



— T U R K I S H A I R L I N E S —

ANNUAL REPORT 2016

WIDEN YOUR
WORLD

TURKISH
AIRLINES 

CONTENTS

TURKISH AIRLINES AT A GLANCE 5

FOR OUR SHAREHOLDERS 6

Financial Analysis.....	6
Industrial Developments and Forecast for 2017	10
Message from the Chairman.....	14
Board of Directors	18
Mission & Vision.....	21
Strategies.....	22

TURKISH AIRLINES GROUP 28

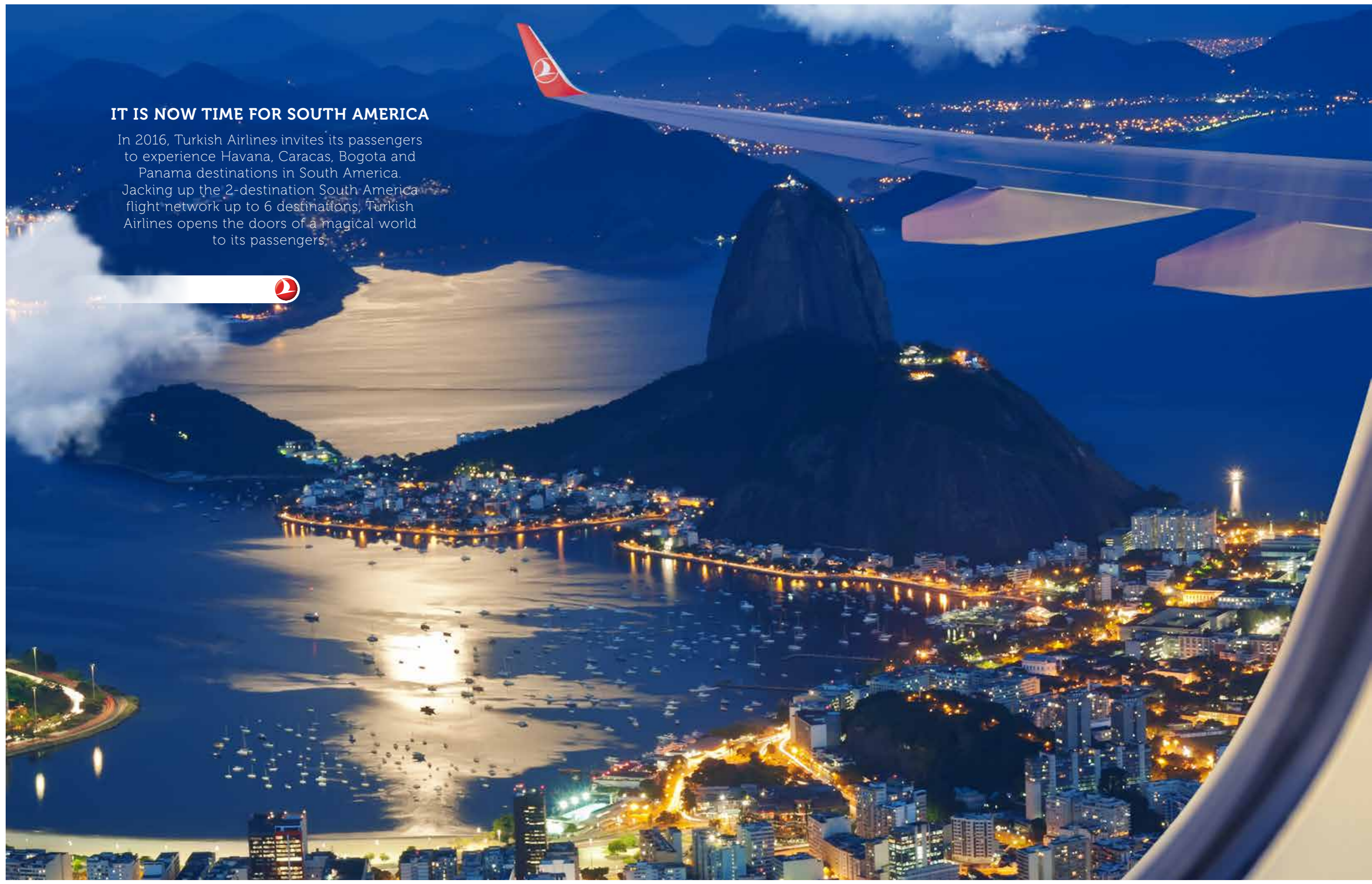
Affiliates and Subsidiaries.....	28
Traffic Figures.....	32
Fleet.....	34
Flight Network	36
Turkish Airlines in 2016	40
Activities.....	42
<i>Cargo</i>	42
<i>Maintenance and Repair</i>	44
<i>Catering</i>	48
<i>Ground Handling</i>	52
<i>Training</i>	54
<i>Other Services</i>	60
Human Resources.....	74
Quality and Corporate Responsibility	76
Corporate Communication	80
Financial Risk Management	84
Organizational Chart	88
Corporate Governance Principles Compliance Report ..	90
Assessment of the Board on the Effectiveness of the Board Committees.....	102
Assessment of the Board on 2016 Results.....	103
Legal Disclosures and Documents.....	104
Statement of Independency	105
Report on Affiliates	108
Statement of Liability	109

CONSOLIDATED FINANCIAL FIGURES 111

Consolidated Financial Statements and Footnotes as of December 31, 2016.....	118
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IT IS NOW TIME FOR SOUTH AMERICA

In 2016, Turkish Airlines invites its passengers to experience Havana, Caracas, Bogota and Panama destinations in South America. Jacking up the 2-destination South America flight network up to 6 destinations, Turkish Airlines opens the doors of a magical world to its passengers.



THE WORLD IS AT YOUR DOOR THANKS TO TURKISH AIRLINES.

As an airline with the largest number of flight destinations in the world, Turkish Airlines offers the comfort, peace and happiness of Istanbul to the whole world.



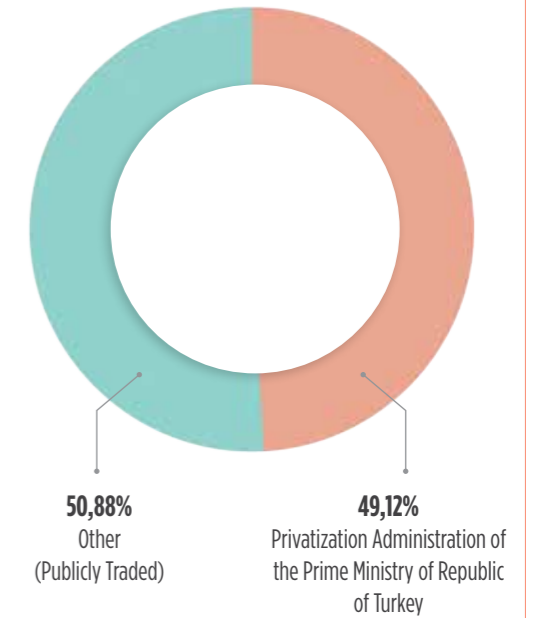
TURKISH AIRLINES AT A GLANCE

AS AN AIRLINE WITH THE LARGEST NUMBER OF INTERNATIONAL DESTINATIONS AROUND THE WORLD, TURKISH AIRLINES WORKS WITH A NEVER-ENDING ENERGY TO SATISFY ITS CUSTOMERS ON THE GROUND AND IN THE AIR.

Established in 1933, Turkish Airlines Inc. mainly operates in domestic and international passenger and cargo transportation by air.

50.88% of its shares is publicly traded and 49.12% is owned by the Privatization Administration. Paid capital of the Company is 1.38 billion TL. The company has a total of 11 subsidiaries, 3 of which are directly owned and 9 are jointly owned.

Turkish Airlines is an airline with the largest number of destinations in the world.



**Shareholding Structure of
Turkish Airlines**



By late 2016, Turkish Airlines increased the number of aircraft to 334 from 199 as at the end of 2016. 87 of the aircraft in the fleet are wide-body, 234 are narrow-body and 13 are cargo aircraft.

Turkish Airlines flies to 298 destinations, 51 of which are domestic and 247 are international, as at 2016. Company's passenger volume reached 62.8 million with an increase by 2.5% compared to last year. The increase in passenger volume was 3.8% in domestic flights and 1.5% in international flights. Passenger aircraft landings increased to 475,303 with an increase by 2.7%.

In 2016, Cargo-Mail transport also increased to 887,164 tons with an increase by 23.1%.

FINANCIAL ANALYSIS

INCREASING COMPETITION DECREASED THE REVENUES WORLDWIDE

The year 2016 turned out a challenging year for both aviation industry and Turkish Airlines in many aspects. The decrease by up to 20% experienced in fuel prices, which is the biggest cost item of the airlines, has led to a capacity increase by up to 6%, along with the increased conditions of competition in the industry. Another factor which played a key role in demand and airline financials was the fluctuation in exchange rates. Especially the decrease in value of the currencies of the developing countries against US Dollar has caused the industry a hard time in pricing and planning matters.

The total revenues of Turkish Airlines decreased by 6.9% compared to last year, due to the unfavorable events that took place in our country in 2016, as well as the global impacts. According to IATA, airlines passenger revenues and cargo revenues worldwide declined by 2.7% and 9.5%, respectively. And the decline in the revenues of Turkish Airlines was 8.3% above the average of the industry while the cargo revenues, unlike the industry, increased by 6.5%, despite the unfavorable conditions. The passenger revenues in 2016 made up of 89% of total revenues while cargo revenues were recorded as 9%.

2016 Global Aviation Indicators (Billion US Dollars)

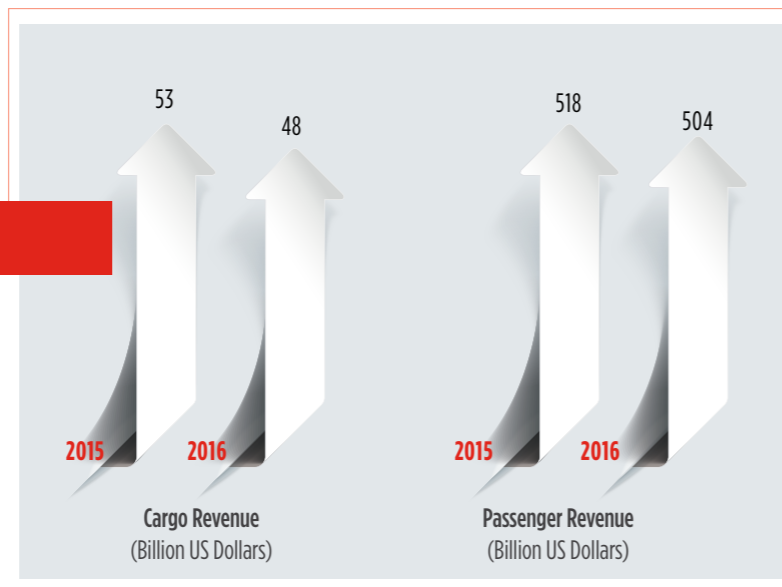
	2015	2016	Variation
Cargo Revenue	53	48	-9,5%
Passenger Revenue	518	504	-2,7%
Capacity Increase	5,5%	6,2%	0,7 p

IATA Global Market

Key Financial Highlights (Million US Dollars)

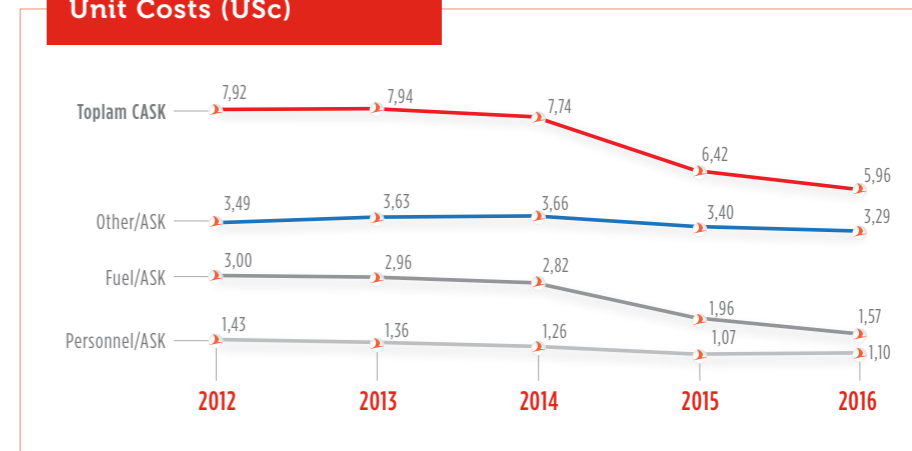
	2015	2016	16/15 Variation
Yield (Net)	10.522	9.792	-7%
Net Profit	1.069	-77	-107%
Net Profit Margin	10,2%	-0,8%	-10,9 p
EBIT	1.039	-167	-116%
EBIT Margin	9,9%	-1,7%	-11,6 p
EBITDAR	2.580	1.628	-37%
EBITDAR Margin	24,5%	16,6%	-7,9 p

2012-2016 Average EBITDAR Margin:19,6%



THE AUSTERITY MEASURES AND EFFICIENT CAPACITY PLANNING REDUCED UNIT COST PER SEAT (CASK) BY 7.2%

Unit Costs (USc)



EFFICIENT CAPACITY AND COST MANAGEMENT

Turkish Airlines has suffered a significant loss in revenues, as one of the companies, which was adversely affected the most from the unfavourable events experienced in Turkey in 2016. Nevertheless, it managed to compensate its revenue loss by keeping its net profit almost at par, thanks to the austerity measures it has taken and efficient capacity planning as of the second half of the year.

The austerity measures taken and efficient capacity planning have also ensured that Unit Cost per Available Seat Kilometre (CASK) was declined to 5.96 USc in 2016 with a decrease by 7.2%. The fall in petrol prices was seen to have had a significant impact on this decrease.

Positively affected in cost management by the depreciation of TL against USD since around 30% part of the operational costs was in TL, Turkish Airlines continued to maintain its low unit cost advantage globally in 2016, as well.



FINANCIAL ANALYSIS



HIGH POTENTIAL TO CREATE CASH

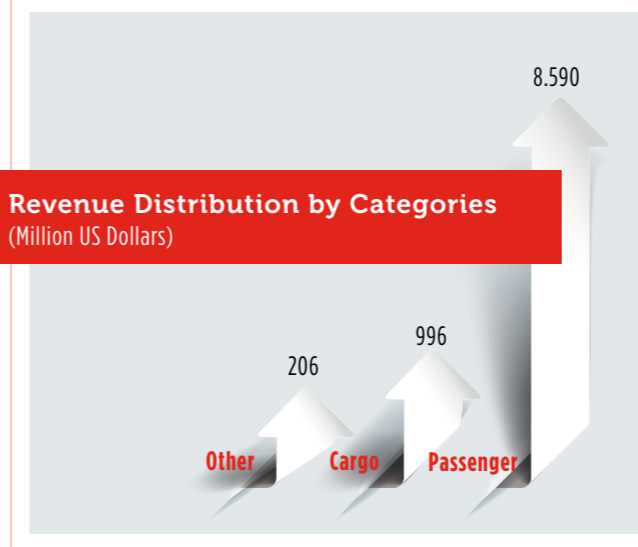
Turkish Airlines expresses the potential to create profitability and cash, with EBITDAR figure which is widely used in aviation industry as a performance criteria. Our partnership achieved 1.6 Billion USD EBITDAR in 2016 with 16.6% EBITDAR Margin. While the EBITDAR margin fell by 7.9 points as compared to 2015 due to unfavourable conditions experienced in our country and the increasing competition in the aviation industry, EBITDAR declined by 37%. But despite, our Partnership, which achieved 16.6% EBITDAR margin on an average in the last five years, continues to be one of the most profitable airlines within the industry.

SECOND MOST TRADED SHARE

Turkish Airlines shares have been traded since 1990 in Istanbul Stock Exchange (BIST) under the ticker code "THYAO". Our partnership's free float rate increased to 50.88% following the secondary public listing it performed in 2004 and 2006. Claimed to be one of the highly preferred shares for the investors in Turkey for many years, the equity shares of Turkish Airlines became the 2nd most traded share in Istanbul Stock Exchange in 2016, with 97 billion TL trading volume, thanks to its high liquidity and large investor base. Our partnership's share price underperformed by 44% as compared to Istanbul Stock Exchange in 2016, due to unfavourable developments, which are thought to have a direct adverse effect on air transportation, such as the geopolitical risks across the regions we operate and global security concerns.

The market value of Turkish Airlines reached 12 billion TL, tripled between 2011-2015, thanks to its growth strategy based on sound foundations, effective cost management and increasing operational productivity. However, airline passenger traffic was adversely affected by the terrorist acts which began in the last quarter of 2015 and continued throughout 2016 and consequently the security concerns, which affected the share performance of THYAO, causing the market value to decline to 8.4 billion TL with a decrease by 30%.

Revenue Distribution by Categories (Million US Dollars)



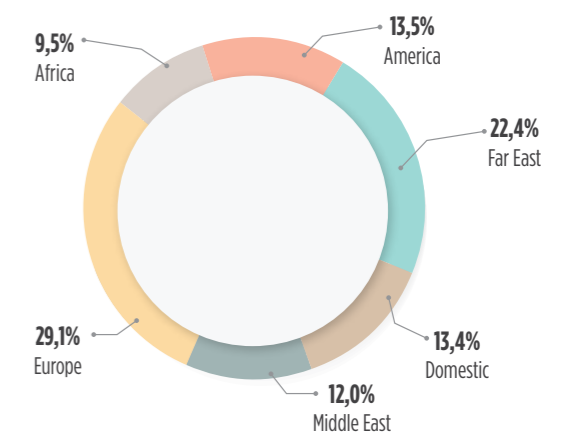
Revenue Distribution by Categories (Million US Dollars)

	2015	2016	16/15 Variation
Passenger Revenue	9.368	8.590	-8,3%
Cargo Revenue	935	996	6,5%
Other Revenue	219	206	-5,9%
TOTAL	10.522	9.792	-6,9%

Geographical Distribution of Revenues* (Million US Dollars)

	2015	2016	16/15 Variation
Domestic	1.359	1.282	-6%
Middle East	1.333	1.154	-13%
Europe	3.138	2.791	-11%
Africa	842	914	9%
America	1.294	1.297	0%
Far East	2.337	2.148	-8%
Total	10.303	9.586	-7%

* Passenger and Cargo Revenues



Regional Distribution of Revenues

BALANCE INCOME PORTFOLIO

The wide flight network of our partnership provides a natural hedging mechanism against regional risks by giving a diversified income flow. The biggest share in regional income distribution belongs to Europe by 29.1%. Recently introduced long-distance flights to Panama, Havana, Caracas, Atlanta and Bogota helped to increase the share of America in total revenues, which has led America to become the second highest income-generating region, after the Far East. The fact that 72% of our tickets in 2016 was mostly sold outside Turkey implies a very crucial service export for our country.

INDUSTRIAL DEVELOPMENTS AND FORECAST FOR 2017

The factors which repressed the growth in world's economy in 2016 include the US Federal Reserve's (FED) decision to increase and maintain the interest rates, Brexit ballot, fluctuations in commodity prices, compressions in monetary policies and the slow-down in global trading and investments.

As a result of these developments, global economy completed 2016 with a growth by 3.1%. While developed economies displayed a slow growth by 1.6%, developing economies maintained their horizontal growth at 4.1%.

European region completed 2016 with a growth by 1.7%, due to Brexit decision, austerity policies and the terrorist acts happening in the region. The fact that Euro kept on losing value against USD, the uncertainty to be caused by Brexit decision, upcoming dissolution of EU integrity, the elections in France and Germany and the refugee issues will be the factors which will affect the growth in European region in 2017. A growth by 1.6% is expected in 2017¹.

While USA grew by 1.6% in 2016, it expects to grow by 2.3% in 2017. US unemployment rates, confidence index, FED decisions, 2016 election results, political and economic course of action to be implemented by the new government will be the factor which will determine the growth in 2017¹.

Chinese economy got into a slowdown and rebalancing period due to the decrease in trading and completed 2016 with a growth by 6.7%. A growth by 6.5% is expected since the trading volume is estimated to increase in 2017¹.

The annual growth of India was limited to 6.6% due to the insufficiency of the monetary policies it introduced in 2016. The growth expectation for 2017 is around 7.2%. The growth rate in the upcoming period is expected to outperform China¹.

While Brazil and Russia downsized by -3.5% and -0.6% respectively in 2016 by reducing the impact of negative growth, they are expected to grow by 0.2% and 1.1% respectively in 2017 as the economic improvement continues¹.

Although similar factors are expected to impact the global economy in 2017, the growth is estimated to reach 3.4% in 2017 and 3.6% in 2018.

TURKISH ECONOMY GREW BY ALMOST 3.3%

Global Economic developments as well as unfortunate events that were experienced, failed coup attempt, political developments across the region were the factors that affected Turkish economy in 2016. Despite all emerging unfavourable conditions, Turkish economy grew by 3.3%. The number of tourists expected in 2017 and the increase in tourism revenues, establishing positive political relations, the decrease in the impact of sad events, the value of Turkish Lira against other currencies and new constitutional referendum will be the factors to affect the economy. A growth by 3% is expected in 2017⁴.

AVIATION INDUSTRY OVERVIEW

Petrol prices, exchange rate fluctuations, terrorist actions, economic and political uncertainties, decrease in trading, regional issues and capacity increases were the major factors which affected the aviation industry in 2016.

According to IATA data, the number of passengers carried across the globe has risen to 3.77 billion passengers with an increase by 5.7% in 2016 while the capacity increased by 6.2%. While the net profit of the industry realized at 35.6 billion USD, total expenditures reduced by 2.5%; units costs - except for fuel - increased by 2%. Unit passenger and cargo revenues decreased by 8% and 12.5%, respectively⁵.

Oil prices were one of the factors affecting the dynamics of the industry. The airlines which could not manage to benefit properly from the oil prices-which began to decrease in 2014 - due to hedging, in 2015, benefited from this downfall effectively in 2016. However, upward acceleration was observed in the last quarter in 2016. While Brent oil was 100 USD/barrel in 2014, it realized at 53.9 USD/barrel in 2015 and 44.6 USD/barrel. The downfall in oil prices reduced the oil costs which is one of the key cost items in aviation industry. The share of oil cost in operational costs was 31.3% in 2014; 27.3% in 2015. This figure reduced to 19.2% in 2016⁵. Oil prices are expected to rise to 55 USD in 2017.

