (CRM). Collaboration is ongoing with Star Alliance, to which our company belongs, in an effort to improve international products and services, and take part in the global information sharing and auditing mechanisms.

Customer grievances may arise due to faults that occur from time to time in our Company's operations and services. We strive to address such grievances and restore passenger satisfaction in the shortest time possible, and are looking to create a loyal customer profile. To make sure that the activities carried out by the Customer Relations Department are brought to completion quickly, the Department Performance Measurement model has been introduced across the company to ensure that inspection results of units from which information is requested are forwarded to the Customer Relations Department in the shortest time possible, and the statistical results obtained are also monitored by the General Management.

16. Social Responsibility

The Company continued to operate by its service quality and social responsibility philosophy, keeping its leading position both in the country and abroad. No lawsuits have been filed against the Company in Turkey on the ground of causing environmental damage.

17. Structure of the Board of Directors, its Formation and Independent Members

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

Members of the Board in 2011:

Hamdi TOPÇU - Chairman of the Board

Prof. Cemal ŞANLI - Deputy Chairman of the Board

Temel KOTİL, Assoc. Prof. - Member of the Board and CEO

Gülsüm AZERİ - Member of the Board

İsmail GERÇEK - Member of the Board

Muzaffer AKPINAR - Member of the Board

Mehmet BÜYÜKEKŞİ - Member of the Board

The résumés of Board Members are presented in the Annual Report and under the “Investor Relations” menu on the company’s website.

18. Qualifications of Board Members

The criteria for Board membership are specified in Article 11 of the Company’s Articles of Association. In addition, Article 4/i of Law No. 4046 stipulates that in organizations to be privatized, Board Members shall be graduates of four-year higher education programs. Article 11 of the Articles of Association is quoted below.

ARTICLE 11

Persons to be elected to the Board shall not have been placed under legal restraint; a Company where they owned an interest or worked as a manager shall not have been declared bankrupt or insolvent; they shall be a shareholder of the Company and shall not have been convicted of an infamous crime or any other crime specified in the Civil Aviation Law. If a member who is not a shareholder is elected, that individual may only assume duties after having become a shareholder.

The General Assembly may grant permission for the cases defined in Articles 334 and 335 of the Turkish Commercial Code.

At least five Board members (including those who represent Class C shares) must be Turkish citizens.

19. Mission, Vision and Strategic Targets of the Company

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

- a) To strengthen the Company’s position as a global airline by expanding its long-distance flight network,
- b) To position the Company as a technical services provider by transforming its maintenance unit into a leading maintenance base for the region,
- c) To promote the Company’s identity as a service provider in all areas of strategic civil aviation, including handling and flight training,
- d) To maintain the Company’s leading status in domestic air transportation,
- e) To provide seamless, high-quality air transportation services by collaborating with a global airline alliance that complements its network in order to further improve the Company’s image abroad and increase marketing opportunities and
- f) To make Istanbul an important hub.

In addition, through its leadership position in the Civil Aviation Transport (SHT) sector of the Republic of Turkey, to be a premier European airline with global operations which is preferred for its flight safety, security, product range, service quality and competitive approach.

Vision:

- a) Maintaining the growth trend that exceeds sector averages
- b) Zero accidents
- c) An understanding of service that captures the world’s attention
- d) Unit prices that are competitive with those of low-cost carriers
- e) Sales and distribution costs that are below sector averages
- f) Loyal customers who carry out reservation, ticketing and boarding activities themselves.
- g) Personnel who understand that the added value they create is directly proportional to the

Company's gains and who are committed to their own development

h) A commercial approach that creates business for partners who are members of the Star Alliance and which harnesses the potential that those partners offer

i) An airline that stands out with its Management that is recognized for its embrace of the principles of modern management, respecting the interests of its shareholders and all other stakeholders.

20. Risk Management and Internal Control

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

Addressed as a matter of first priority in this frame, hedging in relation to fuel prices from amongst Financial Risks the Company is exposed to was started in June 2009. From November 2009, the hedging ratio was increased and the transaction maturity was extended, while the instruments used were diversified and the strategy was updated from January 2011 in addition to increased hedging ratio and extended transaction maturity; hedging is ongoing within the frame of the relevant strategy. In order to minimize the impact of exchange rate fluctuations regarded as a major risk element in view of the Company's field of activity, and to keep under control the risks that will arise from possible differences between forecasted and actualized income and expenses on the basis of exchange rates, a proactive exchange rate policy is implemented based first and foremost on natural risk management for exchange rates, taking into account the investment of the available cash portfolio.

