

## **CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT**

### **1. Declaration of Compliance with the Principles of Corporate Governance**

The Company has embraced the concept of ethical rules, transparency, fairness, responsibility and accountability, as well as promoting Turkey and the Turkish Aviation sector internationally by fully upholding the Principles of Corporate Governance of the Capital Markets Board (CMB), and continues practices to increase its level of compliance.

## **PART I - SHAREHOLDERS**

### **2. Shareholder Relations Unit**

The Investor Relations Department, which reports directly to the CFO, has been established as a unit to oversee the communication of accurate, consistent and timely information to our national and international investors, maintaining communication and exchanging information with the Board of Directors and capital market supervisors and participants, as well as monitoring compliance with regulations and Articles of Association for the exercising of shareholders rights, and the compliance of public disclosures with all kinds of regulations.

The Shareholder Relation Unit participated at nine Investors Conferences and Road shows and held 11 teleconferences to share financial, operational and strategic developments with investors and analysts. In These conferences and teleconferences, held at the Company headquarters, or investors' offices, were attended by 295 investors/analysts from 162 organization and funds. Contact information for the Investor Relations Unit Personnel:

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### **3. Shareholder's Right to Obtain and Evaluate Information**

During the year of 2012, 573 requests for information were submitted to our Company by e-mail. 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 in the exercising of shareholders' rights to obtain and evaluate information. Additionally, the Company has an Investor Relations page on its current website, where investors and other stakeholder can access information on it, in order to allow both shareholders and other stakeholders to exercise their right to obtain information effectively. Subject to Capital Markets Law, Provisional Article 6, which was amended by Law 6111 Article 157; published in the Official Gazette on 25 February 2011 and entering into force; all share certificates of our shareholders

that are kept physically, will be transferred to our Company, if not recorded by 31 December 2012. At the aforementioned date all shareholders rights regarding these share certificates expire automatically. This announcement has been published in the Investor Relations section of our Company's website.

#### **4. Information on the General Assembly Meeting**

Pursuant to Article 6 of our Articles of Association, all share certificates of our Company are registered and 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 (PA), or in the event that such duties of the PA are transferred, to the transferee institution. Currently, 49.12% of Group A shares belongs to the PA, while 50.88% are traded publicly.

In the course of 2012;

- An Ordinary General Assembly Meeting was held on 7 May 2012 to review 2011 accounts and operations. Shareholders representing TL 610,224,617.96 of our Company's TL 1 billion 200 thousand issued share capital attended the. No media representatives were present.
- An extraordinary General Assembly meeting was held on 10 September 2012. At the meeting pursuant to the Communiqué Serial: IV, No:56 of the Capital Markets Board on the Definition and Enforcement of the Corporate Governance Principle, the amendments to Article 6., 10., 11., 14., 15., 17., 29, removal of the current provisional Article 1., 2., 3. and the addition of Article 41 and provisional Article 1 to the Company's Articles of Association, as well as the election of two Board of Directors members and the submission of Audit Committee membership selection for Board of Directors approval were voted on. Shareholders representing TL 738,369,329.55 of our Company's TL 1 billion 200 thousand issued share capital attended the Extraordinary General Assembly. No media representatives were present.

Invitation to the extraordinary and ordinary meetings was announced in the Turkish Commercial Gazette and a national newspaper, including details of the agenda, and furthermore the same was announced in the Investor Relations section of the Company website. As per article 437 of the Turkish Commercial Code (TCC), the income statement, balance sheet, annual report and proposals for the method of distribution of net income is made available to shareholders at the Company Head Office at least 15 days prior to the Ordinary General Assembly, accompanied by the report to be issued by auditors. At the General Assembly Meeting, existing practice endeavors to respond to shareholder questions verbally, and to address more comprehensive questions in writing; however, since no questions requiring a written answer were received during this period, verbal explanations were deemed adequate.

General Assembly minutes and attendance list are announced to the public on the same day on the Public Disclosure Platform and are available in the Investors' Relations section of the Company's web site for shareholder information. General Assembly minutes of previous years and other documents are also available in the same section of our website.

Within the framework of our donations Policy as adopted by the General Assembly, a separate item in the General Assembly is opened and information given on the charities assisted and donations given during the period. The Donation Policy of our Company is available on our website in the Investor Relations section.

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 the TCC and other laws.

