Moody’s 9th Annual Turkey Credit Risk Conference

November 4, 2015

COŞKUN KILIÇ
Chief Financial Officer
• Turkish Airlines from Rating Agencies Perspective
  • Industry Risk
    • Business Risk / Competitive Position
    • Financial Risk
    • Country Risk / Government Support
    • Turkish Airlines Corporate Rating
  • Turkish Airlines Financing Today & Tomorrow
  • Capital Markets EETC Experience
  • Innovative Financing and the Role of Rating Agencies
While Perceived «High RISK», Remains a Growth Market

Passenger air traffic growth has been resilient over the past 40 years with the market declining in only three years following major industry crises.

**Historical and Forecast World Traffic**

Source: Airline Monitor.
Center of Aviation is Moving Towards Istanbul

2015 World Aviation Market Size: $730 Billion

Turkish Airlines’ Potential Transfer Market: $115 Billion
Turkish Airlines’ 2014 Transfer Revenue: $4 Billion

Source: Airbus Global Market Forecast (2012-2031), IATA (2015), Boeing CMO (2015), Internal Research

- Percentage of international scheduled passengers carried by airlines domiciled in these regions, ICAO (2011)
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Global Market Share Gains

Global Market Share Trends (in ASK)

Turkish Airlines Growth Story

- **2004-2005**: 10.4 mn pax
- **2006**: 19.7 mn pax
- **2007**: 22.6 mn pax
- **2008**: 25.1 mn pax
- **2009**: 29.1 mn pax
- **2010-2011**: 32.6 mn pax
- **2012-2013**: 39 mn pax
- **2014-2015**: 54.7 mn pax
- **2015E**: 61.7 mn pax
- **2016**: 68 mn pax

- **Weekly Flights**
- **Destinations**

<table>
<thead>
<tr>
<th>Year</th>
<th>Flights</th>
<th>Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>73</td>
<td>10.4 mn</td>
</tr>
<tr>
<td>2005</td>
<td>83</td>
<td>14.1 mn</td>
</tr>
<tr>
<td>2006</td>
<td>103</td>
<td>19.7 mn</td>
</tr>
<tr>
<td>2007</td>
<td>101</td>
<td>22.6 mn</td>
</tr>
<tr>
<td>2008</td>
<td>127</td>
<td>25.1 mn</td>
</tr>
<tr>
<td>2009</td>
<td>132</td>
<td>29.1 mn</td>
</tr>
<tr>
<td>2010</td>
<td>153</td>
<td>32.6 mn</td>
</tr>
<tr>
<td>2011</td>
<td>202</td>
<td>39 mn</td>
</tr>
<tr>
<td>2012</td>
<td>202</td>
<td>54.7 mn</td>
</tr>
<tr>
<td>2013</td>
<td>233</td>
<td>61.7 mn</td>
</tr>
<tr>
<td>2014</td>
<td>261</td>
<td>68 mn</td>
</tr>
<tr>
<td>2015</td>
<td>299</td>
<td>68 mn</td>
</tr>
</tbody>
</table>

**WIDEN YOUR WORLD**
Istanbul is a Natural Aviation Hub

231 International
48 Domestic Destinations
111 Countries

- More country coverage than any other airline
- Highest coverage of secondary cities (189)
- Strong presence in growth markets (CEEMEA)
- More than 40% of worldwide international traffic within narrow body range
- Reaching 76% of all destinations at least daily

Number of Destinations in a Region

- Current Wide Body destinations
- Future Wide Body destinations
Geographic Advantage Converts to Cost Advantage

Unit Cost (Cost per Available Seat Km) vs Average Stage Length

- LCC Average
- ME Average
- EU Average
- US Average
- Asia Average
- THY

Stage length, km

CASK, Usc

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One of the Highest Profitability Margins in the Industry

EBITDAR Margin % Comparison (2014)

* Lufthansa Passenger Airlines

**Source:** Calculated based on public company reports.
Key Leverage Ratios

Adjusted Net Debt\(^1\) / EBITDAR

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2.6x</td>
</tr>
<tr>
<td>2010</td>
<td>4.3x</td>
</tr>
<tr>
<td>2011</td>
<td>4.8x</td>
</tr>
<tr>
<td>2012</td>
<td>3.6x</td>
</tr>
<tr>
<td>2013</td>
<td>3.9x</td>
</tr>
<tr>
<td>2014</td>
<td>3.9x</td>
</tr>
</tbody>
</table>