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

In the period ahead, the Company is intending to update the existing methodology and continue with active control of fuel price, exchange rate, interest rate, and carbon emission risks and the credit risk of financial institutions with our Company.

The Company has an internal control mechanism in place that is implemented by the relevant units. Matters such as the correct pricing of tickets sold by employees or agencies, the compliance of foreign offices' accounting records with the Company's regulations and the correct and prompt fulfillment of tax obligations are all matters dealt with in this scope. The Company makes every effort to ensure that all records are accurate according to the Company regulations and directives. The Company is, in addition, subject to annual inspections by the Prime Ministry's Supreme Inspection Board. Separately, the Company is being audited by three auditors appointed in the General Assembly Meeting:

Orhan BİRDAL - Member of Auditing Board

Naci AĞBAL - Member of Auditing Board

Prof. Dr. Ateş VURAN - Member of Auditing Board

The auditors have a one year term of office. An auditor whose term has expired may be reelected.

The duties of the Auditors are to examine the Company's general transactions and budget and assume the responsibilities stipulated in the Turkish Commercial Code. Auditors are authorized and assume the responsibility to submit proposals to the Board of Directors, to ensure that the Company is managed efficiently and its interests protected, call a general

meeting in the event of vital and urgent matters, determine the agenda of such a meeting and draw up the report specified in Article 354 of the Turkish Commercial Code. Auditors are responsible for fulfilling the duties assigned to them by law and the Articles of Association in a satisfactory manner.

21. Authorities and Responsibilities of Board Members and Directors

Article 15 of the Articles of Association defines the power and responsibilities of the Board of Directors and Article 19 defines the power and responsibilities of the General Manager.

Article 15. The Board of Directors represents and manages the Company. The Board of Directors is responsible for all tasks that are not assigned in the General Meeting by law, as well as the duties laid out in the Articles of Association, and it is granted all authority which these duties may require.

As set out in Article 319 of the Turkish Commercial Code, the Board of Directors may assign all or part of its management and representation powers to one or more of its members, to a general manager, assistant general manager, a manager or managers who are not members of the Board, or may form executive committees comprising of Board Members or non-members to exercise its powers and fulfill its duties. All financial and other information required for the Board of Directors to fulfill its duties as well as Board proposals and attachments shall be submitted in a timely manner.

All financial and other information needed for the Board of Directors to fulfill its duties as well as Board proposals and attachments shall be submitted in a timely manner. Article 19. The duties and powers of the General Manager shall be determined by the Board of Directors. The General Manager is required to be diligent in fulfilling his or her duties, and shall be held responsible for any behavior or actions which contravene this duty.

22. Activities of the Board of Directors

The activities of the Company's Board of Directors are specified in Article 14 of the Articles of Association. The Board of Directors shall meet whenever necessary and at least once a month. The meeting venue will be at Company headquarters; other venues may be chosen by a Board decision.

Matters to be discussed at Board meetings shall be specified in an agenda that will be communicated to Board Members prior to the meeting. Invitations to Board meetings shall be made at least three days before the actual meeting.

During 2011, the Board of Directors met 50 times and passed 203 decisions.

23. Prohibition to Deal and Compete with the Company

During the reporting period, Board Members were prohibited from dealing and competing with the Company in accordance with Articles 334 and 335 of the Turkish Commercial Code. In addition to these prohibitions, there are also rules set out in Section 11 of Turkish Airlines' Human Resources Regulations No. 07-001, which prohibits Company personnel from providing services to other organizations

24. Code of Ethics

Our Company has set forth its Code of Ethics within the scope of the Principals of Corporate Governance, which is published on our Website.

25. The Number, Structure, and Independence of the Board Committees

Committees have been set up under the Board of Directors within the frame of the Turkish Commercial Code and CMB legislation. The scope of these committees' duties, and their operating principles are set by the Board of Directors.

26. Remuneration Paid to Board Members

Board Member remuneration is set by the General Assembly. Board Members may not obtain any loan or debt from the Company.