### **5. Voting Rights and Minority Rights**

Voting Rights are set out in Article 31 of our Articles of Association, as 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 the Articles of Association are reserved.” Under Clause 5 of Article 14 of our Articles of Association;

The Board member representing Group C shares is required to attend the meeting, and his affirmative vote is required for the effectiveness of the resolutions of the Board of Directors regarding the following issues:

Resolutions that will clearly have an adverse effect on the mission of the Incorporation as indicated in Article 3.1 of the Articles of Association;

- Any suggestion to be made to the Shareholders Assembly for any modification of the Articles of Association;
- Increase of the share capital;
- Approval of the 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 Markets Board, and which is directly or indirectly binding for the Incorporation, any resolution which will place the Incorporation under any form of commitment, (provided that in the event that the public share in the Incorporation has decreased below 20% of the Incorporation’s share capital, the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;

Any resolution on the cancellation of any flight route, or for a remarkable decrease in the number of flights, excluding those routes which do not generate revenue to meet its own operating costs based on exclusive market conditions, or through other sources.

The privileges of the Group C share may only be limited by the High Commission of Privatization, or any other public institution which has assumed such duties.

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

## **6. Dividend Rights**

The determination and distribution of profits from our Company are set forth in Article 36 of our Articles of Association. There are no privileges in dividend participation.

The General Assembly shall determine the time and method of payment of dividends in accordance with the directives of the Capital Markets 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 into consideration the potential of the Incorporation to distribute profit. This policy is available on our Company website.

## **7. Transfer of Shares**

Article 6 of our Articles of Association; (Shareholders Nature)

The shares held by foreign shareholders may not exceed 40% of the issued share capital of the Incorporation. In calculating the rates of the shares held by foreigner shareholders, the rate of foreign shareholding in the shares held by the shareholder holding Group A shares, which are not open to the public, will be taken into consideration too.

Foreign shareholder shall mean;

- Foreign natural, or legal persons;
- Turkish companies where over 49% of the share capital is owned by foreigners;
- Turkish companies in which the majority of members of administrative and representative boards are not Turkish citizens, and in which the majority of votes are not held by Turkish partners according to their respective Articles of Association;
- Turkish companies under actual control of the aforementioned.

In order to ensure that the aforementioned share rate limitations on foreign partners is compiled within the provisions of the Articles of Association, the Incorporation will register foreign shareholders and their related share rates in separate sections of the Share Register.

It is obligatory to promptly notify the Incorporation of any share purchase and sale reaching 1% of the issued share capital of the Incorporation. Moreover, those shareholders who have reached or exceeded the maximum foreign shareholding rates as indicated in the Articles of Association, are obliged to promptly notify the Incorporation as they become aware of this. The purpose of such notification is to trace the foreign element and any extraordinary share movements thereof, and to ensure that the Board of Directors exercises its powers with regards to these. Notification alone will not suffice in order to become a shareholder without

registration in the Share Register, and only those records present in the Share Register will be relied on in such cases.

In cases where it is understood through notifications, or through other means that the total shares held by foreign shareholders have exceeded 40% of the issued share capital of the Incorporation, the Board of Directors will be under obligation to promptly notify the related shareholders at the latest within 7 (seven) days, starting from the latest share transfer, to dispose of those shares that exceed the foreign shareholding limit, in amounts and rates to be in conformity to the foreign shareholding limit. 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 obligation to sell such shares which have caused the foreign shareholding limit to be exceeded, to a person who is not included under the foreign shareholder definition in the Articles of Association, within the period stated in the notification. In the event that such shares are not disposed of, despite notification, the Board of Directors will be under obligation to meet within 3 (three) days, and to take a resolution to cover the measures indicated below with regard to the shares exceeding the limit.

(i) To redeem the nominal value, the shares held by the foreign shareholder that have caused the foreign shareholding limit to be exceeded, by decreasing the share capital: With this purpose, the Incorporation will first notify the shareholder who has exceed the foreign shareholding limit that his shares will be redeemed. Where such notification may not be served, it will be announced in two newspapers published in the location where the head office of the Incorporation is located. Expenses related to 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 exceeds the limit indicated in the Articles of Association, 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 existing shareholders according to the rules of the Capital Markets Board.

As stipulated in this Article, in cases where the total share rate of the foreign shareholder exceeds the limit, the Board of Directors is entitled to choose the resolution to cover measures to reduce the rate of shares to the permitted limit.

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 the 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.

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 that it ceases to qualify as Turkish due to such factors or events 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 Turkish citizens (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 or 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. The terms of the limitations imposed on the foreign shareholding ratio for the protection of the traffic rights of our Company are based on the criterion of nationality, should such limit be exceeded.

Article 7 of our Articles of Association; (Shareholders Nature)

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

The 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, and according to the format 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 consistent with the Articles of Association, or the law, or without indicating any reason thereof.