Depreciation of local currencies against dollar will be another factor to affect the industry. Balance of income and expenditures pool will gain importance with the downfall in purchasing power along with the depreciation in the currencies.

Another factor to affect the aviation industry in the latest period was the terrorist acts. These un-



fortunate happenings experienced in Europe and Middle East region affected the regional airlines and the air carriers organizing flights to this region. Terrorist acts have caused the tourism habits to change. Reduced demand put strain on the unit income and load factor. Airlines have shifted their capacities and made some changes in short-term strategies, with a view to reducing their risks. This process is expected to normalize in 2017.

In 2016, airlines made large-scale Joint Venture contracts and carried out big purchases as required by their strategies, in an effort to expand their existing markets, supply the flight network and eliminate the risks caused by economic and political uncertainties. This trend is expected to continue in 2017.

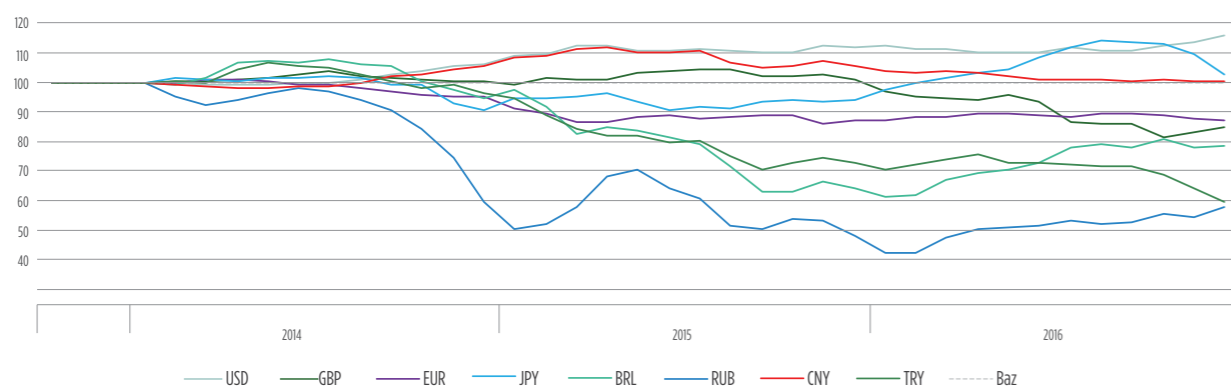
Full service carriers (FSC) undertake new plans to brake the rising of low cost carriers (LCC) in the market, reduce their unit costs and boost their shares in the existing and new markets.

In this context, the low cost carriers that have focused on short and medium destinations in the past years will head towards long distance flights as well in 2017.

Brexit decision and the results of potential political changes in Europe, the improvement of the national aviation industries once the embargoes on Iran and Cuba were lifted, the protective policies of the governments on aviation, the developments in open sky agreements will be the other factors that affect the aviation industry.

As a result of all impacts, the number of passengers carried across the globe is expected to rise to 3.96 billion with an increase by around 5% in 2017; the capacity to increase by 5.6%. The net profit of the industry is expected to decrease and realize at 29.8 USD; total revenues to increase by 6.8% and unit costs -except for fuel- to increase by 2.5%⁵.

Exchange Rates against US Dollar^{2,3}



1 IMF WEO (Update): A Shifting Global Economic Landscape
2 TCMB
3 IMF Exchange Rates
4 IMF WEO October 2016

5 IATA: Economic Performance of The Airline Industry-2016

INDUSTRIAL DEVELOPMENTS AND FORECAST FOR 2017



AIR CARGO REVIEW

When we look at the air cargo industry, the increase of cargo capacity in excess of the capacity offered in recent years, the deficiency in global trade, oil prices and prices in downfall trend have a critical importance for air cargo profitability predictions. The demands shifting towards the maritime transport stand out as a thread in terms of the air cargo market.

Wide-body passenger aircraft deliveries bring along a remarkable additional cargo (belly cargo) capacity. Particularly, in certain lines of merchandise, wide-body passenger aircraft will be effective in determining the dynamics of these markets, thanks to the additional cargo capacity they bring along. According to IATA figures, cargo capacity in 2016 increased by 5.3% while cargo traffic rose by 3.8%, falling behind the available capacity. This has led to a decrease in cargo load factor. Cargo load factors receded down up to 43% levels⁶.

Air cargo carriers have been developing different strategies against demanding and varying market conditions. Joint Business Agreements are made between the carriers. Some air cargo companies establish new companies with local partners in different countries, to expand outside their own target markets. Therefore, they distribute the potential risks by appearing in diverse markets. A number of significant carriers turn to special cargo (livestock, previous cargo, medicine, etc.),

aiming at standing out with different and special services they offer in the shrinking market. Airlines intend to step forward in the competition with loyalty programs they began to offer to the cargo customer, just like the passenger loyalty programs. Another strategy followed by some airlines focusing on cost-reducing measures is to discontinue the flights which suffer losses and purchase cargo aircraft capacity from a secondary air carrier in an effort not to lose their major cargo markets. New cargo terminal projects or capacity boosting projects of some air carriers based in Middle East and Europe, focusing on some special cargo types for the future, draw the attentions.

According to the prediction of DHMI (State Airport Administration), in 2017, it is expected to achieve an increase by 3.5% in Turkish domestic cargo shipping; 10.2% in Turkish international cargo shipping. In 2016, increase rate in domestic flights was 3.6% and increase rate in international flights was 10.8%. These figures will allow us to deduce that the State Airports Administration has a cautious optimism⁷.

REGIONAL REVIEWS

Europe

Last year the terrorist acts experienced in the European region and decreasing demand have adversely affected aviation industry and forced the air carriers in Europe to seek alternative solutions to get out of the bottleneck suffered due to loss in their revenues. The airlines strive to provide their customers with a better service and communication network, with the bilateral agreements and joint ventures with other air carriers, along with the new strategies they determined, to get out of this bottleneck. This type of agreements were expressed to continue in 2017 as well. Besides, the fact that low-cost air carriers (LCC) have increased their shares forces other air carriers to act through different strategies.

According to IATA data, in 2017, approximately 3% growth is expected in revenues in European region and a decrease is expected in profits per passenger on USD basis. Airlines have made some changes in their end-of-year forecasts as a consequence of the events experienced throughout 2016. The number of passengers of the air carriers which were affected by the hateful events that have happened towards the end of 2016, after all, got quite closer to the figures of the previous year⁵.

Moreover, the uncertainty caused by the Brexit decision and the impacts of this decision, likely to cause on aviation and entire region, make the air carriers a bit worried. It is still unclear whether the fall of Pound against USD will continue. In 2017, oil prices are expected to be higher compared to 2016. It is expected that this will put an enormous pressure in reducing the costs.

Given all these circumstances in Europe, even though an increase is expected in the revenues and the number of passengers, it is expected that these increases will not be as in the previous year and rates of return will be affected adversely.

Asia

Asia Pacific is a region which involves a fast growing class, consists of 31% of global GDP and plays host to 4 billion people. Asia-Pacific, having the highest passenger capacity share with 30.2% in the world, is the fastest growing market after the Middle East, in terms of annual capacity, traffic and passenger capacity changes. According to IATA data, 7.6% capacity growth and 7% traffic (RPK) growth is expected for 2017 in Asia-Pacific region. Total net profit of the air carriers in this region, which was 7.3 billion USD in 2016, is estimated to decrease to 6.3 billion dollars in 2017⁵.

Although the busiest lines of the world, in terms of available capacity, are based in Asia-Pacific region, the tension and uncertainty in global economy and strong competition force the leading Asia-Pacific carriers to take some measures. Intense competition, insufficient infrastructure capacity and slot deficiencies at the airports put pressure on ticket prices and profitability.

While low-cost carriers in Europe and North America use less-busy and lower-cost secondary airports to help with their recovery, this is not as applicable for the countries in Asia, which in turn creates a cost pressure for low-cost carriers in the region. Regulatory restrictions, infrastructure at the airports and slot deficiencies limit the development of low-cost carriers, too.

Some carriers in the region aims at increasing their flight networks and thus the number of passengers by getting into partnerships with the carriers based in Europe and Gulf Region. Furthermore, the efforts of the eight low-cost carriers within Value Alliance founded in 2016, to establish closer connections, indicate the trends of the low-cost carriers in the region to produce better traffic and financial results in 2017.

Middle East

The oil prices and exchange rate fluctuations that occurred in 2016, economic developments and ongoing social event across the world were the factors that affected the airlines in the Middle East.

While regional airlines increased their capacities by 13.9% in 2016, they underperformed in traffic (RPK) increase with 10.8%. Net profitability in 2016 decreased by 18%⁵.

Regional airlines implemented some actions such as purchasing, establishing strategic partnerships as well as purchasing precious slots, limiting the

capacity, shifting the capacity and closing down some of the lines, against the unfavourable developments and increasing protective policies. In addition, new players emerged in the region as a result of the global developments and as the gaps in the market were filled up.

In 2017, Middle East-based carriers are expected to carry on their investments in the East and West and get into partnerships with other air carriers, in an attempt to both compete with their rivals and spread their risks. Some airlines are expected to review and update the investments they have made in previous years. Besides, the postponing in aircraft orders is expected to continue, with capacity and operation updates which have been disclosed or planned to be disclosed.

In 2017, total net profit of the carriers in the region is expected to decrease by 67%; traffic increase by 9% beyond the two-digit growth trend and the capacity growth by 10.1%⁵.

Africa

Notwithstanding the remarkable growth potential of African Aviation industry, structural issues, ongoing political and economic instabilities, protective and interventionist nature of the governments and poor management of the companies affect the development of aviation industry.

The negative situation in net profitability, which began in 2012, continued in 2016 and this negative situation is expected to continue in 2017 as well.

While the capacities of African carriers rose by 6.2% and traffics (RPK) by 5.8%, the capacity is expected to increase by 4.7% and traffic (RPK) by 4.5% in 2017.

Africa has the lowest load factor among the regions⁵.

North America

The regional airlines which announced remarkable profit figures in 2015 and 2016 have gained more than half of the net profit that the whole region achieved, with a total of 20.3 billion USD net profit figure they announced in 2016. It is expected that similar situation will continue in 2017 and the industry will achieve 18.1 billion USD net profit. While the regional air carriers increased their capacities by 3.8% in 2016, traffic (RPK) growth rose by 3.2%. The capacity is expected to increase by 2.6% and traffic by 2.5% in 2017⁵.

It also expected that the air carriers of Middle East region would adopt an expansionist policy in North America region and get into a partnership with an air carrier in the region.

South and Central America

Latin America faces challenging market conditions, along with the poor domestic market conditions and depreciating currencies. In the past years, the air carriers in the region have postponed their aircraft deliveries. Infrastructural deficiencies, high taxation and regulatory restraints of some countries within the region are some of the major factors that affect the industry.

The fact that some of the carriers based in Gulf region became partners with the airlines in Latin America and the projects that some of the air carriers based in Middle East, Europe and North America have planned for Latin America, stand out as factors to shape the aviation sector of the region.

While the capacity grew by 3.5% and traffic (RPK) by 2.2% in 2016; they are expected to rise by 4% and 4.8%, respectively, in 2017. Whereas, the profitability is anticipated to decrease. The ratio of debts to net profit has been rising since 2013⁵.

6 IATA: Air Freight Market Analysis-December 2016

7 DHMI: Aircraft, Passenger, Cargo Series and Forecasts

MESSAGE FROM THE CHAIRMAN



M. İlker AYCI
Chairman of the Board
and Executive Committee

DEAR VALUED SHAREHOLDERS, CUSTOMERS, BUSINESS PARTNERS AND EMPLOYEES,

2016 has been a year during which Turkish Airlines was affected by the unfavourable conditions experienced in the world and our region. While the events, such as international factors and vicious coup attempt that occurred in our country, affected the growth of our brand; we achieved successes appreciated by the aviation authorities, without suffering any loss in our operational performance thanks to the urgent measures we have taken against such events.

In 2016 which made a history as a year during which whole world has undergone a series of important tests, Turkish Airlines has properly fulfilled the responsibility it committed, bearing in mind that it is the Carrier of the National Flag. Despite all extraordinary circumstances that have been experienced, the importance it has attached to passenger satisfaction as well as the high harmony and coordination achieved in these situation showed that our brand would carry on moving forward in any condition, by sticking to its vision for 2023.

I hereby would like to remember, once again, all our heroes with mercy and gratitude, who became martyries in the course of hateful events experienced last summer – May God Rest Their Soul - and wish our veterans a long life. Our fellow workers who have worked devotedly during these demanding periods showed whole world that Turkish Airlines would never compromise its supreme service quality. I thank all of them individually and express my gratitude towards them.

I also thank our business partners Boeing, Airbus, GE Capital Aviation Services, CFM International, AerCap and Panasonic for their ongoing supports towards our brand and wish our cooperation

with them continues and grows stronger. I also convey my thanks to TAV Airports, State Airports Administration, Civilian Aviation Administration and Turkish Do&Co, one of our shareholders, which have contributed efforts in normalization of our brand's operations in the mentioned periods.

We strive to achieve our objectives with greatest determination ever, with our subsidiaries, around 50,000 employees and 334-aircraft fleet. Despite the recession suffered in tourism, we kept on increasing the volume of our passengers and carried 62.8 million passengers last year.

In 2018, we will gain a capability which will help us carry out this mission in a more effective way, with the brand Istanbul New Airport which is the largest investment made in one go, in the history of the Republic. Opening its wings to whole world, Turkish Airlines will introduce its potential with this facility and take firm steps towards leadership in global aviation industry sector.

STRONG COMPETITIVE CONDITIONS AND OUR PERFORMANCE IN 2016

Over the course of past year during which the oil prices were low, the global aviation industry witnessed a challenging competition. While the increased demand and low costs created some restraint on profitability, Asia-Pacific region, in particular, sustained its influence in global aviation industry, in spite of the instabilities and unfavourable conditions that have been experienced. While 3.7 billion-passenger volume, which is the highest number of passengers ever reached, was achieved in airline transport; an increase by 6.8 percent was achieved in comparison to previous year. The axis will keep on shifting rapidly from West to East, in the air transport which will become more accessible for wide masses in the years to come.

Turkish Airlines continued to increase the number of passengers despite the unsteady environment in the world and the region and reached a total of 61.2 million passengers in 2015 and 62.8 million in 2016 with an increase by 2.5 percent. Thanks to our widespread flight network and ability to fly to secondary cities, we managed to achieve an increase by 14.1 percent in the number of our transit passengers, which showed us how well our strategy built on our mission "cross-cultures bridges" was directed.

The load factor of our brand which achieved an increase by 11.0 percent in Available Seat Kilometres (ASK) and 6.2 percent in revenue passenger kilometres (RPK), was 74.6 percent. Turkish Cargo, our air cargo subsidiary which has continued with its strong growth for the last 10 years, achieved a growth by 23.1 percent in 2016 and rose from the level of 720 thousand tons in 2015 to a level of 887 thousand tons.

Our brand which has the youngest fleet in the world continued its investments in this field over the course of last year and jacked up the number of aircraft -which was 299 at the end of 2015- to 334 in 2016. The number of wide-body aircraft rose from 73 to 87 and narrow-body aircraft from 216 to 234. Our cargo fleet contained 13 aircraft as at the end of 2016. While our brand ranks 13th in the world, in terms of fleet size; it moves swiftly towards its objective of possessing the youngest and the most modern fleet in Europe, with our aircraft which has the average age of 7.1. As we expand our fleet, we choose new-generation, environment friendly aircraft fully equipped with new technological devices, which meets the increasing passenger traffic and varying needs of passengers, respects the passenger comfort and safety at the highest level and we make our planning accordingly. Our objective is to reach a fleet of 400 aircraft, together with the cargo aircraft, by the end of 2020 and we aim to reach a fleet of 500 aircraft by 2023.

MESSAGE FROM THE CHAIRMAN

WE ARE THE MOST VALUABLE BRAND OF TURKEY

One of the most striking successes achieved by our brand in 2016 was that we were selected by BrandFinance, an international brand valuation organisation, as “The Most Valuable Brand of Turkey”. The fact that we ranked the first last year in 100-brand list made up of companies from various industries, in which we had ranked the 4th in the year before, revealed, once more, the value we produced on behalf of our industry, employees and shareholders.

Another field that our brand made its name with the value it created was the service export. Ranked in the first place with 7.6 billion dollar service export, in “500 Great Service Exporter” survey which was conducted by Turkish Exporters Assembly this year for the first time, Turkish Airlines turned out the company which brought the most foreign currency into our country.

As Turkish Airlines, we strive to optimize the flight experiences of our passengers in every point they get in touch with our brand while we make sure they get their destinations safely, offering them our traditional hospitality. We are aware that creating a difference in customer satisfaction can only be possible by going beyond the expectations and this is what makes us different. The award “The Best Air Carrier in Europe”, which we won last year for the sixth time, represents the most distinguished example to the outcome that emerged when we combined our culture and traditional values with innovative service concept.

In addition to this award granted by Skytrax, the most prestigious airline and airport valuation organisation, the world-famous catering concept of “Turkish Airline Lounge Istanbul” brought our brand “The Best Business Class Special Passenger Lounge Catering” award in world’s ranking in 2016, as in the previous year. Besides, highly appreci-

ated by the passengers, for ground caterings, our brand repeated the same success in the air as well and received “The Best Business Class Catering Service” this year again.

Our innovative service concept that we blended with our hospitality which exist in our culture are experienced by our passengers at our special passenger lounges that we continue to open in different locations in the world, before they get on board our aircraft. In addition to our special passenger lounge in Moscow Vnukovo Airport, we continued to reinforce our existence abroad with our special passenger lounges in Nairobi, Kenya and Washington D.C., USA, which we opened in 2016. As of the end of the year, we host our guests in a total of special passenger lounges, 3 of which are abroad, 3 of which are at Turkey international flights terminal and 12 of which are at domestic flights terminal.

OUR GLOBAL PROMOTIONAL ACTIVITIES AND SPONSORSHIPS

As a brand which believes in the uniting power of sports, we carry on supporting sportive and cultural activities that unite the people and communities around common ideals and values. The title “The Airline with the Highest Number of Destinations in the World”, which we carry with pride, becomes more meaningful with the sportive and cultural activities that we support and we build bridges between the communities, thanks to our existence in the countries to which we fly and our social activities.

In this sense, 2016 was a year during which we “broke grounds” and made our name in whole world. Turkish Airlines which was the “Official Airline Partner” of European Football Championship UEFA 2016, organised in France in the summer months, broke a new ground in 58-year history of

the championship, with this sponsorship. While our brand emphasised its support to sports and the values it represented, with this partnership; it reached the football lovers from all over the world, with the events and activations it organised within the scope of tournament.

In basketball, another sports activity we supported, we continued to provide support to Turkish Airlines Euroleague for which we are the name sponsor, at the maximum level. As result of our vigorous efforts, we will bring Turkish Airlines Euroleague 2017 Final Four to Istanbul in May and turn the eyes of basketball lovers from all around the world to our country.

Last year, we partly continued our works non-stop, in golf which is followed up closely in the presence of our major markets and Business Class passengers. Turkish Airlines World Golf Cup which is the biggest amateur golf tournament in the world, took place in 100 destinations with the participation of around 8 thousand golfers. Yet again, we hosted world-famous athletes in Turkish Airlines Open 2016 which was organised for the fourth times in golf and undertook the sponsorship of the tournaments that helped to improve the golf sport in our country and further shine the star of Turkey as a golf destination.

The sponsorship works we carried out in the movie “Batman vs. Superman: Dawn of Justice”, which came out in 2016, as one of the major movie productions of Hollywood, regarded as the heart of world’s movie industry, was remarkable as it represented the new grounds. While our brand became the very first air carrier to exist in an imaginary universe, our movie-themed activations and commercial film in which movie stars played reached millions of people. Our campaigns that we conducted in relation to the movie were deemed worthy of “Golden Award” by Epica Awards while they turned with successes



THE NEW ISTANBUL AIRPORT WHICH WILL BE THE BIGGEST IN THE WORLD WITH 200 MILLION PASSENGERS CAPACITY A YEAR,- WHEN COMPLETED – WILL ENABLE OUR BRAND TO FURTHER EXPAND ITS FLIGHT NETWORK AND BECOME AN IMPORTANT VALUE FOR OUR ENTIRE AVIATION INDUSTRY AND OUR SUBSIDIARIES IN PARTICULAR.

from Cannes Lions, D&A Professional Awards and Stevie Awards which are the most prestigious awards of the advertising industry.

WE WILL DOUBLE OUR POWER WITH ISTANBUL NEW AIRPORT

Situated in the middle of three continents, Istanbul has turned its mission it committed to serve as a natural bridge for ages, into a unique advantage in air transportation. Istanbul which occupies an important place in the strategic growth objectives of Turkish Airlines, with an increasingly busy air traffic, will attract the attention of the whole world, with the Istanbul New Airport, as an ideal transfer hub between Asia and Europe. Turkish Airlines will make a significant leap, with the Istanbul New Airport, the first phase of which will be completed next year. This investment which will become a key benchmark in bringing our 2023 vision into action will boost the global influence of civilian aviation industry in Turkey and open the door for new capabilities and achievements.

The Istanbul New Airport which will be the biggest in the world, with 200 million passenger capacity- when all phases have been completed- will enable our brand to further expand its flight network and become an important value for our entire aviation industry and our subsidiaries in particular.

We deeply focus on our works in an effort to make the most of these precious investments, together with our subsidiaries. We will kick off our operations as a much stronger Turkish Airlines at the Istanbul New Airport once the first phase is put into operation in February 2018, as we get very busy in the preparation period throughout 2017.

As an air carrier flying to most destinations in the world, we will further increase this strength of ours at the new airport. We reached 295 destinations in 119 countries across our flight network, with Ivano Frankivsk, Bogota, Panama, Dubrovnik, Atlanta, Kosice, Hanoi, Cluj, Seychelles, Zanzibar, Havana and Caracas that we opened in 2016. In 2017, we will continue to explore new cities by including Conakry, Kharkiv, Phuket, Voronezh and Samara into our destination list.