Average: 3.9x

EBITDAR / Adjusted Net Interest Cost\(^2\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>6.5x</td>
</tr>
<tr>
<td>2010</td>
<td>4.5x</td>
</tr>
<tr>
<td>2011</td>
<td>4.7x</td>
</tr>
<tr>
<td>2012</td>
<td>7.4x</td>
</tr>
<tr>
<td>2013</td>
<td>8.3x</td>
</tr>
<tr>
<td>2014</td>
<td>7.8x</td>
</tr>
</tbody>
</table>

Average: 6.5x

5-year Average Adjusted Net Debt to EBITDAR Target: 3.5x

- Out of investment grade scope
- Ignores healthy growth / investment period

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1. Adjusted for the capitalization of operating leases including 55% of wet lease (7x)
2. Adjusted by the portion of financial costs within operating leases (33%)
196 Aircraft Financed in 10 years – $12 Billion Funding

- Total Financing (Mn $)
- Number of A/C Financed

Year | Financing (Mn $) | Number of A/C
--- | --- | ---
2005 | 300 | 3
2006 | 1.100 | 25
2007 | 500 | 12
2008 | 800 | 19
2009 | 200 | 5
2010 | 1.100 | 10
2011 | 1.900 | 29
2012 | 1.100 | 20
2013 | 1.000 | 20
2014 | 1.600 | 20
2015 | 2.500 | 33
All Financed Through Own Operational Cash Generation

- EBITDAR
- CAPEX (Rent Payments)
- CAPEX (Other)
- EBITDAR Margin
- Capex / Revenue

2010: 1,024 762 110 18,8%
2011: 1,130 652 160 16,0%
2012: 1,603 866 506 19,5%
2013: 1,843 506 577 18,8%
2014: 2,044 471 118 18,5%

EBITDAR Margin and Capex / Revenue trends from 2010 to 2014.
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Increasingly Diversified Business

Revenue by Point of Sale

- Europe: 35%
- America: 9%
- Middle East: 11%
- Far East: 13%
- Africa: 4%
- Internet / Call Center: 17%
- Turkey: 19%

Revenue by Geography

- Europe: 39%
- America: 13%
- Middle East: 16%
- Far East: 21%
- Turkey: 13%
- Africa: 8%

Passenger Breakdown

- Domestic: 47%
- Int’l Direct: 25%
- Int’l Dom: 6%
- Int’l Int’l: 26%
- Int’l Direct: 25%

- Europe: 30%
- Far East: 24%
- Middle East: 13%
- America: 11%
- Africa: 8%
- Turkey: 19%

- Internet / Call Center: 17%
- Middle East: 9%
- Far East: 13%

- Increased Int’l to Int’l Transfer Traffic
- More than 75% of ticket sales made outside Turkey
- Reduced dependency to any region operationally
**Turkish Airlines Significance to Turkey**

- **$11.1 Billion** total revenue
- **4th largest** company in Turkey in revenue
- Over **$8 Billion** Service Export
- **40,000** Employees
- Main driver of Turkey’s Exports

**Contribution to Turkey’s Export through Connectivity**

- **North America**: 6% to 13%
- **Europe**: 10% to 8%
- **Middle East**: 21% to 11%
- **Asia and Far East**: 18% to 7%
- **Africa**: 22% to 24%
- **Latin America**: 19% to 15%
- **North America**: 6% to 13%
- **Europe**: 10% to 8%
- **Middle East**: 21% to 11%
- **Asia and Far East**: 18% to 7%
- **Africa**: 22% to 24%
- **Latin America**: 19% to 15%

*Turkish Airlines Annual Destination Point Increase 2003-2014*

*Annual Turkish Export Growth 2003-2014*
New Airport in Istanbul to be Completed in 2018

- 150 million passenger capacity
- 4 Terminals, 6 Runways
- 76.5 sqkm area
- 181 aircraft parking capacity
- Connected to city center in 25 minutes (via rail)
- More than 100,000 sqm of retail area
- Environmental friendly, easily accessible, green facility