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 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 authorized to become a shareholder. The affirmative vote of the member, appointed to the Board of Directors to represent the 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.

The 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 this will promptly be registered in the Share Register without requirement for any Board of Directors resolution.

The Board of Directors will be under obligation to limit the transfer of the shares to 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 the Articles of Association, and to avoid endangering the traffic and cabotage rights held by the Incorporation.

## **PART II - PUBLIC DISCLOSURE AND TRANSPARENCY**

### **8. Public Disclosure Policy**

Our Board of Directors has established a Disclosure Policy to share information on the performance and forward looking developments within the scope of generally accepted accounting principles and Capital Markets Legislation (CML), Capital Markets Board and Istanbul Stock Exchange regulations and Capital Markets Board Corporate Governance Guidelines in a fair, complete, accurate and comprehensible manner equally with capital market participants, and to always maintain an active and open dialogue. The Board of Directors is authorized to and responsible for enforcing, supervising and developing Disclosure Policy. Turkish Airlines' basic policy is to give correct, complete, understandable, cost effective and easily accessible information and explanations, in equal conditions, excepting commercial secrets, to shareholders, capital markets participants, personnel and customers. The comprehensive public disclosure policy of our Company as approved by the Board of Directors may be found on our Company's website.

The basics of public disclosure of the forward looking statements are covered in the Disclosure Policy. Where the Incorporation becomes aware that the expectations in the forward looking statement will not materialize the Incorporation shall disclose this to the public and revise its expectations accordingly. Our Company made 61 Material Disclosures during the 2012 fiscal year in accordance with the 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 course, 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.

### **9. Company Website and Its Contents**

Our Company's web address is [www.turkishairlines.com](http://www.turkishairlines.com), and the Investors' Relations page may be found on it. The website also has an English version. The Company's information on the web site should be equal and/or consistent with the disclosures

pursuant to related articles of legislation; it may not contain contradicting or deficient information. The Investor Relations page, covers the following subjects listed in the Corporate Governance Principles; Shareholding Structure, General Assemblies agenda, proxy specimens, attendance list, additional information, minutes of meetings, annual reports, financial statements, commercial operating data, company presentations, Corporate Governance Guidelines, details on the Board of Directors, Material Disclosures, ethical regulations, policies (profit sharing policy, disclosure policy, remuneration policy) information regarding related parties transactions, share information, analyst information, Trade Register Information, Articles of Association, Board Committees (Financial and Corporate) and contact information and Frequently Asked Questions. Investors can send an e-mail to ir@thy.com, under the Investor Relations section to register any question or opinion.

### **10. Annual Report**

Our Company's Board of Directors prepares a detailed Annual Report in advance of the General Assembly each year for submission to related stakeholders for informative purposes. In addition, and pursuant to CMB Directive Series XI No:29, quarterly activity reports are prepared and publicly announced. The aforementioned reports contain information listed in the Corporate Governance Principles.

## **PART III - STAKEHOLDERS**

### **11. 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 deemed to be of interest to other beneficiaries are delivered in a timely and clear manner through the appropriate communication channels. In addition to stakeholders and investors, suppliers, financial institutions and other interested parties may obtain information about our company via press releases, activity reports and our website. Personnel receive information regarding the Company's general practices and operations through internal announcements via the Company intranet site, which is actively used. In addition, the monthly magazine Empathy is published for inter-company communication. The internal communication channels of our Company are designed to be open to all stakeholders, with contact information also announced on the Company's web site. There is no Company practice that in any way obstructs stakeholders in contacting the Corporate Executive Committee or Audit Committee.

### **12. Stakeholders taking part in management**

Our Company organizes management meetings regularly each year. Personnel from each supplier level, the national and international managers of our Company, upper management and the Board of Directors participate in these meetings. Opinions are exchanged on relevant matters both at these meetings, and at workshops and panels.

In addition, a proposal system is used in our Company. Through this system, employees can propose opinions for improvement and development within the Company, with those proposals deemed appropriate being implemented.

### **13. Human Resources**

Our Company adheres to the Human Resource Procedure established by our Board of Directors. With sub-units structured along these procedures, all personnel activities are realized within the framework of legislation.