DEAR VALUED SHAREHOLDERS,

As an airline that is accustomed to growth and success, we will spend 2017 with an increase in productivity in every process, despite ongoing regional and global turbulence. As the Most Valued Brand, the Biggest Service Exporter and National Flag Carrier of Turkey, airborne since 1933, we are focused on our 2023 objectives. We believe that the cyclical fluctuations that occur in our region

and industry will lose their effects in 2017 and so, we will be able to resume on our growth trend.

Turkish Airlines will be ready for the strong competition to be experienced and yet highly advantageous, with Istanbul New Airport which will be an outstanding factor strategically, as the heart of the aviation industry shifts towards the East.

It is still among our priorities to further improve the quality of our service which we compete with ourselves and increase the number of passengers in Business Class, this year. We will make the most of technology as much as we can, to make all the difference in a competitive environment with our quality and devoted human resource and vast experience.

I thank our employees, business partners and all shareholders for the confidence they have in our brand, deeply believe that we will keep on rising towards the world leadership with Turkish Airlines which sticks to its growth trend in 2017 and wish to meet in new successes.

M. İlker AYCI
Chairman of the Board

BOARD OF DIRECTORS



M. İlker AYCI

Chairman of the Board and the Executive Committee

Born in Istanbul in 1971, M. İlker AYCI graduated from Bilkent University's Department of Political Science and Public Administration in 1994 and went to the UK to work as a researcher at Leeds University's Department of Political Science in 1995. In 1997, he graduated from the International Relations Master's Program (English) in Marmara University.

Starting his career in 1994, Mr. AYCI held a variety of roles at Kurtisan İlaçları A.Ş., Istanbul Municipal Authority and Universal Dış Ticaret A.Ş. He was also assigned as the General Manager of Başak Sigorta A.Ş. between 2005-2006, the General Manager of Güneş Sigorta A.Ş. between 2006-2011 and the President of The Investment, Support and Promotion Agency of Turkey between 2011-2015 and he was the Vice President and President of the World Association of Investment Agencies between 2013 -2015. He has been performing the duty of the Turkish Airlines Inc. Chairman of the Board and the Executive Committee since April 2015.

Besides, Mr. AYCI holds numerous positions at the following organizations such as the Insurance and Re-Insurance Association of Turkey, the Turkish-Chinese Business Council in Foreign Economic Relations Board, Vakıf Emeklilik A.Ş., Güneş Sigorta Sports Club (2008 European Challenge Cup Champions) and the Turkish Airlines Sports Club. Mr. AYCI speaks English and Russian.

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Bilal EKŞİ

Deputy Chairman and CEO

Born in 1968 in Rize, Bilal EKŞİ graduated from Yıldız Technical University, the Department of Electronics and Communications Engineering in 1989.

Starting his career in 1989, Mr. EKŞİ worked as an Electronics and Communications Engineer at Turkish State Railways and thereafter, he was assigned to the position of Workshop Manager at Istanbul Ulaşım A.Ş., and he played an active role in realization of significant transport projects.

As the Head of Overhaul Workshops at Turkish Airlines Inc., Mr. EKŞİ carried out the duty of maintenance of aircraft engines, landing gears and all components between 2003-2005. In 2005, he has been assigned as the Chief Ground Operations Officer at Turkish Airlines Inc. Mr. EKŞİ accomplished significant projects, particularly in improvement of the on-time departure performance during his tenure.

Having served as the Chief Production Officer at Turkish Technic in 2008-2009; and as the General Manager of Cyprus Turkish Airlines as part of the reorganization of Cyprus Turkish Airlines in 2010; and as the Executive Vice President at "Turkish Engine Center (TEC)", established by the Joint Venture of Pratt Whitney, the American Engine manufacturer, and Turkish Technic Inc. between 2010-2011; Mr. EKŞİ was assigned as the Director General of Civil Aviation in April 2011.

During his tenure as the Director General of Civil Aviation, Turkey has been reelected as a member of Council of International Civil Aviation Organization (ICAO) 66 years later its previous membership and has become one of the 36 members in ICAO's decision-making platform.

On 21st of October, 2016, Mr. EKŞİ has been assigned as Chief Executive Officer and Deputy Chairman of the Board and Executive Committee of Turkish Airlines Inc.

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İsmail Cenk DİLBEROĞLU

Member of the Board and the Executive Committee

Born in Istanbul in 1975, İsmail Cenk DİLBEROĞLU graduated from Marmara University, Faculty of Law. From 1999 to 2003 he worked as a lawyer in his own office, which is located in Istanbul, Cağaloğlu. Since 2003, he has been giving legal consultancy to companies in the field of commercial law, company law, tax law, execution and bankruptcy law, within a partnership structure called "Kollektif Hukuk Bürosu". In 1999, he was appointed as a member of the Board of Trustee of Ensar Vakfı and acted as the Vice Chairman until 2011 and since then he has been serving as the Chairman of the Board of Trustee of Ensar Vakfı. Mr. DİLBEROĞLU is married with three children.

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İsmail GERÇEK

Member of the Board

Born in Çan, Çanakkale in 1963, Mr. GERÇEK graduated from Ankara University, Faculty of Political Sciences, Public Administration department in 1985. He studied Economics and received his MA Studies in money & banking in USA between 1992-1994. He still continues his Doctorate thesis studies in Istanbul University in Financial Law. His career began in the position of Assistant Inspector at the Ministry of Finance Review Committee in 1985. Until 1998 he worked as a Finance Inspector and Finance Inspector General. Between 1995-1997, Mr. GERÇEK was Deputy Assistant District Treasurer in Istanbul. He also served as a member of the Audit Committee in TEKEL, Turkish Football Federation and Joint Funds Bank Inc. Pursuing his career as a Chartered Accountant and Independent Auditor, Mr. GERÇEK is a member of the Audit Committee of Participation Banks Association of Turkey and Chairman of the Board of Trustees at Fatih Sultan Mehmet Foundation University.

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Prof. Dr. Mecit EŞ

Member of the Board

Prof. Dr. Mecit EŞ, born in 1953 in Samsun; received his degree from the Istanbul University School of Economics in 1974. Having held several offices, he commenced his academic projects and received his Doctorate in 1985. He became Associate Professor in 1990 and Professor in 1996. And having then worked at Dumlupınar University between 1992-2012, Mr. EŞ continues his academic studies as a Professor of the Academy of Commercial Sciences at Istanbul Commerce University. He has published many books and articles, and is married with three children.

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Mehmet BÜYÜKEKŞİ

Member of the Board

Mr. BÜYÜKEKŞİ has born in 1961 at Gaziantep, Turkey. He graduated from the Faculty of Architecture at Yıldız Technical University at 1984. He attended a number of Business Administration Courses at Marmara University. He also have taken Management and Advanced English Trainings at the United Kingdom IN 1988. Mehmet BÜYÜKEKŞİ is currently serving as the Chairman of Turkish Exporters Assembly (TIM), Council Member of Istanbul Chamber of Commerce, as well as a Member of the Board of the Export Credit Bank (EXIMBANK) of Turkey, Turkish Airlines Inc., B20 Turkey Executive Committee, Istanbul Development Agency, Istanbul Leather and Leather Products Exporters' Association (IDMIB) and the Board of Ziylan Group. He is also Deputy Chairman and Executive Committee Member of Foreign Economic Relations Board (DEİK). He previously served as a Member of the Board of the Turkish Leather Foundation (TURDEV), TOBB-BIS Organized Industrial and Technology Regions, TOBTIM International Business Centers, Turkish Do&Co, and Chairman of the Turkish Shoe Industrialists' Association (AYSAD). Between 2000-2006, he was the Chairman of the Istanbul Leather and Leather Products Exporters' Association (IDMIB) and between 1997-2008 he has founded and has been the Chairman of the Turkish Footwear Industry Research, Development and Education Foundation (TASEV). Mr. BÜYÜKEKŞİ is married with three children and speaks English.

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BOARD OF DIRECTORS



Ogün ŞANLIER
Independent Member of the Board

Born in 1974, Ogün Şanlier graduated from Marmara University, Faculty of Economics and Administrative Sciences, Public Administration in French in 1999. He served as an Export Specialist in Anadolu Isuzu Otomotiv San. Tic. A.Ş. between 1999-2001, Regional Export Manager in Feniş Dış Ticaret A.Ş. between 2002-2007. He also served in different executive positions in Metropolitan Municipality of Istanbul Department of Subsidiaries Halk Ekmek A.Ş. between 2007-2013. He has been performing the Duty of the Chairman of the Board of Istanbul Medya Akademisi A.Ş. Mr. ŞANLIER can speak English, German and French and is married with two children.

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Muzaffer AKPINAR
Independent Member of the Board

Born in 1962, Mr. AKPINAR graduated from Saint-Michel French High School and the Boğaziçi University Department of Management Science. He is married and has two children. His professional career commenced in 1986 when he became the founder shareholder of Penta Textile. In 1993 he was appointed CEO of KVK Mobil Telefon Hizmetleri A.Ş. Subsequently, Mr. AKPINAR served as the CEO of MV Holding A.Ş. and played an active role in the creation of Fintur Holding BV. Between 2002-2006, Mr. AKPINAR served as the CEO of Turkcell. He remains an entrepreneur and investor in the fields of renewable energy, technology, chemicals and construction.

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Arzu AKALIN
Independent Member of the Board

Ms. Arzu AKALIN was born in Germany in 1973. Completing part of her education in Germany, she was graduated from Istanbul Vefa Poyraz High School and Istanbul University Faculty of Law. She was graduated from Istanbul University Faculty of Law, ranking first in class, during the period 1991-1995. She was specialized in patent rights in commercial law.

Ms. AKALIN commenced her professional business life in 1997. After working in the field of brand and patent law in a private company for 11 years, she set up her own law office in 2010. She is a trademark/patent attorney and also has native fluency in German. Currently, she continues her studies in order to have a PhD degree in law in Germany.

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MISSION AND VISION

MISSION

- » To improve the Company's reputation as a global air carrier by expanding the global reach of its long-range flight network,
- » To improve the Company's reputation of being a technical maintenance provider by developing its technical maintenance unit into a major base in its region,
- » To improve the Company's reputation of being a service provider in all strategic areas of civilian aviation, including the ground operations and flight training,
- » To maintain the Company's leading position in domestic airline industry,
- » To provide and uninterrupted and superior flight service by getting into a collaborative agreement with a global airline alliance that complements the Company's network so as to improve our corporate image and promote the marketing opportunities of the Company, internationally,
- » To turn Istanbul into an important flight hub,
- » In addition, to become a preferred leading global air carrier, thanks to its flight safety, reliability, product range, service quality and competitiveness, with its identity as the Flag Carrier of the Turkish Republic in Civilian Air Transportation (CAT) Industry.

VISION

To become a distinguished air carrier with;

- » The continued growth trend beyond industry average,
- » The continuous improvement in operational safety and excellence in operations,
- » The most envied service concept worldwide,
- » The unit costs equivalent of low-cost carriers,
- » The sales and distribution expenses below the industry average,
- » Loyal customers who manage their own booking, ticketing and boarding procedures themselves,
- » The personnel structure constantly developing their qualifications with an awareness of the close relationship between the benefits it gained from the Company and the added value that they produce,
- » A sense of entrepreneurship that creates business opportunities for fellow members in "Star Alliance" and takes advantage of the potential provided by them
- » The management team well adapted to modern governance principles by observing the best interests of not only the shareholders by also the shareholders.



STRATEGIES AND STRATEGIC FOCUSES



TURKISH AIRLINES WITH THE HIGHEST NUMBER OF DESTINATIONS WORLDWIDE HAS ALSO THE FOURTH LARGEST FLIGHT NETWORK IN THE WORLD.

SUSTAINABLE GROWTH AND PROFITABILITY

Continuing its flight network with the motto "Widen Your World", Turkish Airlines manages its flight network by accurately analysing the passenger demand from various destinations. Flying to a total of 287 destinations in 113 countries as of the end of 2015, Turkish Airlines increased the number of countries to 119 and the number of destinations to 298 as at the end of 2016. When the breakdown of international regions are examined, Turkish Airlines provides services to 43 countries and 11 destinations in Europe, 32 countries and 50 destinations in Africa, 8 countries and 17 destination in America region, 22 countries and 35 destinations in Far East and 13 countries and 34 destinations in the Middle East.

Turkish Airlines, with the largest number of flight destinations worldwide, has also the fourth largest flight network in the world. Turkish Airlines continued to be the air carrier which offered its passengers in Africa and Middle East with the most extensive connection options (departure-arrival options).

The most important factor behind the wide flight network and service quality of Turkish Airlines is its young and strong fleet. The dynamic Turkish Airlines fleet which appeals to a number of different markets, thanks to its quality, possesses 334 aircraft and 7.1 age average at the end of 2016 while it possessed 299 aircraft and 7.0 age average at the end of 2015.

Turkish Airlines aims at reaching a fleet of 500 aircraft by 2023, as it continues with its strong growth. It is expected that capacity restrictions would be removed once the new airport is put into operation in 2018. In this way, it is planned to use the geographical advantage of Istanbul more efficiently and to increase both direct and transit passenger transportation. Thanks to the advantages of the new airport, Turkish Airlines intends to maintain and improve its success of being the mostly preferred air carrier which provides flight services to the highest number of international destinations.

BRAND AWARENESS AND PREFERABILITY

Today, Turkish Airlines is one of the mostly preferred air carriers in the world, thanks to the wide flight network and high service quality it provides to its customers. Our company increased brand awareness through commercial films and affordable flight deals, featuring world-known celebrities, which not only increase the loyalty of our existing customers but also make it easier to reach our target passengers.

Turkish Airlines reinforces its brand awareness through the sponsorships it provides to the teams, individual athletes, national and international tournaments in different fields of sports which are followed by the world, as well as the face of the brand, within the scope of the brand strategy it has prepared on regional and international basis.

Turkish Airlines attracted attention by undertaking the official sponsorship on European Football Championship EURO 2016 organised in 2016 in France. In addition, it extended the existing name sponsorship agreement for Euroleague, the most prestigious tournament of European Basketball, which began in 2010-2011 season, until 2020. In 2016, Turkish Airlines brand sponsored the movie "Batman vs Superman" and crowned its worldwide advertising and promotion success in the movie industry, with Epica Awards 2016. Super Bowl, the championship match of American Football, will contribute to the recognition of our brand in 2017, as in 2016.

Our company aims to further increase the recognition and awareness and value of its brand in the coming period, with the existing and future projects and sponsorships it has already planned.



STRATEGIES AND STRATEGIC FOCUSES

CUSTOMER FOCUS

Major companies in the past mainly would focus on their products, turning a blind eye to the expectations of their customers who preferred them. Today, on the other hand, the most successful companies grow by defining customer-oriented strategies, rather than focusing just on the products. In the aviation industry where being customer-oriented is of great importance, the aviation companies utilize the advanced technology and varying arrangements to meet the expectations of customers in the best way. Aware of the fact that meeting the expectations of customers can only be possible by properly analysing who the customer is, our Partnership decides on its strategies by taking their sensitivities in price, time and quality into consideration.

Turkish Airlines believes that each stage of service should be designed to the customer satisfaction and offers different alternatives before and during the flight with our friendly and welcoming crew members. Turkish Airlines aims to offer a wide range of services to satisfy the passenger at every stage of their flight experience, including time-saving pre-flight procedures, such as check-in services via user-friendly website and easy-to-use kiosks at the airports; various in-flight service concepts, such as in-flight entertainment options, special occasion celebration surprises and sleep sets that promise home comfort in the sky and excellent post-flight services at our lounges for transfer passengers to feel at home while waiting for their connection flights.

“Airline of the Year Award (Air Transport News, 2016)”, “Cargo Airline of the Year (Air Transport News, 2016)”, “MRO Company of the Year (Air



Transport News, 2016)”, “Best Airline in Europe” (six years in a row) (SKYTRAX, 2016), “Best Airline in Southern Europe (SKYTRAX, 2016)”, “Best Business Class Dining Lounge (SKYTRAX, 2016)”, “Best Business Class On-Board Catering (SKYTRAX, 2016)” awards are the outcome of ideas created so that the customers feel themselves special.

Another important factor in 2017 about our company is the transition period of Istanbul New Airport which is planned to open in February 2018. Our strategies and plans to increase the customer satisfaction based on airport processes will begin to be implemented as the major problems arising

from the existing runway and capacity restrictions are resolved and the productivity is increased.

The practices to increase the customer satisfaction and quality of our products in 2017, will be introduced, as specified by the additional analyses carried out in 2016. These projects, which include increasing the quality of the products/services offered and standardisation, will continue in the mid-term. Therefore, we will carry on replacing our aircraft and products that fail to meet the customer satisfaction standards and lag behind in terms of productivity.

CREATING VALUE FOR EMPLOYEES



Turkish Airlines shows that it values its employees as well as its customers, with the working environments, social facilities and career opportunities it provides. Following the policy of being friendly in every stage of the service, our Company is aware that the happiness, productivity and loyalty of the employees largely depend on this policy. A working environment to increase the employee satisfaction and motivation is offered, thanks to the surprise activities carried out to that end. Our company helps the employees to contribute to both their careers and brand recognition of the Company, with the training opportunities it offers. Turkish Airlines will continue to implement new policies to increase the productivity and work commitment of the employees, in the years to come.

CORPORATE SOCIAL RESPONSIBILITY



Turkish Airlines carried out leading social responsibility projects in 2016, with the participation of its shareholders, particularly the volunteer groups formed with the participation of its employees within the company at the beginning. A great number of people, particularly children, were reached both in the country and abroad and supports were provided in various activities, within the scope of these social responsibility projects.

In addition to social responsibility projects, Turkish Airlines carries out works which show the value it attaches to the environment. Our Company left many of its rivals behind, with the fuel consumption per ASK which is kept below the average. Turkish Airlines both reduces air pollution produced, by cutting down on fuel consumption and provides a cost advantage by reducing the effect of the biggest cost item in aviation. At the same time, our Company fulfils its social responsibility to protect the environment, with the eco-friendly practices such as cutting down on paper consumption within the company, adopting a recyclable waste management and reducing the amount of natural resources, etc.

INNOVATIVE LIFE



In the air transportation industry where the competition is experienced most intensively, Turkish Airlines increases the importance it attaches on innovation, with a view to boosting the customer satisfaction, reducing the costs and increasing the productivity. Accordingly, our Company carried out significant changes in its organisational structure to support the innovation, aiming to encourage and speed up the innovative projects.

Turkish Airlines also became one of the partners of the innovation platform created for the travel and accommodation industry by Plug-and-Play, a Silicon Valley-based technological enterprise which aims to introduce the innovation into different industries by bringing the technological enterprises and organisations together.



**TURKISH AIRLINES: ANOTHER
WAY TO CALL COMFORT**

Further expanding its flight network in 2016, Turkish Airlines continues to reflect the magical life of Istanbul to its flights. Flying with Turkish Airlines, the winner of many prestigious awards, thanks to comfortable flight experience it offered- is as fascinating as Istanbul.



AFFILIATES AND SUBSIDIARIES

TURKISH AIRLINES HAS A TOTAL OF 11 SUBSIDIARIES, 2 OF WHICH ARE DIRECTLY OWNED AND 9 OF WHICH ARE JOINTLY OWNED.

Turkish Airlines continues reinforcing its global brand identity to become a leader in the aviation industry, with its qualified and experienced staff and group companies.

The company has 11 subsidiaries in total, 2 of which are directly owned and 9 of which are jointly owned.

While Turkish Airlines reduces the costs with its affiliates and subsidiaries, it provides flexibility, quality and productivity in its operations and thus increases its competitive power and efficiency.

Also contributing in the development of Turkish aircraft industry along with the transport industry, our company has managed to contribute in creating both a profit centre and consolidated profitability and shareholder value, by serving other customers within the industry.

Becoming a very large family with nearly 50.000 employees as at the end of 2016, Turkish Airlines and Group Companies will continue to be a great source of employment for our country in the forthcoming period.



It offers maintenance, repair and technical support services to over 100 national and international air carriers, particularly Turkish Airlines.

TURKISH TECHNIC INC.

Established in 2006 as wholly-owned subsidiary of Turkish Airlines and merged with Turkish Airlines HABOM A.S. in 2015, THY Technic Inc. aims to become a prominent technical maintenance base for regional air transport industry with its nearly 6,500 employees and subsidiaries. To that end, it continues its operations to provide maintenance and repair services as well as a full range of technical and infrastructure support for the aviation industry.

Number of Employees	6.417	
Revenue	1.061 million US Dollars	



It is leading air carrier in the market, in the charter flights between Germany and Turkey.

SUN EXPRESS

It was established in 1989 with the 50%-50% partnership of Turkish Airlines and Lufthansa.

The company performed its first flight in 1990 and launched international flights between Antalya-Frankfurt in 2001 after having served the charter market for many years and it became Turkey's first privately-owned air carrier operating international scheduled flights. It serves with a fleet of 71 aircraft and over 3.700 employees as of the end of 2016, along with the Sun Express Germany established in 2011 in Frankfurt. 22 aircraft of Sun Express Turkey carry out the operations of Anadolu Jet, as of the end of 2015.

Number of Employees	3.768	
Revenue	1.085 million US Dollars	



It offers jet fuel storage and refuelling service at domestic airports, particularly at Istanbul Ataturk Airport.

TURKISH OPET AVIATION FUELS

It was established in 2009 with 50%-50% partnership of Turkish Airlines and OPET Petrolculuk A.S.

Commencing operations on July 1, 2010, Turkish Airlines OPET Aviation Fuels Inc. possesses the biggest integrated jet fuel facilities in Turkey and has fuel servicing capability at all domestic airports across Turkey for its customers. In 2016, Turkish Airlines OPET Aviation Fuels Inc. maintained to be the market leader, with jet fuel sales in excess of 3.7 million cubic meters.

Number of Employees	436	
Revenue	1.357 million US Dollars	



It offers ground-handling services at 8 airports across Turkey, particularly at Istanbul Ataturk Airport.