Some Stats for Phase 1

<table>
<thead>
<tr>
<th></th>
<th>Atatürk Airport</th>
<th>Third Airport</th>
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<tbody>
<tr>
<td>Traffic Movements/hour</td>
<td>65</td>
<td>90</td>
</tr>
<tr>
<td># of Gates</td>
<td>63</td>
<td>181</td>
</tr>
<tr>
<td>Aircraft per Gate (THY)</td>
<td>5.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Pax per square meter</td>
<td>162</td>
<td>80</td>
</tr>
</tbody>
</table>
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Note: Retrieved from S&P and Moody's website on 31 October 2015.
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Up to $13 Billion Future Financing Need

Fleet Development (Year End)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wide Body</th>
<th>Narrow Body</th>
<th>Cargo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>299</td>
<td>73</td>
<td>216</td>
</tr>
<tr>
<td>2016</td>
<td>331</td>
<td>84</td>
<td>238</td>
</tr>
<tr>
<td>2017</td>
<td>324</td>
<td>85</td>
<td>230</td>
</tr>
<tr>
<td>2018</td>
<td>355</td>
<td>85</td>
<td>261</td>
</tr>
<tr>
<td>2019</td>
<td>384</td>
<td>83</td>
<td>292</td>
</tr>
<tr>
<td>2020</td>
<td>428</td>
<td>80</td>
<td>339</td>
</tr>
<tr>
<td>2021</td>
<td>438</td>
<td>80</td>
<td>349</td>
</tr>
</tbody>
</table>

Owned (Unencumbered) Aircraft

<table>
<thead>
<tr>
<th>Year</th>
<th>Owned Aircraft Value (mn$)</th>
<th>Owned Aircraft #</th>
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<tbody>
<tr>
<td>2016</td>
<td>$453</td>
<td>22</td>
</tr>
<tr>
<td>2017</td>
<td>$624</td>
<td>36</td>
</tr>
<tr>
<td>2018</td>
<td>$873</td>
<td>46</td>
</tr>
<tr>
<td>2019</td>
<td>$954</td>
<td>52</td>
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<tr>
<td>2020</td>
<td>$1.374</td>
<td>73</td>
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<tr>
<td>2021</td>
<td>$1.567</td>
<td>83</td>
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<tr>
<td>2022</td>
<td>$2.356</td>
<td>101</td>
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<td>2023</td>
<td>$3.390</td>
<td>125</td>
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<tr>
<td>2024</td>
<td>$4.330</td>
<td>156</td>
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<tr>
<td>2025</td>
<td>$4.712</td>
<td>174</td>
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</table>

Order Book Delivery Schedule

<table>
<thead>
<tr>
<th>Year</th>
<th>Wide Body</th>
<th>Narrow Body</th>
<th>Cargo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>43</td>
<td>11</td>
<td>43</td>
</tr>
<tr>
<td>2017</td>
<td>30</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>2018</td>
<td>47</td>
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</tr>
<tr>
<td>2019</td>
<td>40</td>
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</tr>
<tr>
<td>2020</td>
<td>62</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>2021</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

216 aircraft will be delivered in the next 6 years implying apx. $13 bn financing
Financing Structure Today and Tomorrow

**2015**
Total Debt: $8.4 Billion
Weighted Average Interest Rate: 3.0%

- **262 Aircraft**
  - Owned: 11%
  - Op. Lease: 22%
  - US Exim: 17%
  - ECA: 30%
  - JOLCO: 20%
  - EETC: 2%
  - CHF: 3%
  - JPY: 31%
  - EUR: 36%

**2021**
Total Debt: $14 Billion

- **438 Aircraft**
  - Owned: 11%
  - Op. Lease: 22%
  - US Exim: 17%
  - ECA: 23%
  - JOLCO: 20%
  - Com.: 5%
  - EETC: 2%
  - JPY: 31%
  - EUR: 30%
  - USD: 36%

*: excluding wet-lease aircraft
A Leading Financing Team: Innovative Structures

- **2006**: The first ever ECA backed French Lease
- **2008**: The first ever US Exim backed French Lease
- **2011**: The first ever ECA backed JOLCO Lease
- **2013**: The first ever US Exim backed JPY denominated Convertible Bond
- **2014**: The first ever ECA Guaranteed Italian Tax Lease in Japanese Yen
- **2014**: The first ever US EXIM guaranteed structure for GE CF6 engines
- **2015**: The first ever JPY Denominated EETC combined with JOLCO Lease
Financing Awards