Personnel relations with employees are realized through the Personnel Relations Directorate. Mr. Ebubekir Baysal, as Personnel Relations Manager, is responsible for improving communication with employees, as well as for answering questions, solving problems and making announcements of interest to all employees. Questions and complaints, reaching the Directorate through various means are solved in coordination with the related departments. To date, among notifications made to the Ethics Line Board, which is the application point for our Company's employees with regards to discrimination and conflict of interest, several applications have included cases of direct or indirect discrimination. In order to resolve these applications, the Ethics Committee has decided to listen to related personnel, in terms of gathering the opinions of relevant departments, thereafter acting upon the results received. Analysis and evaluation is ongoing. Job descriptions in their current form are available on THY's intranet pages. All employees can access their job description via the intranet page. An Awards Procedure, covering inter-company awarding criteria has been prepared. In addition, a Performance Management System Guideline has been prepared that covers performance criteria. Performance Management Procedure preparations are ongoing. Within this scope employees obtain information both on awards and performance related matters.

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 results-oriented manner at all levels and on any subject concerning collective bargaining and personnel and representatives appointed by the union in numbers and percentages as specified in the latest legislation and by union directors. Additionally, training services are provided to all our personnel.

### **14. Code of Ethics and Social Responsibility**

Our Company continues its practices in accordance with its flag carrier identity, with the provided service quality and social responsibility, both domestically and internationally. Our Board of Directors has prepared a Code of Ethics within the framework of Corporate Governance Principles, which is also published on our website. In addition, job descriptions are prepared for employees. It is required that they behave along accepted principles in business life, and to be respectful in their words and deeds with regards to legislation, ethical values, social norms and the environment. An Ethics Line Board has been established to enable the Company's employees to report actions that fall below the threshold of ethical standards.

There has been no case against the Company in Turkey regarding environmental damage.

## **PART III - STAKEHOLDERS**

### **15. Structure of the Board of Directors and its Formation**

The Board of Directors is comprised of nine members elected by the General Assembly. At least eight out of nine Board Members should be elected from among

Class A shareholders with the highest vote, and one member should be chosen from among the Class C share shareholders. At least six Board Members, including the Board Member representing the Class C share, must be Turkish citizens. The term of office for Board members is 2 (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.

Three members of the Board of Directors are appointed to the Executive Committee, and the other six are non-executive members. Among the non-executive Board of Directors three are independent members of the Board. Since the aviation industry has a dynamic nature, were the Board of Directors and President of the Executive Committee the same person, it would create uniformity. Therefore, at our Company the President of the Board of Directors and Executive Committee is the same person, and the CEO is not the President of the Board of Directors.

Information on the Members of the Board as of 31.12.2012:

<b>Name Surname</b>	<b>Office</b>	<b>Start date of the office</b>	<b>Status of independency</b>	<b>Committees participated office</b>
Hamdi TOPÇU	President, Board of Directors	01.01.2010	Executive Member	Executive Committee / President
Prof.Dr. Cemal Şanlı	Vice President, Board of Directors	01.01.2010	Executive Member	Executive Committee / Vice President
Temel Kotil Assoc. Prof.	CEO, Member of the Board	22.04.2005	Executive Member	Executive Committee / Member
Mehmet Büyükekşi	Member of the Board	03.03.2004	Executive Member	Corporate Management Committee / Member
Muzaffer Akpınar	Member of the Board	24.04.2007	Independent Member	Financial Audit Committee / Member
İsmail Gerçek	Member of the Board	08.04.2011	Independent Member	Financial Audit Committee / Member, Corporate Management Committee / Member
Gülsüm Azeri	Member of the Board	08.04.2011	Independent Member	Corporate Management Committee / Member
Naci Ağbal	Member of the Board	10.10.2012	Executive Member	
Mehmet Nuri YAZICI	Member of the Board	10.10.2012	Executive Member	

The résumés of Board Members, their office tenure and duties beyond the Company are presented in the Annual Report and under the Investor Relations section of the Company's website. Independency Declarations of independent members are

announced publicly via the Public Disclosure Platform and are attached to the annual report.

## **16. 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 in every circumstance. 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 on an agenda to be communicated to Board Members prior to the meeting. Invitations to Board meetings shall be made at least three days prior to the actual meeting. Board of Directors meets with a quorum of at least six members. Decisions of the Board of Directors require the positive votes of at least five members. Members, who have not attended four consecutive meetings, or six meetings in one year without excuse accepted by the Board of Directors, or for a justified reason are considered to have resigned from office.

Matters rendered effective with participation at a meeting of Board Members representing Share class C, and who vote positively are mentioned in the 5<sup>th</sup> section of this report.

According to Corporate Governance Principles of the SPK, in all related party transactions, and when granting assurance, security or mortgage to third parties, transactions are in compliance with CMB legislations.

During 2012, the Board of Directors met 43 times and passed 268 decisions. Among the discussed matters, there are no related party transactions or transactions of important nature, which are not approved by independent board members and that require submission to the General Assembly.