TURKISH GROUND SERVICES

Established in 2009 with 50%-50% partnership of Turkish Airlines and Havas Havaalanları Yer Hizmetleri A.S., TGS (Turkish Ground Service) has been operating since 2010.

Offering services to a number of domestic and international air carrier, particularly Turkish Airlines and Sun Express, at Istanbul Sabiha Gokcen, Ankara Esenboga, Izmir Adnan Menderes, Antalya, Adana, Bodrum and Dalaman airports as well as Istanbul Ataturk Airport, the Company rendered services to almost 650 thousand flights and over 86 million passengers in international standards in 2016, with its more than 10 thousand employees.

Number of Employees	9.711	
Revenue	261 million US Dollars	



It offers catering service to over 60 national and international air carriers, particularly Turkish Airlines.

TURKISH DO & CO

It was established in 2007 with 50%-50% partnership of Turkish Airlines and Austria-origin Do&Co AG.

Headquartered at Istanbul Ataturk Airport, the Company offers catering services to domestic and international air carriers, through its kitchens founded in nine points across Turkey. Nearly 210.000 meals are cooked daily in their kitchens and each dish is carefully prepared by Turkish Do&Co chefs. Turkish Do&Co has significantly improved the quality of catering services offered on board by Turkish Airlines, bringing many international awards to our Company.

Number of Employees	4.444	
Revenue	357 million US Dollars	

AFFILIATES AND SUBSIDIARIES



Engine maintenance, repair and overhaul service to customers in Turkey and neighbouring countries.

TURKISH ENGINE CENTER (TEC)

It was established in 2008 with 49%-51% partnership of Turkish Airlines and Pratt&Whitney, a subsidiary of United Technologies.

Established over a 25,000 square meter land at Istanbul Sabiha Gokcen Airport, high-tech eco-friendly maintenance base has the capability provide maintenance for around 200 aircraft engine/year at full capacity.

Number of Employees	329
Revenue	342 million US Dollars



High-standard quality maintenance and repair service for aircraft engine cowling and reverse thrust systems at Sabiha Gokcen facilities.

GOODRICH TURKISH TECHNIC SERVICE CENTER

It was established in 2010 with 40%-60% partnership of Turkish Airlines and TSA Rina Holdings B.V, a subsidiary of Goodrich.

Goodrich Turkish Airlines Technical Service Centre aims at becoming an important player in the industry, by providing services in international standards, to national and international air carriers, particularly Turkish Airlines.

Number of Employees	33
Revenue	10 million US Dollars



It meets the needs of Turkish Airlines primarily, with the aircraft cabin interior systems it produces.

TURKISH CABIN INTERIOR SYSTEMS

The company was established in 2011, with 30% of its shares belonging to Turkish Airlines, 20% to THY Technic INC. and 50% to Turkish Aviation and Aerospace Industries Inc. (TUSAS-TAI).

TCI undertakes the design and production of cabin interior products and components as well as logistic support, modification and marketing services. Through the R&D studies, TCI achieved a weight reduction of 91 kg in Boeing 737 galleys it has manufactured for Turkish Airlines and was qualified to be included in "Boeing's Approved Suppliers List" globally, for B-737 aircraft of Boeing, increasing the marketing activities for third party customers. The company also completed the production of five shipset galleys for Airbus 330 aircraft in the fleet of Turkish Airlines and negotiations are continuing with Airbus to be included in "Approved Suppliers List" of A330 aircraft.

Number of Employees	134
Revenue	7 million US Dollars



The company, involved in aircraft seat designing, manufacturing, spare parts manufacturing, retrofitting, marketing and selling, began manufacturing at the end of 2013.

TSI AVIATION SEATS

It was established in 2011, with 45% of the shares belonging to Turkish Airlines, 5% to THY Technic Inc. and 50% to Assan Hanil Group.

Established in cooperation with Assan Hanil, Turkey's leading company in vehicle seats, the Company carried out the installation of the first set of seats manufactured for Turkish Airlines, at the beginning of 2014. The company aims to design and manufacture aircraft seats and offer spare part manufacturing, modification and sales services to a number of national and international air carriers in the future.

Number of Employees	71
Revenue	9 million US Dollars



Having completed major investments at Aydın Cildir Airport, such as runway, taxi route and hangar, the Company began to offer services for flight training to Turkish Airlines.

AYDIN ÇILDIR AIRPORT SERVICES

It was established in 2012 with 100% Turkish Airlines capital to operate Aydın Cildir Airport, provide aviation training, organize sportive and training flights and conduct all activities for passenger transport depending on the aircraft types suitable for the runway.

Having completed major investments at Aydın Cildir Airport, such as runway, taxi route and hangar, the Company began to offer services for flight training to Turkish Airlines. The company will contribute greatly in meeting the pilot deficit of Turkish Airlines and aviation industry, in the periods to come.

Number of Employees	18
Revenue	3 million US Dollars



The company offers intermediation services for the return of VAT paid for the goods bought in Turkey, before travelling abroad.

VERGI İADE ARACILIK A.Ş.

It was established in September 2014, with 30% of the shares belonging to Turkish Airlines, 25% to VK Holding A.Ş. and 45% to Maslak Oto A.Ş.

The company is intended to offer intermediation services for the return of tax paid by non-Turkish residents for the goods they purchase while in Turkey, and take abroad with them, before they travel abroad.

Number of Employees	19
Revenue	1 million US Dollars

TRAFFIC FIGURES



TOTAL NUMBER OF PASSENGERS – WHICH WAS 61.2 MILLION IN THE PERIOD BETWEEN JANUARY-DECEMBER 2015 – REACHED 62.8 MILLION IN THE SAME PERIOD OF 2016, WITH AN INCREASE BY 2.5%.

Total Traffic Figures

	2016	2015	2014	2013	2012
Revenue Passenger (000)	62.759	61.248	54.675	48.268	39.045
Available Seat-Km (million)	170.092	153.209	135.330	116.433	96.124
Revenue Passenger -Km (million)	126.815	119.372	106.787	91.997	74.410
Load Factor (%)	74,6	77,9	78,9	79,0	77,4
Destination	298	287	264	245	219
Landings	475.303	462.767	422.521	377.400	308.384
Distance Flown Km (000)	918.127	864.586	792.438	690.572	542.339
Cargo + Mail (ton)	887.164	720.440	667.743	565.391	470.863
Excess Luggage (ton)	6.677	7.601	7.925	6.231	3.683

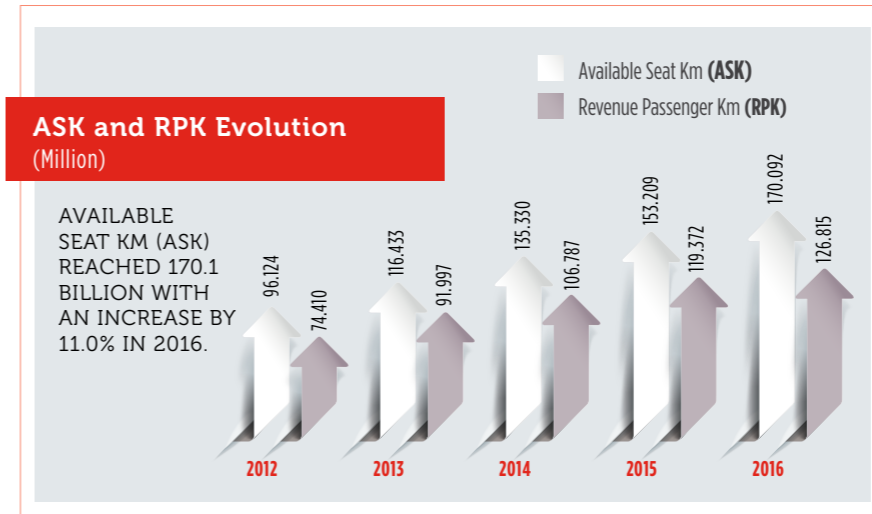
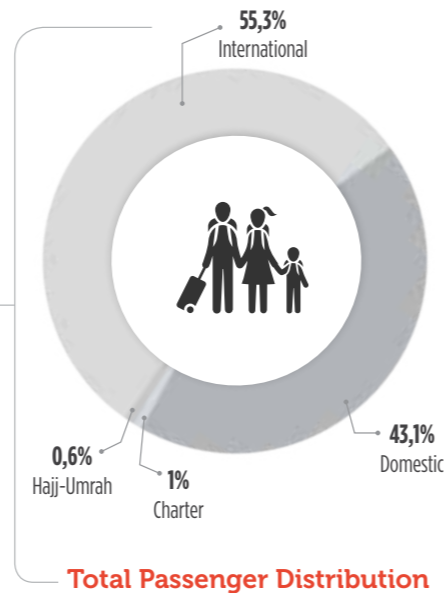
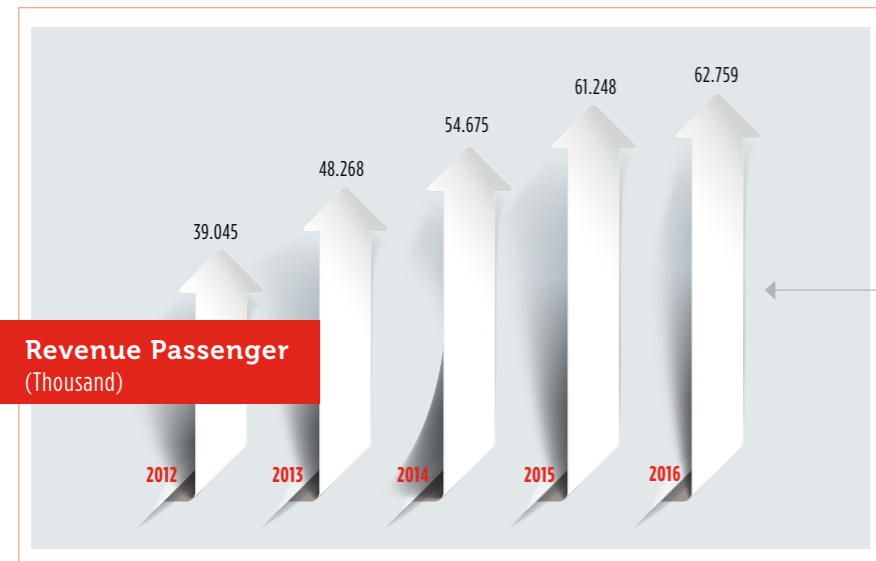
International

	2016	2015	2014	2013	2012
Revenue Passenger (000)	35.457	34.944	31.967	28.215	23.139
Available Seat-Km (million)	149.328	133.594	117.773	101.000	84.112
Revenue Passenger -Km (million)	109.768	103.001	92.539	79.696	64.945
Load Factor (%)	73,5	77,1	78,6	78,9	77,2
Destination	247	236	219	202	182
Landings	279.781	271.267	250.214	220.037	179.843
Distance Flown Km (000)	796.829	746.796	684.442	592.911	464.772
Cargo + Mail (ton)	832.126	668.189	616.124	517.848	430.763
Excess Luggage (ton)	3.943	4.772	4.986	4.040	2.162

Domestic

	2016	2015	2014	2013	2012
Revenue Passenger (000)	27.301	26.304	22.708	20.053	15.906
Available Seat-Km (million)	20.764	19.615	17.557	15.433	12.012
Revenue Passenger -Km (million)	17.046	16.370	14.248	12.301	9.465
Load Factor (%)	82,1	83,5	81,2	79,7	78,8
Destination	51	51	45	43	37
Landings	195.522	191.500	172.307	157.363	128.541
Distance Flown (000)	121.298	117.791	107.996	97.660	77.567
Cargo + Mail (ton)	55.038	52.251	51.619	47.543	40.100
Excess Luggage (ton)	2.734	2.828	2.939	2.191	1.521

Total number of passengers, which was 61.2 million in the period between January and December 2015, reached 62.6 million in the same period in 2016, with an increase by 2.5%. The increase in the number of passengers was 3.8% in domestic routes and 1.5% in international route, with a 14.1% increase in International-to-International transfers. Load Rate decreased by 3.3 points. While the Total Available Seat Km (ASK) was 153.2 billion in the period between January-December 2015; it reached to 170.1 billion with an increase by 11.0% in the same period of 2016. While the increase in ASK is 5.9% in domestic routes, it is 11.8% in international routes. While Revenue Passenger Km (RPK) was 119.4 billion between January-December 2015, it reached to 126.8 billion with an increase by 6.2% in the same period of 2016. While RPK increased by 4.1% in domestic routes, it increased by 6.6% in international routes. While landings was 462,767 between January-December 2015, it reached 475,303 with an increase by 2.7% in the same period of 2016. The number of destinations increased from 287 to 298. While Cargo-Mail was 720,440 tons between January-December 2015, it reached to 887,164 tons with an increase by 23.1% in the same period of 2016.



FLEET



NARROW BODY (234 Ea)

15 Ea	B737-900ER
110 Ea	B737-800
29 Ea	A320-200
66 Ea	A321-200
13 Ea	A319-100
1 Ea	B737-700



WIDE BODY (87 Ea)

20 Ea	A330-200
31 Ea	A330-300
4 Ea	A340-300
32 Ea	B777-300ER



CARGO (13 Ea)

3 Ea	A310-300F
8 Ea	A330-200F
1 Ea	A300-600F
1 Ea	B747-400F



Total Aircraft: 334
Average Fleet Age: 7,1



TURKISH AIRLINES, WITH THE HIGHEST NUMBER OF INTERNATIONAL DESTINATIONS AND FOURTH LARGEST FLIGHT NETWORK, BECAME THE 13TH LARGEST AIR CARRIER IN THE WORLD IN THIS FIELD, WITH ITS FLEET OF NEARLY 334 AIRCRAFT, AS OF THE END OF 2016.

Established in 1933 with a fleet of five aircraft, Turkish Airlines extended and renewed its fleet through investments, especially in 2000s.

Turkish Airlines, with the highest number of international destinations and fourth largest flight network, became the 13th largest air carrier in the world in this field, with its fleet of nearly 334 aircraft, as of the end of 2016. The partnership fleet, consisting of 65 aircraft at the beginning of 2004, has achieved a growth above 410% in a very short time.

Considering the cost analyses, Turkish Airlines acquires new fuel-saving, eco-friendly aircraft equipped with state-of-the-art technology, with passenger comfort and safety in mind, to accommodate growing passenger traffic and meet the varying customer needs, by taking important steps towards reinforcing the brand of Turkish Airlines.

FLEET AGE 7.1

Continuing to reinforce its strength, expand and modernize its fleet, Turkish Airlines moves with firm steps towards possessing the youngest and most modern fleet in Europe. As of the end of 2015, Turkish Airlines had an average fleet age of 7.1.

As a result of long-term projections, Turkish Airlines introduced new routes and increased the frequency of existing routes and therefore achieved a fast growth in long-range flights, upon the delivery 20 B777-300ER and 20 A330-300 aircraft which were ordered in 2012 and launching of new flight routes. The deliveries of 20 A330-300 aircraft were completed in 2016 and 1 B777-300ER aircraft will be delivered in 2017 as the final delivery of wide-body aircraft orders.

In addition to the wide-body aircraft, 117 narrow-body Airbus narrow-body aircraft were ordered in 2013 and 23 of the 25 A321 aircraft were delivered as of the end of 2016. The remaining 2 aircraft are planned to be delivered in early 2017.

Furthermore, 95 Boeing narrow-body aircraft were ordered in 2013, 20 B737-800 aircraft were delivered in 2016.

3 of A340-300 aircraft were removed from the fleet in recent years, in accordance with the objective of the company to have a young and modern fleet and thus 4 A340-300 aircraft in our fleet are being used for charter flights only.

3 of the 4 A330-200F aircraft, which were ordered in 2004, were delivered as of the end of 2016 and the remaining one will be delivered in early 2017. In addition, 2 B777F cargo aircraft is planned to be delivered by late 2017.

Turkish Airlines updates the fleet projections of the Partnership at the end of each year within the framework of the strategies "exploiting the opportunities, risk management, sustainability, dynamic capacity planning, expansion of flight network and increased frequency".

The number of aircraft are revised against aircraft deliveries to establish the number of aircraft needed to meet the interim-period demands and fleet modernisation needs and interim solutions are also implemented in line with market conditions, such as the use of leased aircraft which would not increase average fleet age or damage the integrity of the aircraft family.

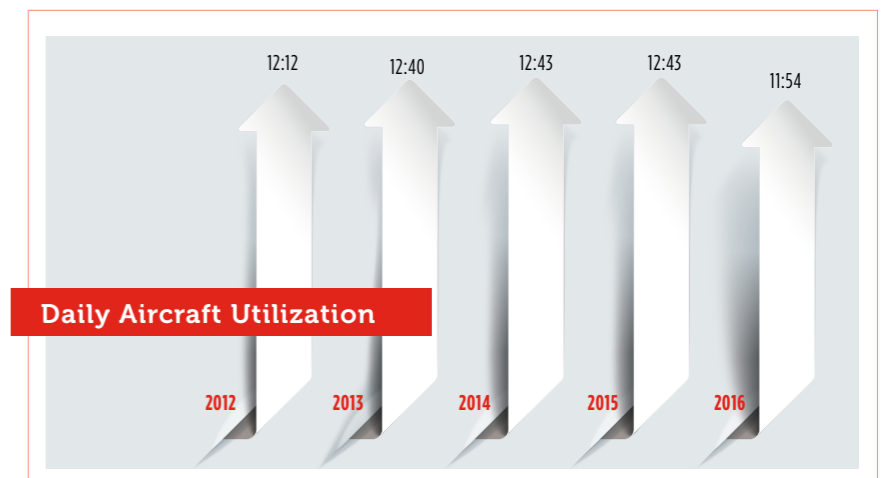
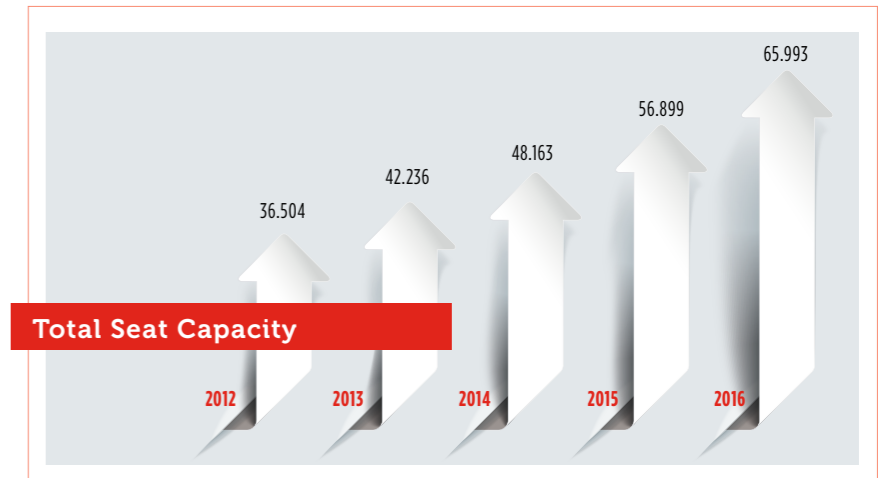
15% FUEL SAVING

In 2013, 92 brand new generation A321NEO aircraft were ordered at Airbus and 75 new generation B737MAX aircraft were ordered at Boeing, all which are expected to join our fleet as of 2018 and 15% fuel saving is targeted on these aircraft.

In addition to wide-body orders placed at Boeing and Airbus, which will be used for long-range flights, 3 B777-300ER aircraft were leased, gaining an advantage by increasing the number of desired

available seats in short and medium range routes with intense passenger demand where frequency increase cannot be performed due to slot restrictions.

With the delivery of narrow and wide body aircraft orders, the Partnership will save up to 15% on fuel consumption, as compared to the existing fleet. The new aircraft ordered will allow the company to reach longer destinations, enabling the flight network and passenger volume to be increased.



FLIGHT NETWORK

North America

ASK Variation	23,1%
RPK Variation	18,2%
Passenger Volume Variation	16,7%

Central and South America

ASK Variation	19,8%
RPK Variation	21,3%
Passenger Volume Variation	17,2%

Europe

ASK Variation	3,9%
RPK Variation	-1,4%
Passenger Volume Variation	-1,6%

Africa

ASK Variation	22,4%
RPK Variation	19,2 %
Passenger Volume Variation	9,8%

Middle East

ASK Variation	16,6%
RPK Variation	2,9%
Passenger Volume Variation	2,1%

Far East

ASK Variation	9,5%
RPK Variation	6,0%
Passenger Volume Variation	3,8%

TURKISH AIRLINES CONTINUED TO EXPAND ITS FLIGHT NETWORK IN 2016 AS WELL. TURKISH AIRLINES, WITH THE HIGHEST NUMBER OF INTERNATIONAL DESTINATIONS, **REACHED 298 DESTINATIONS IN 119 COUNTRIES WITH THE NEWLY OPENED ROUTES.**



FLIGHT NETWORK

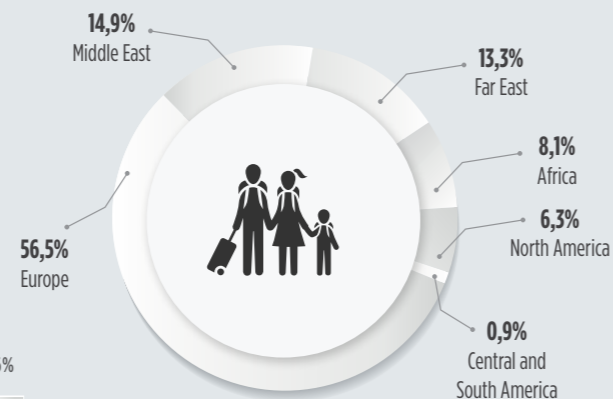


Turkish Airlines, an air carrier which flies to most countries around the world, continued to widen the passengers' world in 2016 as well, with the addition of 12 new flight destinations and 6 countries to its existing flight network. Turkish Airlines, reaching 119 countries and 298 destinations with the addition of newly opened routes, allows the passenger to get anywhere they wish around the world hassle-free, by connecting Turkey with a number of destinations around the world.