- 2006: Jane’s Transport Finance Aircraft Debt Deal of the Year (Middle East)
- 2008: Jane’s Transport Finance Aircraft Debt Deal of the Year (Europe)
- 2011: Global Transport Finance Aircraft Leasing Deal of the Year (Europe)
- 2012: Airfinance Journal Awards Tax Lease Deal of the Year
- 2013: Airfinance Journal Awards Engine Deal of the Year
- 2014: Airfinance Journal Awards Engine Deal of the Year

Additional Awards:
- 2013: Airfinance Journal Awards Airline of the Year
- 2015: Bonds and Loans Awards Structured Finance Deal of the Year (Turkey)
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# EETC Issue Process

<table>
<thead>
<tr>
<th>Year</th>
<th>Cape Town Process</th>
<th>Corporate Rating</th>
<th>EETC Structuring / Documentation</th>
<th>EETC Structure Rating</th>
<th>Roadshow &amp; Issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Turkey adopted CTC and Aircraft Protocol</td>
<td>Kick-off</td>
<td>Structuring bank selection</td>
<td>Preliminary discussions with agencies on EETC</td>
<td>Finalize Offering Memorandum</td>
</tr>
<tr>
<td>2012</td>
<td>Implementation of secondary legislations</td>
<td>Rating agency selection</td>
<td>Cancellation of JOLCO component</td>
<td>Agency meetings and presentation</td>
<td>Deal roadshow</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>Rating agency meetings</td>
<td>Postponement due to legislative concerns</td>
<td>Rating agency reports and scenario analysis</td>
<td>Announcement and execution of the deal</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>Corporate ratings assigned</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Turkey included in OECD List</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Corporate Rating**
  - Kick-off
  - Rating agency selection
  - Rating agency meetings
  - Corporate ratings assigned

- **EETC Structuring / Documentation**
  - Structuring bank selection
  - Cancellation of JOLCO component
  - Postponement due to legislative concerns
  - Re-kick off

- **EETC Structure Rating**
  - Preliminary discussions with agencies on EETC
  - Agency meetings and presentation
  - Rating agency reports and scenario analysis
  - Final rating report
Cape Town Convention in Turkey

- An international treaty designed to reduce the risk of loss by creditors in aircraft transactions.
- It has made it possible to expand the EETC structure beyond the U.S. air carriers.
- Turkey adopted the Cape Town Convention and Aircraft Protocol, December 2011.
- Implementation of secondary legislation have been completed in 2014.
- As of 20 October 2014, Turkey has been added to the OECD list of countries whose airlines are eligible for the “Cape Town Discount.”

* Applies to the Guarantee Premium charged by any OECD Export Credit Agency under a government guaranteed financing arrangement.
Enhanced Equipment Trust Certificate (EETC)

- Asset Backed Corporate Bond
- Aircraft Collateralized
- Rated higher than the Airline Corporate Rating

- Supporting Structural Elements
  - Debt tranching
  - Liquidity facilities
  - Overcollateralization
  - Cross-default principles

<table>
<thead>
<tr>
<th></th>
<th>Turkish Airlines USD EETC</th>
<th>American Airlines 2015-2A</th>
<th>Turkish Airlines JPY EETC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Rating</td>
<td>Ba1 (+2 notches compared to AAL)</td>
<td>Ba3</td>
<td>Ba1</td>
</tr>
<tr>
<td>LTV (A Tranch)</td>
<td>67%</td>
<td>55%</td>
<td>44%</td>
</tr>
<tr>
<td>Cross-collateral / default</td>
<td>Yes / Yes</td>
<td>Yes / Yes</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Jurisdiction</td>
<td>Cape Town – Turkey</td>
<td>U.S. Section 1110</td>
<td>Cape Town – Turkey</td>
</tr>
<tr>
<td>Total Notch-up</td>
<td>+5 notches</td>
<td>+7 notches</td>
<td>+5 notches</td>
</tr>
<tr>
<td>EETC Rating</td>
<td>A2</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>Coupon / YTM</td>
<td>4.2% / 4.9%</td>
<td>4.0% / 4.1%</td>
<td>3.8%* / -</td>
</tr>
</tbody>
</table>

* USD Equivalent of 1.228% (JPY coupon rate)
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