## **17. Committees within the Board of Directors, Number, Structure and Independence**

The following committees have been formed in the Board of Directors within the framework of TCC and CMB legislation. Committees for Nomination, Assessment of Risk at Early Stage, and a Pricing Committee have not been formed. Instead it was approved for these duties to be transferred to the Corporate Management Committee. The members of the Financial Audit Committee and Corporate Management Committee have been determined by the Board of Directors and publicly announced. The work location, and working principles are set by the Board of Directors.

### **Turkish Airlines Corporate Management Committee**

President: İsmail Gerçek

Members: Mehmet Büyükekşi, Gülsüm Azeri

The Corporate Management Committee reports directly to the Board of Directors. It supports and helps the Board of Directors with practices in the following areas: The Company's compliance with internationally approved Corporate Management Principles, determining Board of Directors and Senior Managers, evaluation of wages, awards and performances and career planning, as well as investor relations and public

disclosure matters. The Corporate Management Committee realizes performance increasing management practices for the Company, reviews the system and processes formed, and will be formed by the Company, evaluating them and making proposals.

#### **Turkish Airlines Financial Audit Committee**

President: İsmail Gerçek

Member: Muzaffer Akpınar

The Financial Audit Committee directly reports to the Board of Directors. It supports and assists the Board of Directors in the following areas: The compliance of Company practices with national and international codes and legislation, improving work processes through audit and coordinating work on information transparency. The Audit Committee is responsible for taking all precautions necessary for any kind of internal and external audit to be executed in a sufficient and transparent manner; and to carry out the duties, subject to Capital Markets Board legislation. Financial Audit Committee members are selected from among Independent Board Members.

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

An effective risk management strategy at our Company is critical in taking under control potential risks inherent in the airline industry, which is prone to fierce competition, and to ensuring sustainable growth. In an effort to provide a reasonable degree of security against possible shocks by minimizing sensitivity to fluctuations, particularly those relating to fuel and carbon emission prices, interest rates cash flow and exchange rates, as well as counterparty risk, the Financial Risk Management Department devises 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 within this framework, hedging in relation to fuel prices, amongst the Financial Risks the Company is exposed to, commenced in June 2009. From November 2009, the hedging ratio was increased and the transaction maturity extended, while the instruments used were diversified and the strategy updated from January 2011, in addition to an increased hedging ratio and extended transaction maturity; hedging is ongoing within the framework 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 can arise from potential differences between forecast 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 framework of the Carbon Emission Trading System.

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

## **19. 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, as well as 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 preemptive action to potential problems. The mission of the Company as it appears in Article 3 of the Articles of Association is indicated below:

- a) To develop the Company's standing as a global airline by expanding the coverage of its long-range flight network.
- b) To develop the Company's standing by making its technical maintenance unit a major regional technical maintenance resource.
- c) To develop the Company's standing as a service provider in all strategically important aspects of civil aviation, including ground handling services and flight training.
- d) To defend the Company's standing as the leader of the domestic airline industry.
- e) To provide uninterrupted, and superior-quality flight service by entering into a collaborative agreement with a global airline alliance that will complement its own network in such a way as to advance the Company's international image and enhance its marketing abilities.
- f) To defend and improve upon İstanbul's reputation as a regional aviation hub.

In its capacity as the flag carrier of the Republic of Turkey in the civil aviation industry, to be a leading European airline and an active global player by virtue of its flight safety and security record, its product diversity, its service quality, and its competitive stance.

Our company Vision;

- a. Continue sustained growth above the industry average
- b. A zero accident and crash record
- c. The most envied service levels worldwide
- d. Unit costs equal to those of low-cost carriers
- e. Sales and distribution costs below industry averages
- f. Loyal customers, who take care of their own reservation, ticketing, and boarding formalities themselves
- g. Personnel who constantly develop their qualifications with the awareness of the close relationship between the benefits for the Company and the added value that they contribute
- h. A sense of entrepreneurship that creates business opportunities for fellow members in the Star Alliance, and takes advantage of the business potential provided by them

A management team, whose members identify with modern governance principles and are distinguished by being mindful of the best interests not just of shareholders, but of all stakeholders.

## **20. Financial Rights**

All kinds of rights, benefits and remuneration and the criteria to determine them, as well as the basics of remuneration are written in the Remuneration Policy of our Company. This policy is publicly disclosed and published on our website. There are

no explanations on a personal basis and there is no distinction between the Board of Directors and senior managers. Remuneration of the Board of Directors is determined by the General Assembly. Board Members may not obtain any loan or debt from the Company.