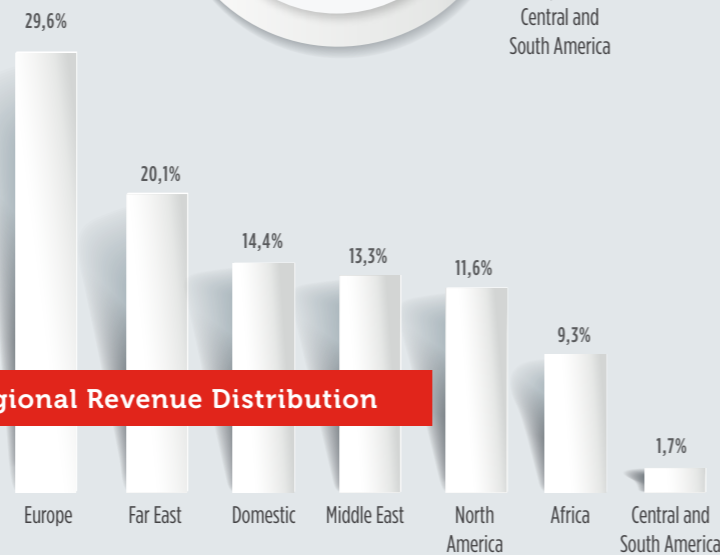
Turkish Airlines has expanded in South America in 2016 to a great extent and invited its passengers to experience the destinations of Havana, Caracas, Bogota and Panama, increasing its 2-destination flight network to 6 destinations.

Carrying on its investments also in Africa, our Partnership opens the doors of magical, tropical world to its passengers, with Seychelles and Zanzibar which are popular touristic destinations. As a result of the ongoing investments in other regions, the destinations including Atlanta in North America, Hanoi in Far East and Donice, Dubrovnik, Ivano Frankivsk and Cluj in Europe started to be discovered with the comfort and pleasure of Turkish Airlines.

International Route Regional Passenger Breakdown



Regional Revenue Distribution



THERE ARE THOSE OF US WHO LIKE TO **VENTURE**
TO THE UNEXPLORED.
TO SEE THE BEAUTY
IN THE STRANGE AND UNKNOWN.
 THOSE OF US WHO GO OUT THERE WITH A SENSE OF
WONDER.
BRIDGING WORLDS,
CULTIVATING OUR CURIOSITY
AND FINDING DELIGHT IN OUR DIFFERENCES.
IF YOU'RE ONE OF US,
AND YOU WANT TO EXPLORE MORE OF THIS GREAT PLANET
WE'RE READY TO TAKE YOU THERE.
IT'S TIME.

**WIDEN YOUR
 WORLD**

TURKISH AIRLINES IN 2016



TURKISH AIRLINES IS STILL THE BEST OF EUROPE IN 2016

Turkish Airlines was selected "The Best Airline in Europe" in the rating of "Skytrax Passenger Preferences" in 2016 as in the last five years. Besides, Turkish Airlines received runner-up award for "The Best Business Class Special Passenger Lounge" and the award for "The Best Business Class Special Passenger Catering" in world ranking and crowned its quality service concept with an award.



CAPACITY INCREASE CONTINUES

The fleet of Turkish Airlines, which consisted of 65 aircraft in 2004, achieved a tremendous growth above 410% in a very short time and reached 334 aircraft in 2016. Total seat capacity, which was 56,899 in 2015, has now reached 65,993 in 2016. Furthermore, the number of destinations in 2015, which was 287, increased to 298 in 2016.



MORE COUNTRIES, MORE DESTINATIONS

Turkish Airlines that flies to most countries in the world continued to widen the world of passengers throughout 2016 and added 12 destinations and 6 countries to its flight network. Turkish Airlines has expanded in South America in 2016 to a great extent and invited its passengers to experience the destinations of Havana, Caracas, Bogota and Panama, increasing its 2- destination flight network to 6 destinations. Turkish Airlines reaches 298 destinations in 119 countries with newly opened routes of 2016.



NEW AIRPORT: GROWING TURKISH AIRLINES

Turkish Airlines aims at carrying on its strong growth and reaching a fleet of 500 aircraft by 2023. It is expected that capacity restrictions will be removed once the new airport is put into operation. Therefore, it is planned to use the geographical advantage of Istanbul more efficiently and increase both direct and transit passenger transportation. Thanks to the advantages of the new airport, Turkish Airlines intends to maintain and improve its success of being one of the mostly preferred air carriers, which provides services to the highest number of international destinations.

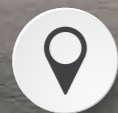


INCREASING EMPLOYMENT, QUALITY TRAINING

Continuing to reinforce its global brand identity to become a leader in the aviation industry, with its qualified and experienced staff and group companies, Turkish Airlines became a big family with almost 50,000 employees. Moreover, Turkish Airlines Academy, one of the leading aviation training organisations of the region, conducted 2,585 classroom training courses in 2016, in which around 56,000 trainees participated. Turkish Airlines continues to meet the trained personnel need of the industry, with an understanding which puts emphasis on training as well as on employment.



4
CONTINENTS



119
COUNTRIES



62,8
MILLION PASSENGERS



2016,
"AIR CARRIER OF THE YEAR"
AWARD



2016,
"AIR CARGO CARRIER OF THE YEAR"
AWARD (TURKISH CARGO)



CARGO

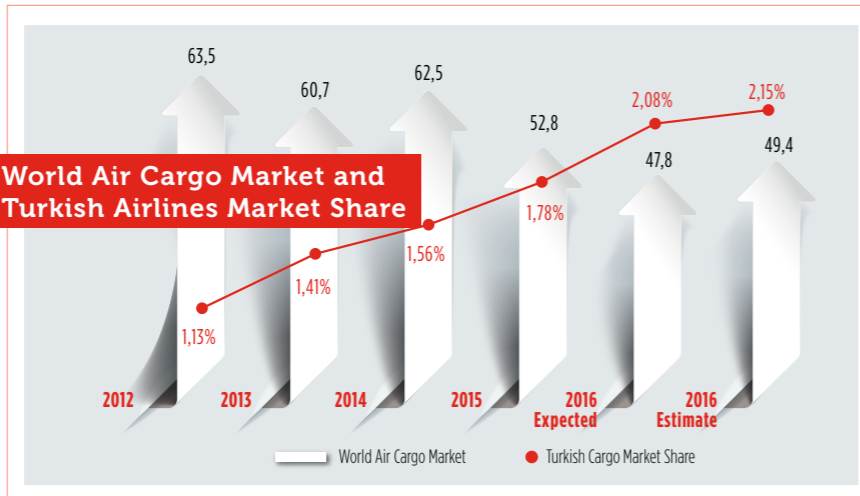
AS THE NUMBER OF OUR CARGO AIRCRAFT INCREASED, OUR NETWORK OF CARGO AIRCRAFT CONTINUED TO EXPAND IN 2016 AS WELL AND THE NUMBER OF DESTINATIONS IN EARLY 2016, WHICH WAS 55, INCREASED TO 63 AT THE END OF THE YEAR.



Turkish Cargo, the brand of Turkish airlines, which provides air cargo transport service, has managed to continue its trend in the strong growth that it has achieved for over ten years we left behind, continuously in 2016 as well despite all drawbacks in the industry.

Cargo revenues, which were around 935 million US Dollars in 2015, reached around 996 million US Dollars with an increase by 6.5% in 2016. The volume of cargo we carry increased from around 720.000 tons in 2015 to 887.000 tons, with an increase by 23.1%.

While the amount of cargo per kilometre, carried within the industry in 2016, increased by 3.4%; average unit revenues suffered a decrease by around 12.5% as compared to previous year, particularly due to low oil prices, high belly capacity and the growth rate in Far East, which has been low in the first half of the year. All these drawbacks caused the worldwide air cargo market to shrink in 2016 and fall below the lowest level in the last ten years by dropping below 50 billion US Dollars.



It is anticipated that 2017 would be a tough year for air cargo industry and total air cargo revenues are unlikely to exceed 50 billion US Dollar. Nonetheless, Turkish Cargo aims to increase its share in world air cargo market that it has increased from 0.4% up to 2% over the past ten years, in 2017 as well and reach 2.15%.

In line with this objective, the cargo revenue which is targeted for 2017 is around 1 billion 60 million US Dollars and it is aimed to achieve a growth above the budget target this year as well, as in 2016.

In addition to the investments made in infrastructure in 2015, we also decided to expand our cargo fleet in 2016 in an effort to achieve our goals. While the fleet contained 10 cargo aircraft as of the end of 2015, this figure increased to 13 at the end of the year, with the additions within 2016. Furthermore, cargo flights increased by 15.2%

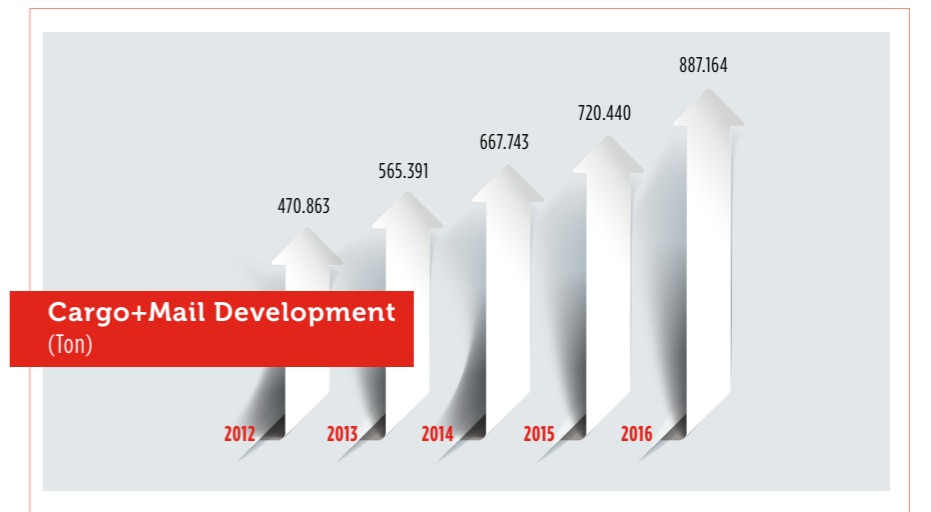
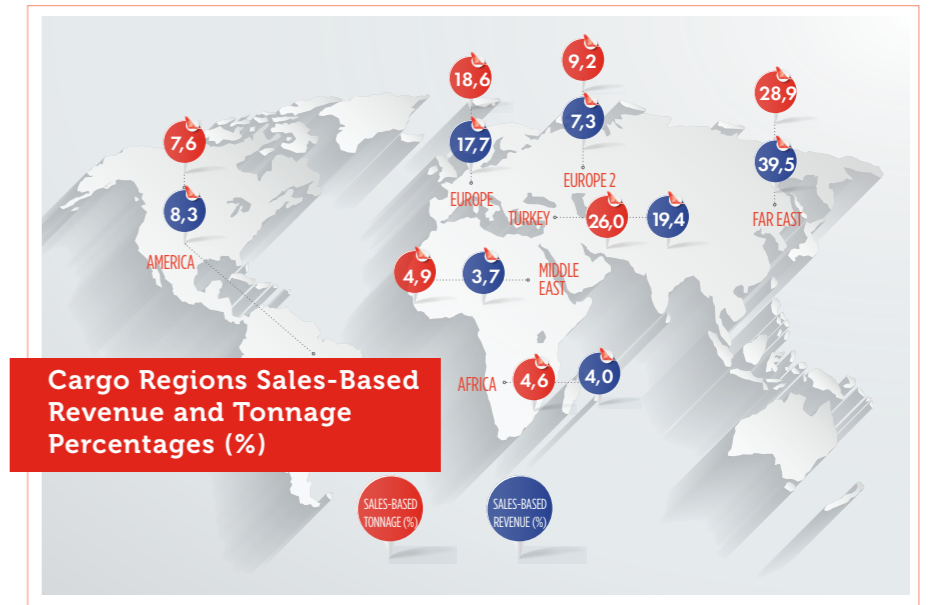
As a result of the increase in the number of our aircraft and more effective use of the aircraft, the capacity produced with the cargo aircraft has risen above 20% in 2016.

In addition to the increase in the number of our aircraft, our cargo flight network continued to expand in 2016 as well and the destinations, which was 55 in early 2016, increased to 63 at the end of the year. In 2016, the destinations we added in our cargo flight network include Moscow, Saigon, Pnom Pen and Damman.

After moving to the new cargo terminal at Istanbul Ataturk Airport in early 2015, information systems infrastructure is replaced in October with COMIS, which is an iCargo product and this had a positive impact on all processes. 2016 was an important year during which very comprehensive process changes have turned into standard operation. In this process, the opportunities introduced by the system were utilised to develop performance reports. These reports enabled us to follow up the operation performance, including the trends according to previous periods and analyses regarding the disruptions.

The processes which affect the FAB rate (Flown as Booked), one of the most important performance indicators about the customers and the root causes of the disruptions in these processes were readily identified. Some improvements were achieved in the processes, thanks to the solution-oriented actions and some improvements were made by 8% in FAB rate.

Increases in ratios, varying between 13% and 200% depending on the products and storage vehicle, were achieved for transports which required particularly air-conditioning, within the scope of infrastructure improvements for special products with high unit revenue. These increases were realized completely with low cost practices which are based on volume utilization and productivity increase.



The strategic targets and growth estimates, which will form a basis for the mentioned project, were reviewed and turned into action plan upon the approval of top management. The needs and space sizes, aimed at facility and special product infrastructures to be carried out within the scope of these targets and plans, were determined.

Analysis and conceptual design stages were carried out in this context, architectural design and tender processes were initiated. The works are continuing so that they are ready for opening in the first quarter of 2018.

MAINTENANCE & REPAIR



CERTIFIED BY EASA, FAA AND SHGM (CAA) TO PROVIDE MAINTENANCE SERVICES, TURKISH AIRLINES TECHNIC INC. PROVIDES SERVICES TO OVER 100 AIR CARRIERS IN EUROPE, MIDDLE EAST, NORTH AFRICA AND ASIA REGIONS AS WELL AS TURKISH AIRLINES WHICH IS ITS MOST IMPORTANT CUSTOMER.



CONTINUOUS AIRWORTHINESS MANAGEMENT

Turkish Airlines carries out the continuous airworthiness activities for over 370 aircraft in commercial passenger and cargo, VIP and training categories, within the scope of Continuous Airworthiness and Maintenance Responsibility Regulation (SHY-M) authorisation it obtained from SHGM.

Continuous Airworthiness and Maintenance Responsibility are carried out for commercial aircraft under the commercial air transport Operation Licence (AOC) (SHY-6A Fleet, Airbus A320 series, Airbus A330, Airbus A340, Boeing 737NG new generation, Boeing 777) and VIP and training aircraft under General Aviation Operation Licence (SHY-6B Fleet- Cessna 172S, Cessna CE510, Cessna Citation V, Gulfstream IV, Gulfstream 450, Gulfstream 550, A319CJ, Bombardier Challenger 850, Diamond DA40 and Diamond DA42. Continuous Airworthiness Management Organisation Authorisation Certificate was issued and approved by Civilian Aviation Administration for both fleets. Turkish Airlines INC. is the first company in Turkey to obtain Airworthiness Review authorisation for the aircraft in its commercial fleet.

Within the scope of the authorisations obtained, primarily it is ensured that all aircraft comply with the applicable airworthiness requirements at any time during their operation time and are suitable for safe operation and also the activities such as

the aircraft selection, determining the aircraft configuration, determining the BFE systems, engine selection, delivery of the aircraft, entering into related maintenance agreements, ensuring the airworthiness of the aircraft during Turkish Airlines operations, technical modifications, installation of in-flight entertainment systems, return of the aircraft and procurement of similar technical maintenance service, which are involved within the process from the feasibility surveys at the stage of ordering or leasing an aircraft up to its disposal from the fleet as well as continuous airworthiness activities are performed in full in accordance with the existing objectives.

Ensuring that Turkish Airlines fleet has the highest standards in reliability and operability is the outcome of the strong cooperation it established with the leading national or international companies specialised in their fields, from which maintenance and/or engineering service is received, particularly with Turkish Airlines technical team and its leading subsidiary Turkish Airlines Technic INC.

The top priority of Turkish Airlines INC. is safety, customer satisfaction and productivity and therefore strives to maintain the technical conditions of the aircraft to be included in its fleet and the aircraft it already operates, in accordance with these objectives.

MAINTENANCE & REPAIR

Turkish Airlines Technic INC. provides maintenance services for airlines and business jet operators at 7 hangars with an indoor space of 576,000 square meters in total, which are based in Istanbul, Ankara and Aydın Cildir.

Approved by EASA, FAA, and SHGM to provide maintenance services, Turkish Airlines Technic INC. serves more than 100 air carriers in Europe, Middle East, North Africa and Asia in addition to its primary customer, Turkish Airlines.

Turkish Airlines Technic INC. provides line maintenance, base maintenance and component maintenance services for aircraft types including Boeing 737NG new generation series, Boeing 757, Boeing 767, Boeing 777, Airbus A320 series, Airbus A330, Airbus A340, Gulfstream G-IV/G-V/ G550, Cessna 172 and Diamond DA42.

All maintenance and repair activities required to maintain and repair the landing gear systems, flight electronic components (avionics), hydraulic-pneumatic components, brake systems, tire and rim as well as mechanical components used on this aircraft types are carried out within Turkish Airlines Technic INC. The company also delivers worldwide "component pool" service for over 600 aircraft.

With strong commitment to customer satisfaction at all times, Turkish Airlines Technic INC. conserves its leading approach in this field, by maintaining ISO 10002 Customer Complaints Management System Certificates.

Sensitive to the environment and the health of its employees, Turkish Airlines Technic INC. documents OHS practices, with ISO 14001 Environment, OHSAS 18001 Occupational Health and Safety Management System Certificates.

Turkish Airlines Technic INC. assumed a significant role in regional economy and aviation industry, with around 7,000 employees under the same roof, continuously growing capacity and turnover.

EASA PART-147 / SHY-147 BASIC TRAINING

Also serving as a maintenance training organisation, Turkish Airlines Technic INC. was certified by both EASA (European Aviation Safety Agency) and SHGM (Civilian Aviation Administration), in Category A1 Basic Training and Examination in 2015 and Category B1/B2 Basic Training and Examination in 2016 and thus it gained the capability to conduct basic training and exams, in addition to its existing authorisations.

With these authorisations, Turkish Airlines Technic INC. has become the only organisation in Turkey, which is authorised by EASA in these fields.

While Turkish Airlines Technic INC. obtained the country's authority certificates from Kenya and Kyrgyz Republic for the first time in 2016, it renewed the Russia, Kuwait, Guernsey Islands, Cayman Islands, Singapore, Senegal, Libya, Jordan, Egypt, Bahrain, Bermuda, Korea, Saudi GACA, Pakistan, Tajikistan, Morocco and UAE GCAA certificates.

WITH STRONG COMMITMENT TO CUSTOMER SATISFACTION AT ALL TIMES, TURKISH AIRLINES TECHNIC INC. CONSERVES ITS LEADING APPROACH IN THIS FIELD, BY MAINTAINING ISO 10002 CUSTOMER COMPLAINTS MANAGEMENT SYSTEM CERTIFICATE.



MAINTENANCE & REPAIR

A COMFORTABLE TRAVEL IS OFFERED WITH THE TABLET-BASED ENTERTAINMENT SYSTEM DEVELOPED BY TURKISH TECHNIC AND HAVELSAN.



TABLET-BASED IN-FLIGHT ENTERTAINMENT SYSTEM

The first in-flight Entertainment System ever developed in Turkey was produced with 100% Turkish engineering, under the strategic cooperation agreements signed in 2012 between Turkish Airlines Technic INC. and Havelsan.

The installation of tablet-based in-flight entertainment (TBIFE) began on July 1, 2016 and was completed on September 1. This system is a product developed to serve media content such as movies, music and maps to Business Class Customers on board narrow-body aircraft which are not equipped with an IFE system.

CABLE IN-FLIGHT ENTERTAINMENT SYSTEM

Another product of the cooperation of Turkish Airlines Technic INC and Havelsan INC is the Cable In-Flight Entertainment System introduced in 2016, which is regarded as a higher technology after the Wireless In-Flight Entertainment System.

With the ongoing works in 2016, it is intended to serve current media contents such as audio and video on demand (AVOD), games, e-questionnaire, e-publications, etc. at the back of the seats. The certification procedures for the system which is a product of 100% Turkish engineering and will be supported by Turkish Airlines Technic INC. in terms of hardware, design/production, system

engineering, testing, certification and installation on aircraft, and the software and integration of which will be carried by Havelsan INC., is expected to be completed in the 4. Quarter of 2018.

Thanks to the partnerships it has entered into since 2009 with national and international companies, Turkish Airlines Technic INC. has increased the quality of the service it offers and aims to grow in different lines of business in the aviation industry.

TURKISH ENGINE CENTER

Established jointly with Pratt&Whitney, Turkish Engine Centre (TEC) has completed 2012 successfully. Carrying out maintenance on 115 engines in 2016, TEC has completed 500th engine maintenance since its establishment and delivered it successfully.

GOODRICH TURKISH TECHNIC SERVICE CENTRE

Established as a partnership with UTC Aerospace Systems, Goodrich Turkish Technic Service Centre carried out more than 75 maintenance in 2016. The company increased its income in 2016 by 10%, as compared to previous year.

TURKISH CABIN INTERIOR

Established as a venture with TAI and based at our Sabiha Gökçen Facilities, TCI (Turkish cabin Interior), which is another partnership of ours, is the very first company to manufacture Turkish

galley and was declared "Global Offerable" in Boeing 737 new generation type aircraft which is one of the 2 aircraft types widely used in the world and managed to become one of the 4 manufactures included in the catalogue. Moreover, with the capability of manufacturing the lightest galleys for Boeing 737 aircraft, Turkish Cabin Interior is capable of manufacturing 15% lighter galleys in the project it carries out, as compared to its rivals. The company is projected to manufacture diverse products in the years to come, with innovative products designs such as "Smart Galley".

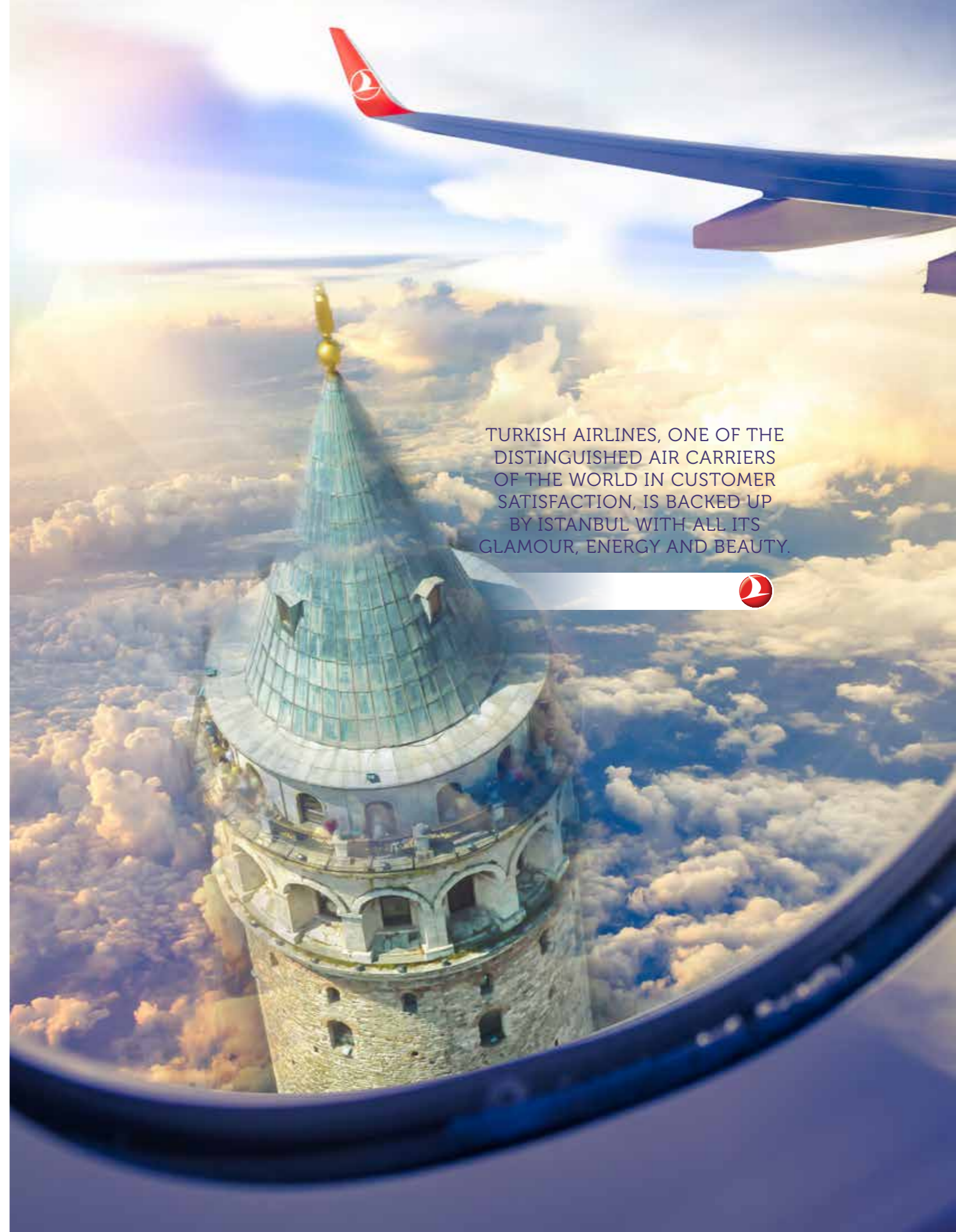
TURKISH SEAT INDUSTRY

Established as a venture with Assan Hanil and the first and only aircraft seat manufacturer in Turkey, Turkish Seat Industry has moved in 2016 from its facilities in Izmir to Turkish Airlines Technic INC. Sabiha Gökçen facilities. Cooperating with national suppliers in manufacturing, Turkish Seat Industry uses 80% domestic products. The company carries on works to manufacture Business Class Seats in the years to come.

TURKBINE TEKNİK

In December 2016, Turkish Airlines Technic INC sold its 50% share in Turkbine Technic to Zorlu O/M Enerji Tesisleri İşletme ve Bakım Hizmetleri A.Ş., which is another partner of the company and left the partnership with Turkbine Technic.

TURKISH AIRLINES, ONE OF THE DISTINGUISHED AIR CARRIERS OF THE WORLD IN CUSTOMER SATISFACTION, IS BACKED UP BY ISTANBUL WITH ALL ITS GLAMOUR, ENERGY AND BEAUTY.



CATERING



THE GOURMET ENTERTAINMENT COMPANY

THE PRESTIGIOUS AWARDS RECEIVED BY OUR COMPANY FROM THE DISTINGUISHED ORGANISATIONS IN THE WORLD IS GREATLY BACKED UP BY THE CATERING CONCEPT PREPARED BY TURKISH AIRLINES DO&CO COMPANY AND OFFERED TO THE PASSENGERS EITHER ON BOARD THE AIRCRAFT OR AT THE PASSENGER LOUNGES.



Turkish Airlines, which brought a new concept and taste in airline catering, was selected "The Best Airline" in 2016 as in the past five years, in the ranking of "Skytrax Passenger Preference Awards" regarded as the most prestigious nomination of the industry, which the airline companies are awarded every year regularly.

Highly preferred across the world, thanks to every detail including the catering and activity concept and ambiance, etc. and opening the doors of privileged comfort to its passengers, "Turkish Airlines Lounge Istanbul", has brought the Turkish Airlines the

runner-up prize of "The Best Business Class Special Passenger Lounge" in world ranking.

Granted the "Best Business Class Passenger Lounge Catering" award this year as in the past two years, thanks to its different and rich catering services offered to the taste of its passengers at Turkish Airlines Lounge Istanbul, Turkish Airlines experienced a great pride.

This success is greatly backed up by the catering concept prepared by Turkish Airlines DO&CO company and offered to the passengers either on board the aircraft or at special passenger lounges.



ANATOLIAN HOSPITALITY, WORLD TASTES, BEST QUALITY...

The catering concept for Turkish Airlines, where ultimate customer satisfaction is defined as the primary objective, is based on the hospitality tradition of Anatolia. The tastes of traditional Turkish cuisine and world cuisine are included in the menus. Trained cabin attendants offer services in all flights, by following the strict service rules.

Not content with these successes achieved, Turkish Airlines carries out innovative practices with a view to creating new trends and surprising its guests constantly, as the player offering the best service in the industry.

Economy Class menu concept available in domestic flights was revised in 2016 and replaced with recently developed "hot sandwich" offering and hot drink offering. Handmade rolls, which are freshly prepared every day, are used in our "hot sandwich" offering. Highly preferred, our hot sandwich service began to be offered also

in short-range international flights up to three hours, as of the end of 2016. In-flight electronic questionnaires show that our passengers are very happy with the new hot sandwich service.

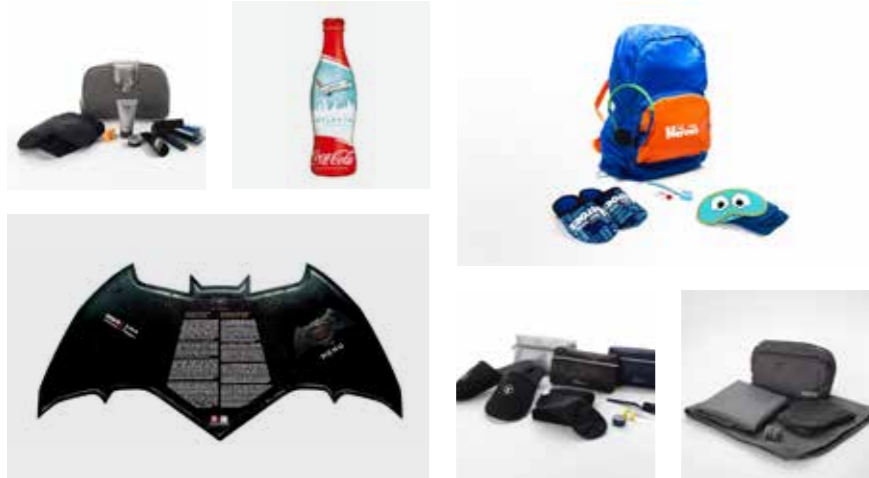
Turkish Airlines has made it unforgettable for its customers, with different products and services on "Special Days". The guest travelling in the sky on a new year's day are served with cakes, as well as card chocolate on St. Valentine's Day, chocolate for Chinese new year, custom-design "moon cake" for Chinese fall festival, chocolate for religious festivals and proper chocolate for kid guests on 23rd of April.

Specially designed menu cards were handed over in all scheduled flights departing from Turkey, during the European Football Championship "Euro 2016" tournament organised with the sponsorship of Turkish Airlines. Specially designed menu cards were offered to our customers in certain routes, during "Turkish Airlines Open Golf Tournament" organised in Antalya.

THE CATERING CONCEPT FOR TURKISH AIRLINES, WHERE ULTIMATE CUSTOMER SATISFACTION IS DEFINED AS THE PRIMARY OBJECTIVE, IS BASED ON THE HOSPITALITY TRADITION OF ANATOLIA. THE TASTES OF TRADITIONAL TURKISH CUISINE AND WORLD CUISINES ARE INCLUDED IN THE MENUS.



IN-FLIGHT PRODUCTS



“BATMAN VS. SUPERMAN”

In 2016, “Batman vs. Superman” was one of the activities that attracted a great deal of attention of our guests. In all America routes, including other 12 routes in Europe, Middle East and Asia, menu cards of the special “Batman vs. Superman” design were offered to both Business Class and Economy Class passengers. In America flights departing from Istanbul, mini cookies with “Batman vs. Superman” logo were offered and “Batman vs. Superman” design was used on water bottles offered to our passengers in round trips to America. Our Turkish Delight offering was made using picks with “Batman vs. Superman” logo. For our passengers requesting Kids menu, the offering was served on trays specially designed with “Batman vs. Superman” logo and images. Also, masks with “Batman vs. Superman” design were handed out to all kid passengers, which appealed not only to children but also the adults. These treatments which were highly appreciated by our passengers were widely shared in social media channels.

IN-FLIGHT ENTERTAINMENT

In-Flight Wi-Fi service is offered to passengers on board B777-300ER and A330-343 type aircraft, in brand partnership with Turkish Airlines INC. and Turk Telekom.

Thanks to this application, 209,915 passengers accessed internet via Turk Telekom portal, using their Wi-Fi compatible devices they brought along.

With the new contracts made in 2016, Turkish Airlines significantly increased the number and variety of popular movies, classical movies, international movies, TV programs and documentaries which were included in in-flight media and became an air carrier that possesses the highest number of Hollywood movies in its system.

Moreover, the movies were uploaded in the entertainment system with descriptive dubbing and subtitles, under Unimpeded Movies Project. The project kicked off with 4 movies and the system currently includes 11 movies.

The guests of Turkish Airlines watched the movies they picked up from the rich movie archive and enjoyed the flight for a period of 27,711,637 hours. In addition, music was listened for 6,982,275 hours and games were played for 1,122,191 hours.

In 2016, 17,123,00 newspapers and magazines from 62 different publications were offered to our passengers at the stands and CIP lounges and during the flight.



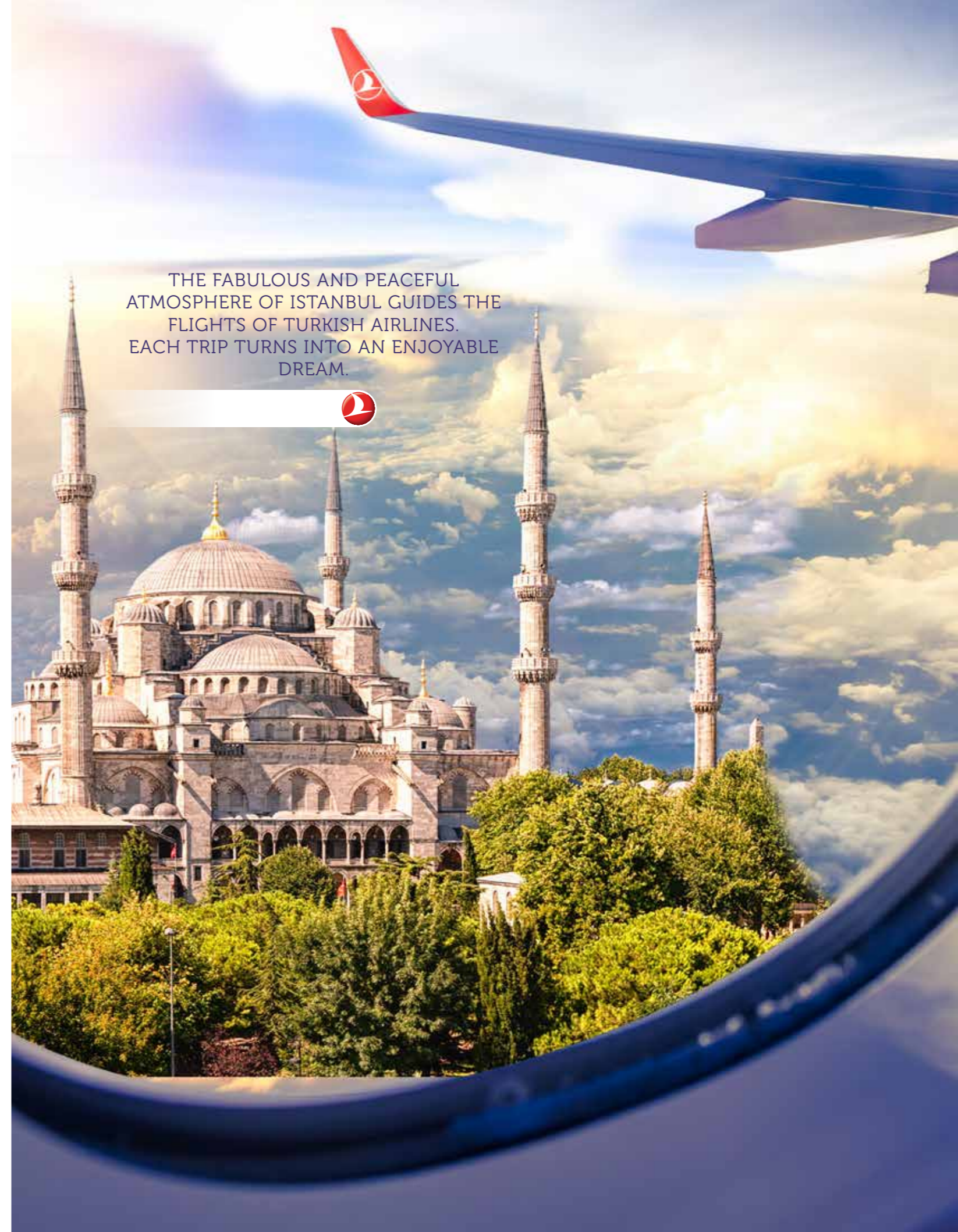
COMFORT PRODUCTS

In 2016, Turkish Airlines continued to include new products in the range of its products and services that it developed to carry the passenger satisfaction to the max. Bentley, Jaguar, Cerutti, Chopard and Furla brand travel kits, which were designed in cooperation with important brands of make-up and beauty world and the most famous design brands, continued to be offered to the use of the passengers.

The company began to introduce some new projects in line with the Business Class strategy, which will satisfy the expectations of our passengers to the max in-flight products, promote the awareness in our brand, differentiate the Turkish Airlines in Business Class from other airlines and contribute to the preferability rates. The “Living Garden” concept was introduced in our Business Class lavatories, to welcome our passengers with enriched flowers on the shelves of the lavatories along with hand soaps, hand lotions and room refreshers displayed on elegant wooden stands.

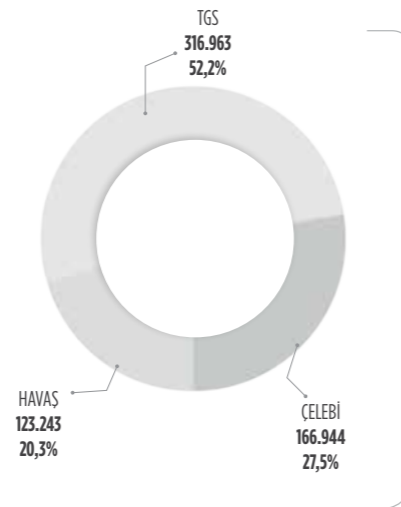
A total of 1,200,000 Business Amenity Kit, 9,500,000 Economy Relax Kit, 550,000 Umrah Kit, 95,000 Hajj Kit, 270,000 Business earphones, 32,500,000 economy earphones, 1,700,000 blankets, 1,600,000 pillows and pillowcases, 19,000 hand lotions, hand soaps, room refreshers were served to our passengers in 2016.

THE FABULOUS AND PEACEFUL
ATMOSPHERE OF ISTANBUL GUIDES THE
FLIGHTS OF TURKISH AIRLINES.
EACH TRIP TURNS INTO AN ENJOYABLE
DREAM.



GROUND HANDLING

TGS, WHICH HAS THE YOUNGEST EQUIPMENT FLEET OF EUROPE, CONTINUED ITS GROWTH-ORIENTED INVESTMENTS TO INCREASE THE QUALITY OF SERVICES IN 2016 AS WELL, AND INCREASED ITS INVESTMENTS TO 369 MILLION TL OVER THE COURSE OF PAST SEVEN YEARS SINCE ITS ESTABLISHMENT.



Market Shares Based on 2016 Flights (flights turn around)



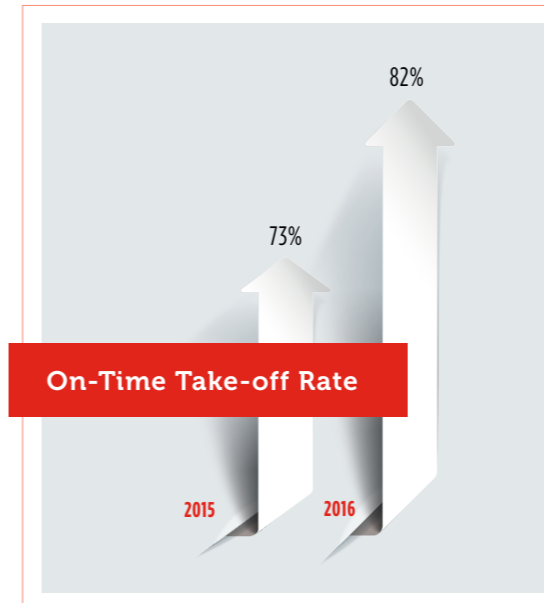
THE NUMBER OF PASSENGERS SERVED IS 86 MILLION. TURKISH GROUND SERVICES (TGS)

TGS (Turkish Ground Services) turned into a great success story with the right strategies and qualified human resources, since 2010 when it began to operate with the knowledge and business experience of two strong companies, with a view to becoming a dynamic ground services company in international standards, which is demanded in international aviation industry. Established with 50%-50% partnership of the flag carrier of Turkey, Turkish Airlines and HAVAS, TGS stands out with its diversity in the quality service concept as well as its success in digital data. TGS ground services provides 86 million passengers and 633,000 flights of contracted 168 air carriers at Istanbul Ataturk, Ankara Esenboga, Izmir Adnan Menderes, Antalya, Adana, Milas-Bodrum, Dalaman and Istanbul Sabiha Gokcen Airport with all activities under the ground handling in international standards, with its 10,045 personnel, 6,640 equipment in total, 2,968 of which are engine powered.

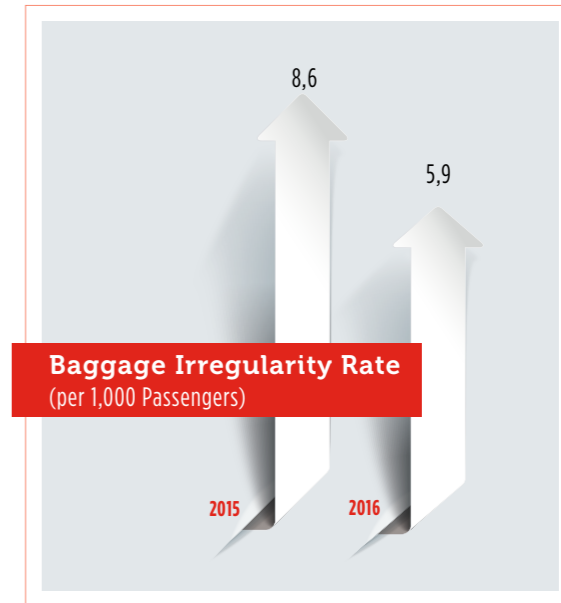
The youngest ground handling organisation of Turkey, TGS continues to be a powerful leader in Turkey, with the number of flights served, personnel and equipment.

The most important fortune behind the success of TGS is the quality human resource it possess and its employees working 7/24. Having the youngest equipment fleet of Europe, TGS continued its growth-oriented investments in 2016 as well, with a view to increasing the service quality and increased its investment up to 269 million dollars in the past seven years since its establishment. TGS increased the number of employees above 10,000 as of the end of 2016 and delivered ground services around 316,000 aircraft at 8 stations. TGS increased the number of aircraft it has served, day by day and became a company which serves 168 air carriers after the leading air carriers were included in its customer portfolio. TGS aims to move forward by adopting the vision of becoming a leading ground operation company in its industry, which is preferred thanks to the quality of its service, reliability and competitive power and contribute to the national economy accordingly.

Continuing its growth-oriented, large-scale investments, TGS increased its investments up to a total 369 million TL in seven years.



On-Time Take-off Rate



Baggage Irregularity Rate (per 1,000 Passengers)

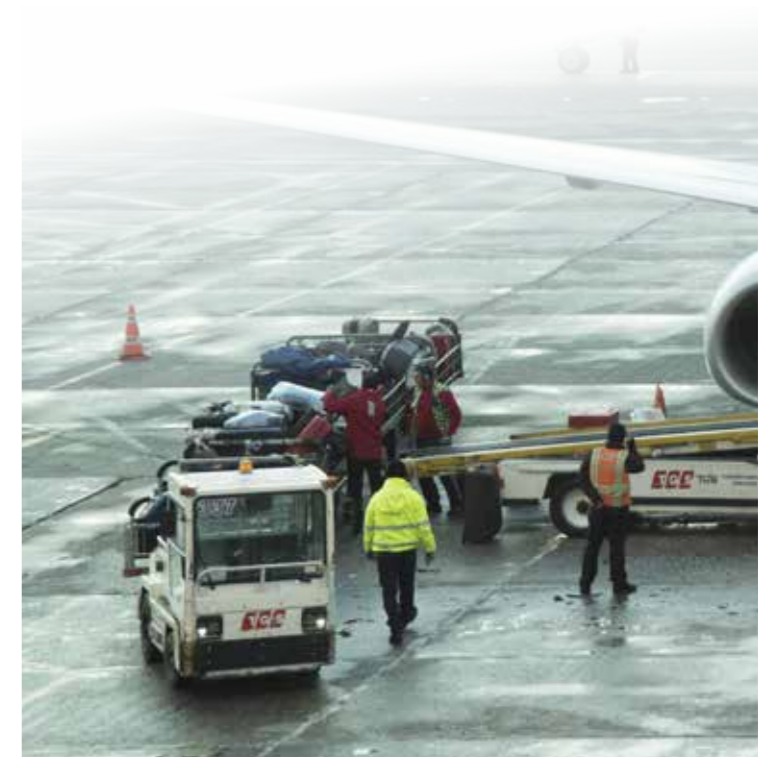
SUCCESS ON GROUND

TGS and Turkish Airlines carried out its operations in ordinary course in 2016 as well, thanks to the supreme works of its devoted staff which is it's the most important capital. Therefore, On-Time Take-Off performance realised above 82%. Besides, Baggage Irregularity rate remained below six thousandth.

2016 has been a year of successful operations as well as a fruitful year in terms of the works to increase the quality, austerity works and the works carried out concerning the 3rd Airport planning.

Necessary infrastructure was completed in order for the passengers to pay for excess baggage at the counter without having to go to the sales office and the number of Bag Drop points and Kiosks were increased to facilitate the check-in procedures, in an effort to increase the service quality.

On the other hand, some savings were achieved in costs such as handling, accommodation, etc., within the scope of cost-oriented works.



TRAINING

THE AVIATION ACADEMY OF TURKISH AIRLINES IS ONE OF THE LEADING AVIATION TRAINING ORGANISATIONS IN ITS REGION. THE ACADEMY CONDUCTED 2,585 CLASSROOM TRAININGS IN 2016, IN WHICH 55,611 TRAINEES PARTICIPATED AND REACHED 789,212 PERSONS IN THE NUMBER OF DISTANCE-TRAINING.

Established in 1982 to satisfy the training need of Turkish Airlines which is one of the leading airline companies in Turkey and Europe in civilian air transportation industry, Turkish Airlines Aviation Academy is one of the leading, distinguished aviation training academies in regions involving Europe, Africa and Middle East.

Turkish Airlines Aviation Academy began to achieve its goals in recent years, to gain an international identity, to be recognised by local and global authorities, to be preferred and recommended, to ensure product and service versatility, to expand its service audience quantitatively and qualitatively, to introduce technological and innovative approaches in training and become a hub in training globally.

Holding a number of national and international accreditations and approvals, Turkish Airlines Aviation Academy provides air carrier and cargo companies, travel agencies, universities, airport operations and other companies and persons in civilian aviation with training and consultancy services, with wide range of training courses including passenger services, ground operation training, management and personal development training, aviation and occupational language training.

TRAINING SOURCES

Situated over an area of 5,800 square meters, the academy renders services in a lecture hall with a 21-classroom and 144-seat capacity, to increase both the capacity and comfort as well as usability.

The academy which employed 116 instructors in 2016 further reinforced its staff with 11 trainers that joined in 2015 and carried out its activities with 43 instructors in total. Total number of instructors reached to 169, together with 130 internal supplier trainers and 23 external supplier trainer employed in other departments.

TRAINING METHODOLOGY

Digital training approach that the academy employs in the trainings consists of digital lessons, preliminary exam, classroom practice and final exams.

Digital lessons involve short video, text, animation, interactivity and internal assessment elements. If at least one of these elements does not exist, the resulting product is a digital information note.

Preliminary exam and final exam are implemented via online exam system, in line with objective assessment and transparency principle. The difference between preliminary exam and final exam provides an input to measure the performance of both the instructor and trainee.

TECHNOLOGICAL TRAINING SOLUTIONS

The preparations of training solutions which included the latest technological facilities were started to turn the Turkish Airlines Aviation Training Academy into a corporate training centre in world standards, in accordance with 2,023 objectives of Turkish Airlines. Therefore, it is targeted to offer the corporate trainings which are included in the capability pool of Turkish Airlines Aviation Training Academy to the service of a wider audience, without any venue and time restriction.

In 2015, the academy began to utilise the innovations more often, which were provided by the technology, completed the installation of two digital training development studios, and started digital conversion activities of in training. Within the frame of digital conversion, it is aimed to prepare digital training material for each training contained in the training catalogue.

Thanks to these works, the number of e-learning training provided increased by around 400%. An animation and simulation centre which supports the training content were founded at the academy which began to use innovative methods.

TRAINING ACTIVITIES

The academy conducted 2,585 classroom training in 2016, in which 55,611 trainees participated and reached 789.212 in the number of distance-training. The training catalogue of the academy contains 67 digital trainings, 123 digital information notes, 36 blended trainings and 253 classroom trainings.

Our new methodology in training is intended to use the resources effectively. As can be seen in the picture below, classroom training time per personnel was reduced and digital training time increased.



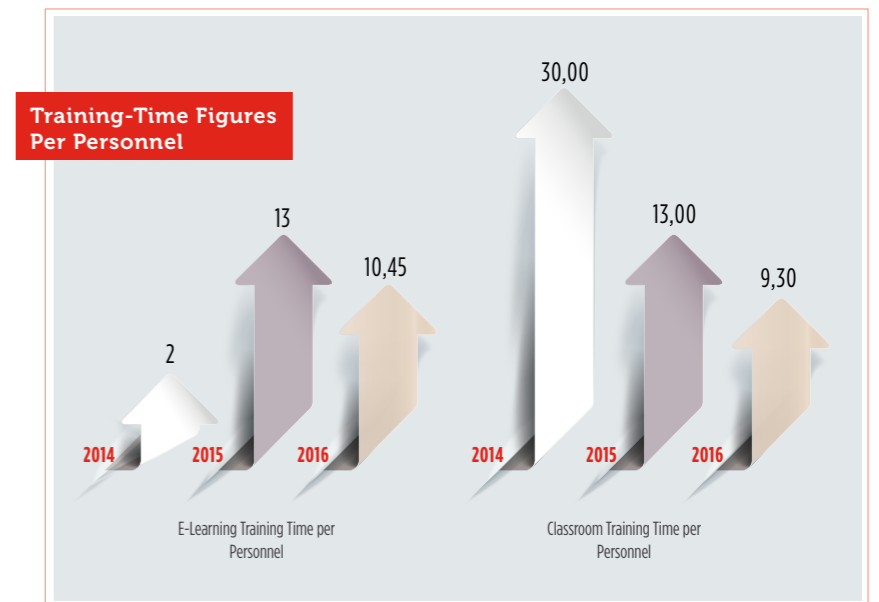
LEADERSHIP AND MANAGEMENT TRAINING

“Leadership Development Program” was created to improve the basic, managerial and functional competencies which were specifically defined for the managers.

LANGUAGE TRAINING CONFERENCE IN AVIATION

A national conference themed “Language Training in Aviation: Coordination of Industry-Training Organisations” was organised by Turkish Airlines Aviation Academy in Istanbul on 26-27 May 2016.

The conference that addressed the subjects regarding long-terms solutions in securing the human resource having the language competent to meet the need in the industry brought together the specialised academicians from universities such as Yildiz Technical University, Fatih Sultan Mehmet University, Marmara University, İstanbul Technical University, İstanbul Technical Kapadokya Voca-



TRAINING



THE ACADEMY MAINTAINS ITS LEADER POSITION IN OUR COUNTRY, SATISFIES THE NEEDS OF THE INDUSTRY AND INCREASES THE QUALITY OF TRAINING WITH THE IMPORTANT PROJECTS IT CARRIES OUT

tional High School, Necmettin Erbakan University, Bahçeşehir University, İstanbul Aydın University, etc., as well as language training experts from the training departments of other academies, language schools and aviation operators within the industry.

Similarly, collaborations were made with the universities to secure more qualified human resources in the aviation industry. In this context, in 2016 Aviation English and flight personnel language competency assessment trainings were given by the Academy to the language training experts from various universities.

CABIN SPECIALISATION TRAINING PROGRAM

Jointly started by the Flight Training Department and Training Department to increase the personal and occupational competencies of our cabin crew, which we, as a company, regard as an important element of our competitive advantage in the industry, this program began in October 2016. This program, in which around 300 cabin crew participate each month, consist of a classroom training, distance training, seminars and applied training on product and service presentation.

Five training courses were prepared within the frame of Airline Transportation Management Distance Training Project which includes basic and advanced level information about airline transportation management. Consisting of different modules as regards the areas of expertise, distance-training program intends to develop the managers of the organizations in the short term and become a benchmark for the air carriers around the world in the long term.

ELECTRONIC LIBRARY

The academy began to cooperate with Lynda.com in 2016, which offers online training courses regarding the business world. The training catalogue of the academy was extended with the platform which contains over 9,000 training courses. Approximately 1,000 employees utilize the platform.

Also, cooperation was made with ScienceDirect.com which is an electronic library that includes more academic works such as articles, thesis, magazine and books.

CONQUER THE FEAR OF FLYING PROGRAM

Turkish Airlines Aviation Academy conducts "Conquer the Fear of Flying Program" in an effort enable those who wish to overcome their fear of flying by conquering their fears, from the point of view "everyone deserves flying". Comprehensive program, which is offered by technical instructors, psychologists, pilots and experienced cabin trainers in venues equipped with latest technological devices, such as cabin simulators, has been conducted since 2007 and the program which helped everyone from 7 to 70, who had a fear of flying, achieved a success rate above 90%. 96 people attended the program, which was organized 10 times in 2016.



CABIN ATTENDANTS WHO CAN SPEAK LOCAL LANGUAGES ARE EMPLOYED, WITH THE AWARENESS OF THE DIVERSITY THAT MULTICULTURALISM WILL CONTRIBUTE TO THE FLIGHT EXPERIENCE.

TURKISH AIRLINES FLIGHT TRAINING CENTRE

Flight Training Centre is a unit in charge of all training services of the Partnership, particularly cockpit and cabin crew. Training services have been provided since 1994, in accordance with the rules specified by national and international authorities.

Over 35,000 trainees are provided with training courses at the Flight Training Centre, with 22 years of experience.

TRAINING STAFF OF 412 PERSONS

The quality of training increases day by day at the Flight Training Centre which employs a total of 412 instructors and 171 employees, 316 of whom are employed in cockpit training and 96 of whom are employed in cabin training. Starting to deliver services in 1995 with one simulator, Flight Training Centre satisfies the training needs of Turkish Airlines cockpit, cabin, dispatcher, load master personnel and is also able to render services to other air carriers today.

TRAINING EQUIPMENT

For Pilot Candidate Training:

- » 13 single-engine Cessna C-172 Training Aircraft,
- » 6 single-engine Diamond DA-40 Training Aircraft,
- » 8 twin-engine Diamond DA-42 Training Aircraft,
- » 2 jet engine Cessna Citation C-510 Training Aircraft,

For Cockpit Training:

- » 14 Flight Simulators (FFS),
- » 6 Flight Training Device (FTD),
- » 6 Computer Based Trainer (CBT) class,
- » 3 Flight and Navigation Training Device (FNPT II),

For Cabin Training:

- » 2 Cabin Emergency Evacuation Training Device (CEET),
- » 3 Door Training Device (A320 DT, B777 DT, B737 DT),
- » 1 Fire Fighting Training Device RFFT,
- » 2 Cabin Service Training Device (CST),
- » Ditching Pool,



TRAINING



In addition to the training equipment, there are 58 classrooms supported with video and audio systems, 150-person conference hall and DLR Pilot Candidate Assessment Exam Centre.

NATIONAL AND INTERNATIONAL AUTHORISATIONS OF FLIGHT TRAINING CENTRE:

- » EASA ATO (Approved Training Organization) Training Authorities,
- » TRTO (Type Rating Training Organization) Training Authorities,
- » EASA FSTD (Flight Simulation Training Device) Organization Authority,
- » FTO (Flight Training Organization) Training Authorities,
- » Cabin Crew Basic Training Authority,
- » Defibrillator Training Authority certified by European Resuscitation Council
- » First Aid Basic and Updating Training Authority Certified by the Ministry of Health

TRAINING PROVIDED TO COCKPIT CREW AT FLIGHT TRAINING CENTRE:

- » Type Rating Training,
- » Recurring, Refresher Training,
- » Type Rating / Type Rating Control Pilot (TRI/TRE) and Simulator Instructor (SFI) Training and Simulator Control Pilot (SFE) Training,
- » MCC Basic and Instructor Training (MCC/MCCI),
- » Modular and Integrated Piloting Training,
- » FI (A), CRI(A), IRI (A) Flight Instructor Training
- » Single-Multi engine Type Rating Training
- » Licence Conversion Training,
- » Dispatcher Training,
- » Load Master Training,
- » Dangerous Goods Regulations Training,
- » Crew Resource Management (CRM) Training and CRMI (CRM Instructor Training),
- » Train-the-Trainer Training, certified by the Ministry of National Education,



TRAINING PROVIDED TO CABIN CREW AT FLIGHT TRAINING CENTRE:

- » Basic Training,
- » Aviation Terminology,
- » Aviation Safety Training,
- » Flight Safety and Emergency Procedures Training,
- » Crew Source Management Training (CRM),
- » Dangerous Goods Regulations Training (DGR),
- » Normal Safety Rules Training,
- » Aircraft Type Training, (B737, A320, B777, A330),
- » Recurring, Refresher, Re-certification Training
- » Senior Cabin Crew Member Training (Narrow-Body Aircraft),
- » Senior Cabin Crew Member Training (Wide-Body Aircraft),
- » First Aid Basic and Refresher Training certified Provincial Directorate of Health,
- » Aero-Medical Aspects and First Aid Training,
- » Defibrillator Basic and Refresher Training certified by European Resuscitation Council,

In addition to the courses above, various training courses are provided to increase customer satisfaction:



- » Diction and Announcement Practices Training,
- » Life in Uniform,
- » Handling Difficult Situations,
- » Silence in Cabin,
- » Brand Awareness, Marketing and Passenger Focus,
- » Sky Stars,
- » Basic Service Concept,
- » Professional Awareness in Aviation,
- » ER B/C Service Concept Training,
- » ER B/C Service Concept Refresher Training,
- » Service Quality Support Training,

COCKPIT CREW GROUND TRAINING

The standards are conserved in cockpit and cabin training, in line with the growing fleet of Turkish Airlines. Necessary investments are made in simulators and training aircraft and training equipment to satisfy the operational needs.

Flight Training Centre was certified by EASA as "Approved Training Organization (ATO)", by Civilian Aviation Administration (SHGM) as "Type Rating Training Organization" (TRTO) and "Flight Training Organization" (FTO). All simulator and flight training equipment were certified by EASA.

Cockpit training includes 29 different training program, mainly "Conversion", "Aircraft Type, and "Refresher" training and every employee was allowed to participate in more than one training program. Flight Training Centre also provides training courses to 615 outsourced cockpit crew from 55 different countries, who are employed within the Partnership.

In 2016, a total of 8,038 cockpit crew received ground training. 614 outsourced pilots, -employed as experienced and unexperienced in type-, received Conversion training while our 200 pilots received Type Change or Pilot Conversion training. A total of 841 pilots received Conversion Training.

PILOT CANDIDATE TRAINING

A total of 219 candidate pilots were trained at Flight Training Centre in 2016, using domestic and international resources. The training of 325 candidate pilots who began to receive training in 2016 still continues.

CABIN CREW TRAINING

In 2016, 32,514 people received training at Cabin Training Directorate, in 27 different categories, including Basic, Recurring, Refresher, Re-Certifi-

cation, Senior Cabin Crew, First Aid, Defibrillator, Service Quality and Professional Development training, as well. In 2016, 1,613 new cabin attendants graduated and a total of 267 hours of training was provided to the cabin crew of foreign airlines.

- » A total of 388,003 hours of training was provided within the Cabin, 47,268 hours of which was formal training and 340,838 hours of which was distance-training,
- » A total of 127,958 hours of training was provided within the Cockpit, 20,715 hours of which was formal training, 37,926 hours of which was distance-training and 69,317 hours of which simulator training,
- » A total of 29,830 hours of training was provided within the Academy, 9,400 hours of which was ground training and 20,430 hours of which was flight training,
- » A total of 545,791 hours of training was provided within the Flight Training Centre.

In addition to the internal training, training courses are provided in 2016 to a wide range of companies from Asia, Caucasus, Middle East, North Africa and Europe.

The additional campus of Flight Training Centre, the construction of which was started in 2016, contains 18 simulators, 30 classrooms, visual training classrooms and cabin service equipment.

Flight Training Centre will have a permanent international competitive power once four simulators (FSS) and cabin training equipment, which have already been purchased, are put into operation in 2017. One of the significant flight training centres of the region and continuously improving with the use of new training equipment, our centre will continue with its activities, in accordance with the objectives of Turkish Airlines.

OTHER SERVICES



ANADOLUJET SERVICE, WHICH WAS LAUNCHED IN 69 ROUTES IN 2015, WAS FURTHER EXTENDED WITH 8 NEW ROUTES OPENED IN 2016. THE NUMBER OF AIRCRAFT IN THE FLEET, WHICH INCREASED UP TO 34, REACHED 39 IN 2016.

ANADOLUJET

AnadoluJet, a brand of Turkish Airlines, continues to make domestic air travel affordable with its budget-friendly prices. It provides an extensive flight network in domestic destinations, thanks to its operations based at Istanbul Sabiha Gokcen and Antalya as well as the wide range of flights it operates from the centres such as Antalya and Bursa.

THE FLEET GROWS

AnadoluJet maintained its growth by increasing the number of aircraft in its fleet in 2016. The number of aircraft in 2015, which increased up to 34, reached 40 in 2016. The size of the fleet at the end of the year realised as 34 aircraft with an increase by 4 aircraft as compared to the previous year. In 2016, some changes were made in the

fleet structure as well. Embraer E190 and E195 type regional aircraft, which were used on a lease via Wet Lease, were removed from the fleet within the year and replaced with larger-capacity Boeing 737-800 type aircraft and therefore both the capacity was increased and cost efficiency was achieved, with the addition of new type aircraft into the entire fleet

WIDE FLIGHT NETWORK

AnadoluJet service, which was launched in 69 routes in 2015, was further extended with 8 new routes opened in 2016. While the number of routes in Ankara, which was 36, did not change; the number of Sabiha Gokcen-based routes, which was 26 in previous year, increased to 28. The number of cross routes, apart from the main centres, increased to 13, with the flights which were started from Antalya in 2016.

INCREASED PRODUCTION

The amount of production made and the number of passengers carried increased in 2016 thanks to the growing fleet and expanding flight network. 12 million passengers were carried in around 81 thousand flights performed in 2016. Available Seat Kilometre figure, which indicates the size of total production, increased by 12% and the number of passengers carried by 10% as compared to previous year. Thanks to this growth above Turkey average, AnadoluJet stepped up its market share in domestic routes to 22.5% with an increase by 1 point.

AFFORDABLE PRICES

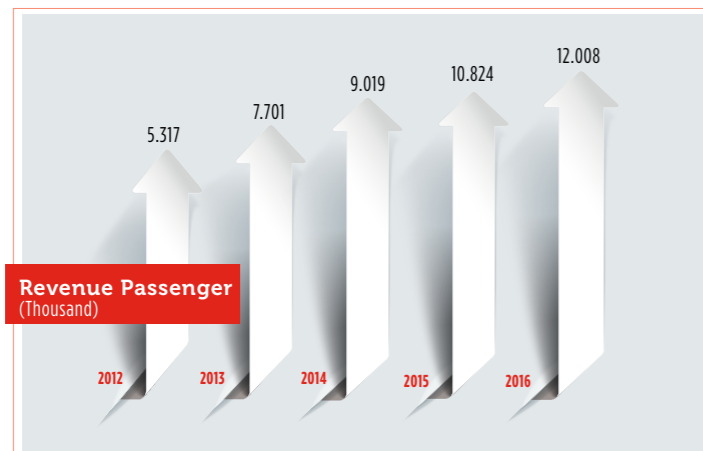
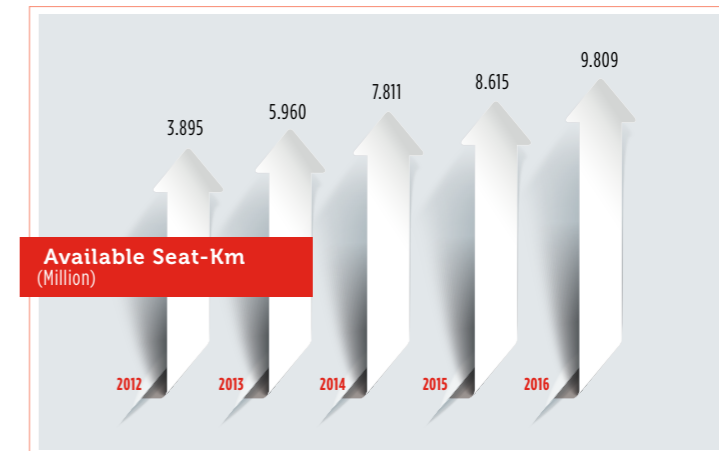
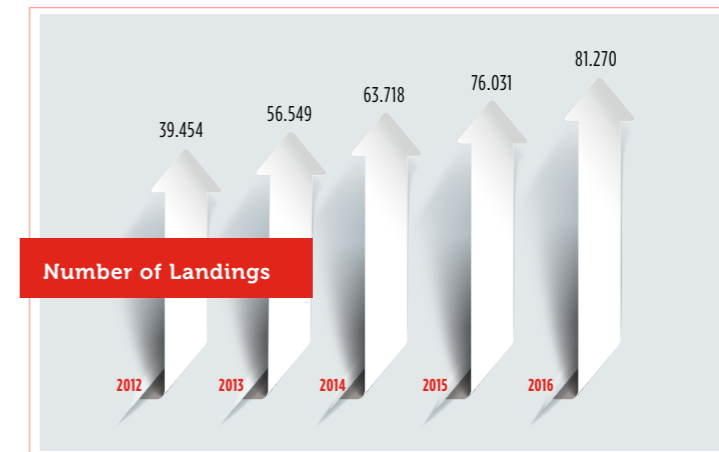
AnadoluJet continues to make the ticket prices more accessible so that more passengers can benefit from the convenience of air transportation. Notwithstanding the increasing costs, the optimization works carried out intends to minimize the effect of the cost increase on the ticket prices. In addition, a number of deals organized allowed the passenger to fly on affordable prices. In 2016, over 5 million passengers could take flights on all-inclusive ticket prices at 100 TL and below.

IMPROVEMENTS IN FLIGHTS

Some improvements were made in 2016 in an effort to facilitate the flight experience of our passengers. Most important of all, our sale channels were renewed to improve the ticket purchasing procedures. Fast, reliable and practical AnadoluJet website and mobile application offering personalized tempting prices, which were designed in line with the latest technological trends, was put into operation as a result of intense works carried out throughout 2016.

EXPECTATIONS

AnadoluJet will carry on its growth trend in 2017 as well as it did so for many years. It is planned to open new routes and increase the number of flights in existing routes in an attempt to extend the service of AnadoluJet. In addition to this growth, it is targeted to boost the operational and commercial productivity in order to maintain the affordable prices. It is also expected to improve online sales in 2017. A significant increase is expected in online sales rates, thanks to our renewed sale channels. AnadoluJet is estimated to deliver a higher performance in 2017, with the improvement expected in the market, depending on the cyclical developments.



AnadoluJet Total Flights

	2016	2015	2014	2013	2012
Revenue Passenger (000)	12.008	10.824	9.019	7.701	5.317
Available Seat-Km (million)	9.809	8.615	7.811	5.960	3.895
Revenue Passenger-Km (million)	8.098	7.196	6.519	4.837	3.191
Load Factor (%)	82,6	83,5	83,5	81,2	81,9
Cargo + Mail (Ton)	3.286	3.083	3.611	2.525	1.635
Landings	81.270	76.031	63.718	56.549	39.454

OTHER SERVICES



WE GAINED THE CAPABILITY TO MAKE SALE TO A TOTAL OF 198 POINTS MORE AROUND THE WORLD, AS A RESULT OF 42 CODE-SHARE AGREEMENTS WHICH ARE APPLICABLE FOR DISTINGUISHED AIRLINES IN THE WORLD.

COMMERCIAL COOPERATION WITH AIRLINES, TRAFFIC RIGHTS AND GROWING FLIGHT NETWORK

Our partnership conducted flights to 298 destinations in 2016. As a result of 42 Code-Share Agreements which are applicable for distinguished airlines that are a member of Star Alliance in which we are included, we gained the opportunity to make sale to total of 198 points more around the world, some of which are in Scandinavian countries, Russia, America, Africa, and Far East, to which we do not conduct any flights yet.

In 2016, Interline volume realized at 213 million US Dollars with an increase by 6%, which corresponds to 3% of 2016 turnover of our Partnership in 2016. An increase by 3% is expected in this volume in 2017.

Our offline points, which reached 198 with an increase by 12% with our 42 Code-Share agreements, are planned to further increase in 2017 within the frame of the growth strategies of our partnership. Thanks to these commercial agreements, our passengers can reach 177 cities such as Las Vegas, Seattle, Ottawa, Sydney, Melbourne, Kaliningrad, Malmo, to which we do not conduct any flights

from Istanbul yet, more comfortably, more quickly and more economically, by checking-in with Turkish Airlines ticket under the flight number and code of our partnership, up to the final destination, without the need of any baggage procedures at the transfer point. In 2016, some activities were carried out to develop the commercial cooperations with leading airlines in major markets such as Latin America, Australia, China and India which are considered strategic by our partnership. Within this framework, the capabilities to access Latin America were expanded by entering into cooperations such as Code Share and Special Proration Agreements with Panama-origin Copa Airlines (CM), Colombian Avianca (AV) i Avianca Brasil (06) and Spanish Air Europa (UX). Thanks to the extended agreement with Avianca (AV), it is possible to travel to a total of 120 destinations to which AV conduct flights in South and Central America. A Code-Share agreement was made with Hawaiian Airlines (HA) in North America. In addition to these, the scope of existing Special Proration Agreements with United Airlines (UA) and Air Canada (AC) was extended, allowing the passengers to travel to more destinations in domestic routes in USA and Canada.

Interline Traffic and Special Proration Agreements were made with Malindo Airways in Far East, as part of commercial agreements, in an effort to increase our alternatives which are Interline members in Malaysian market. In addition, the scope of existing agreements with Thai International Airways, Bangkok Airways, Qantas Airways and Jetstar Airways was extended to include new sectors and discounted levels into the agreements, in an effort to increase Interline opportunities aimed at both regional distribution and Australian market.

Consultancy service was purchased in China and India – the two most important countries, which are the growth strategy of our Partnership in Asia

region – to follow up the demands as regard the traffic rights in India and take the necessary steps in accordance with the legislation of the country. Furthermore, the works are being carried out on projects to increase the tourism between the countries, for the destinations to which we do not fly, to fulfil our growth strategy and civilian aviation demands towards China.

In addition, official negotiations was initiated to enter into a comprehensive aviation agreements between our country which is one of the countries with the highest passenger traffic in aviation industry and European Union (EU). This agreement will replace the bilateral agreements made with the countries which are a member of EU. With the agreement which aims for compliance with EU aviation acquis, it is aimed to improve market access by removing the capacity and frequency restrictions, to achieve high standards in the fields of fair competition, safety, air traffic and infrastructure as well as to protect the consumers and environment.

It was aimed to support 20 destinations to which we fly in Africa, along with the destinations in Seychelles and Zanzibar opened in 2016, upon the cooperations established with 24 regional airlines in Africa. Exchange of information was carried out with these airlines in this strategic market, in the subjects of technical, training, ground services and catering.

As a result of International Civil Aviation Negotiations (ICAN) conducted in 2016, frequency rights were obtained for new destinations, based on the strategy of our Partnership to expansion to Africa and Latin America. In Africa, a new memorandum of understanding was signed between Tanzania and our country and Zanzibar destination was added into the agreement and thus the frequency right was increased from 14 up to 28. Besides, it

was ensured that 7 frequency passenger flight rights available for Benin were increased to 14 and also 4 frequency passenger flight rights were obtained additionally for Nigeria.

In summary, existing agreements with 6 countries including Australia, Bangladesh, Benin, Haiti, Nigeria and Tanzania were revised in ICAN conference held in 2016 and additional frequency rights were obtained for Turkish carriers and also an Air Transportation Agreement was signed with South American country, Nicaragua.

STAR ALLIANCE

Star Alliance, to which we are a member as of April 2008, is an airline union which was established in 1997, aiming to offer a perfect service to passengers with a wide flight network and providing an opportunity for recognition. While, today, it makes it possible to travel to 1,300 airports in 190 countries in 18,450 flights/day with its 28 members and international flight network; it offers the opportunity to access over 1,000 lounges around the world. In 2016, Star Alliance maintained its position in the first place, with a share by 24%, in terms of both available seat km and revenue passenger km, as

compared to Skyteam (20%), Oneworld (19%), low-cost carriers (19%) and airlines which are not a member of any alliance (17%).

In 2016, our partnership became 100% compatible with the conditions of the Alliance and it fulfilled all of its obligations in full. Moreover, our strategic role in the Alliance was reinforced as the representatives from our partnership was selected to three strategic committees which are active in decision-making and management stage with Star Alliance.

With Code-Share Agreements we made with a total of 21 air carriers within the Alliance, it is aimed to make it possible to travel to the destinations where we do not conduct any flight and provide our passengers with an uninterrupted trip. Interline volume achieved as a result of the agreements made with Star airlines makes up 47% of total Interline volume.

Star Alliance incorporation ceremony of the mentioned air carrier will be held between 14-15 May 2017 within the scope of the 20th anniversary activities of Star Alliance. On the other hand, in the

* Based on data of the first 3 quarters in 2016.



OTHER SERVICES

Executive Board (CEB) meeting which is the top committee of Star Alliance, held in Los Angeles on 30 November 2016, it was accepted to integrate Olympic Air (OA) owned by Aegean Airlines (A3) as “Connecting Partner” into Star Alliance”, under the related concept. Ayrıca, Star Alliance’da görev değişikliği gerçekleşmiş ve 2012-2016 yılları arasında Star Alliance CEO görevini yürüten Mark Schwab’ın ardından, hâlihazırda “Chief Operating Officer and General Counsel of Star Alliance” görevini yürüten Jeffrey GOH, 1 Ocak 2017 itibarıyla CEO olarak seçilmiştir.

Moreover, Star Alliance had a change of duty and Jeffrey GOH who currently serves as Chief Operating Officer and General Counsel of Star Alliance was appointed as CEO on 1 January 2017, after Mark Schwab who served as Star Alliance CEO between 2012 and 2016.

Star Alliance compiled its strategy along with its new organisation, under Star 2.0 project, to improve itself in terms of technology, network, FFP and customer satisfaction by 2022. Within this scope, it collected its mentioned strategy, the digital technology it regarded as a prerequisite to create differences in the travel experience of the passenger, under three titles; services to be provided before the flight, airport experience and post-flight. In line with these purposes, it was aimed to keep “Web Services Hub” for pre-flight, “Move Under One Roof-Star carriers for airport experience at the same terminal” and increase the airports which deliver “Gold Track for Security and Immigration”. In addition, it is considered that awareness will be increased for GOLD and ELIT passengers, with digital solutions titled “Miles Spending-Online Redemption” and “IRROPS-Irregular Operations” support for customers, by focusing particularly on Loyalty activities under Star 2.0 project.

On the other hand, “Baggage Hub” and “Online Retro Mile Processing” projects are two important projects which were initiated to decrease the passenger complaints and reduce the costs.

All member airlines of Star were transferred to recently-built Terminal 3 at Buenos Aires, within the scope of both hem “Move Under One Roof (Muor)” projects and “Star Alliance 2.0” perspective, in the committee meetings held in 2016. In addition to curative activities (common kiosks, check-in islands, common bag drop areas) carried out in terms of passenger experience at Narita and Los Angeles Airports, curative works were started at Addis Ababa, Hong Kong, Seoul and Taipei Airports, in an effort to offer the best service to passengers and increase customer satisfaction. Furthermore, the works were started in 2016 at the new airport to be built in Beijing, so that Star Alliance members could perform their operations at the same terminal and these works will gain speed in 2017.

In addition to all these activities, our partnership, too, participated in the campaign in 2016, which is called “Bespoke”, one of the marketing activities developed jointly with the member airlines to promote Star Alliance brand in local and international markets. Within this framework, the work that was carried out with our national diver Sahika Encumen who holds the world record in free diving was announced as the best promotional activity that Star Alliance realized in the relevant category.

INTERNATIONAL ORGANISATIONS

Participants were provided in the activities and meetings held by international aviation organisations such as AEA, IATA, AACO, ALTA, ICAO, ECAC and D-8 and the developments in the field of aviation were followed up closely.

Primarily, General Assembly of International Civilian Aviation Organisation (ICAO), held once every three years, was held in ICAO headquarters based in Montreal on 27 September-7 October 2017 this year. Our country was reselected after 66 years as a member of the council which is the top decision-making authority of ICAO with 191 members, of which our country is a founding member and undertook an active duty in the field of civilian aviation for a period of three years, as one of 36 countries which are a member of the council.

On the other hand, Association of European Aviation (AEA) which represents the member airlines in the presence of the countries and international organisations, particularly EU, since 1952, was closed down on 1 January 2017 as a result of the votes of its members. Besides, an association, similar to “Airlines for America (A4A)” in USA, was founded on January 2016 by five leading airline companies in Europe, IAG, Air France-KLM, EasyJet, Lufthansa Group and Ryanair which were not content with the state of affairs experienced in recent period, where only EU airlines can be a member, in an attempt to be more active towards EU organisations. Called as “Airlines for Europe (A4E)”, the new organisation currently has 14 members.

In 2016, our partnership continued to be represented in two of the six sub committees, - Finance



and Industry Relations Committees - at IATA, which monitor the civilian aviation developments. Developments concerning a number of projects such as, New Distribution Competency (NDC), Exception Passenger, Measures to Reduce Global Market-Based Carbon Consumption (GMBM), Settlement Systems (ISS), etc., carried out at the meetings of this committee and IATA, which are of strategic importance for the aviation industry, are followed up and conveyed to the relevant units of our partnership.

In addition, our partnership which is a Partner Airline at Arabian Airlines Cooperation (AACO) was represented by our CEO in Annual General Assembly in 2016 and our existence was maintained strategically in this organisation in which it is a member of Arabian Airlines and negotiations were conducted with various airlines.

Our partnership closely follows up the top-level meetings and activities of Latin America and Caribbean Airlines Association (ALTA) and Asia-Pacific Travel Association (PATA) in which we are an “Associate” member.

ZED (ZONAL EMPLOYEE DISCOUNT) AND MIBA (MULTILATERAL INTERLINE BUSINESS AGREEMENT) AGREEMENTS

ZED is a discount ticket agreement which was made with foreign airlines, based on miles account, as regards holiday travel covering the partnership’s employees, spouses and children under 24 years of age as well as the parents and siblings, depending on the terms of the agreement.

MIBA is a multilateral standard ticket agreement with which a discount is made based on miles account or on the prices set out in the agreement, as regards the business travel of the partnership’s employees by foreign airlines.

Same rules apply to all airlines in MIBA agreement. They get involved in the agreement pool by complying with the predefined rules. This agreement is not applicable for the family members of the employees.

In 2016, ZED agreement was made by and between Azul Linhas Aereas (AD) and Alaska Airlines (AS) and our partnership, covering the travel of Partnership’s employees and their families and MIBA agreement with Airfrance (AF), KLM (KL), SAS (SK), Tap Air Portugal (TP), covering the business trips of the employees.

The number of our existing ZED agreements increased to 87 and MIBA agreements to 6, with the agreements that have recently been signed. Thanks to ZED and MIBA agreements, the employees of our partnership are able to take holiday and business trips to the destinations where we do not have any flight.



OTHER SERVICES



TURKISH AIRLINES ENGAGED A NUMBER OF NEW APPLICATIONS IN 2016 AS WELL, WHICH WILL INCREASE THE QUALITY AND DIVERSITY OF THE SERVICES IT OFFERS AS REGARDS THE CORPORATE DEVELOPMENT AND INFORMATION TECHNOLOGIES.

MOBILE COMPATIBILITY

According to the study of StatCounter, one of the most advanced platforms in web statistics, mobile internet traffic outpaced the internet traffic of desktop devices, for the first time as of October 2016. StatCounter Global Statistics study was conducted with more than 15 billion page view data collected from over 2.5 million websites. This data constitutes a solid evidence that mobile took precedence over the traditional desktop devices in internet access.

The balance between mobile and desktop changed dramatically over the course of 7 years. Hardly anyone would access internet via mobile devices 7 years ago was. But, 51.3% of internet access comes from mobile devices as of October 2016.

The share of desktop devices in traffic fell down to 48.7%. In Turkey, mobile traffic has risen up to 58%. The websites developed keeping up with this change are delivered as compatible with the mobile.

EXPERIENCE ENRICHED WITH ADDITIONAL SERVICES AND DIGITAL TECHNOLOGIES

In early 2016, emergency exit seats and all seats were sold for AnadoluJet as diversified additional services for the customers and these efforts will increasingly continue in 2017 as well. It is aimed to support the travel experiences of our passengers with digital technologies on our website and mobile applications and offer special personalized proposals in different language options.

NEW WEBSITES AND NEW MOBILE APPLICATIONS

2017 is expected to be a year of breakthrough in digitalization, with mobile applications and website developed for Turkish Airlines and AnadoluJet. In this context, AnadoluJet website and mobile phone applications met with the customers as at the end of 2016. The works continue in an effort to offer the customers a richer content and enjoyable end-to-end digital experience with the designs compatible with each other and innovative ideas.

R&D PROJECTS

As the holder of 317. R&D Centre certificate presented by T.R. Ministry of Science, Industry and Technology in 2016, it is projected to gain ground in becoming a strong R&D centre by following up developing our Web and Mobile projects completely with our internal sources. It is targeted to improve our software development processes by following up the up-to-date developments in information technologies. Production will be performed with more agile methods and the varying needs of our customer will be responded more quickly. It is aimed to support the local manufacturing / technology companies with "Local Kiosk" and "Local Self Bag Drop" projects and to transfer experience and knowledge as regards the processes.

SECURITY

Security-Points Fast-Pass Program was started by TSA for the passengers residing in America and it will be ensured that our partnership would be one of the relevant program participants, with TSA Precheck project to be launched in 2017.

DIGITAL TRANSFORMATION

According to the market analysis issued by Gartner, one of the leading information technologies research and consultancy companies in the world, while the market share of Java application platforms struggling to support high productivity methods decreases, the market share of flexible and innovative cloud-based application platforms that support agile software development processes increases. As a results of the situation that emerged as the software developing companies, too, geared to develop and transform their products as compatible with cloud-based platforms, it is predicted that the utilization rate of modern platforms will exceed the utilization rate of traditional platforms in 2023. Our partnership will increasingly continue its works in 2017 by increasing the resources it reserved for the works we started in 2016, to catch up with this trend.

AGILE TRANSFORMATION

While our partnership maintained its leader position in challenging economic conditions of today and increasing competition and service diversity in air transportation industry on one hand, it is obliged to adopt and implement the business methods aimed at increasing the gain in all operations and reduce the cost to ensure profitability, on the other hand. To this end, Agile Transformation Project was started.

OPEN API

It is aimed to support the development of innovative digital applications and utilise the opportunities (data monetisation) to create value from the data we possess by making the services developed within our company available to entrepreneur software developers and start-up ecosystems via an API (application programming interface) portal. The installation and configuration works of the products, which were already purchased in 2016, were started. In addition, API portal will be put into operation 2017, allowing new service channels to be developed.

PAYMENT SYSTEMS

The capability of the application to identify fraud transactions was enhanced, along with the preface improvements and Chargebook menu, thanks to the additional functions introduced into TKFraud Fight application. In this way, it was ensured to reopen the lines for sale, which were closed for sale at the call centre. Web-based sale channels perform the collection transactions in high security standards set by PCI, by directing the customer to Joint Payment collection page, rather than taking the responsibility of ensuring the security by receiving the credit card details from the customer by using the Joint Payment system. In addition, in case of any disruption in any bank channel, disrupted transaction of the bank is transferred to another bank to prevent transaction loss caused by the banks. Moreover, with respect to Alternative Payment Methods, the integration of Diners Club and UnionPay transactions was completed within the scope of Web 3.0.



OTHER SERVICES

IN ADDITION TO INCREASING UTILIZATION RATE OF MODERN PLATFORMS, TURKISH AIRLINES CONTINUES TO INVEST IN THE FUTURE, RESERVING MORE RESOURCES FOR DIGITAL TRANSFORMATION AIMED AT CUSTOMER SATISFACTION.

SALE SOLUTION

In 2016, user interfaces were thoroughly updated with Easy Ticket 3.0 project and made compatible with AgencyPortal system used by our agencies. At the same time, the project enable easy transition from EasyTicket system to AgencyPortal. EasyTicket International Flight Availability Project improved the international flight sale processes of our EasyTicket agencies. Sale integration of 50% business discount campaign, which was organized personally for the first time in our company, was offered from Quickres, with 50% discount ticked sale project for the flights departing from TR, for our call centres and agencies, via WebsAgent and EasyTicket to our agencies.

Our agencies are able to carry out cancellation, return and ticket change transactions via the web services offered to them, along with the after sale services added into WebsAgent services. Thanks to e-signature module added into AgencyPortal, all agreements that our company and the agencies in the country have executed are performed with electronic signature via Agency Portal application, the processes that are performed manually and physical



documents were stepped up, enabling the agencies to receive more quality and effective service.

CRM PROGRAM

In 2016, MILAT CRM program was initiated to offer personalized services and proposals which will better respond to the need of our customers. It is targeted to ensure that the singularised central customer database of our partnership is installed thanks to the Central Customer database, accordingly to keep the customer data which can be used in CRM processes such as campaigns, analytics, communications, etc., within the system, to install the campaign management system with which campaign processes can be designed and campaigns can be implemented, thanks to the Campaign Management and to develop the solutions such as e-mail marketing, customer analytic, survey management, etc. in an integrated way with this, to ensure the management of customer complaints and demands, thanks to Contact Centre and replace the Miles&Smiles system infrastructure with other CRM solutions, in an integrated way, thanks to Loyalty Program System.

The customer data in different operational systems of our company was evaluated with the singularized customer database and approximately 18 million individual customer profiles were created, enabling the customer data to be inquired for various purposes.

Campaign Management tool enabled use to conduct campaigns specific to the customers and also to assess the calls from our customers at Contact Centre, more quickly and efficiently.

M&S PROGRAM

Digital FFP Card applications, which eliminated the need for the program members to carry a physical card, were introduced by means of ensuring RFID-M&S number matching with which M&S members can track their baggage online. Loyalty program members of Star Alliance gained the opportunity to record their flights in other airlines, via online channel and earn miles, thanks to Online Star Retro Project launched across Star Alliance.

CORPORATE CUSTOMER PROGRAM (TCC AND TK CONVENTIONS)

In 2016, agreement and agency control processes were redesigned with the project in which the system was upgraded with the innovations performed in Turkish Corporate Club (TCC) system infrastructure which is our corporate CRM program. Reporting, customer segmentation, target management processes were improved and approval processes were transferred into a digital environment. Some improvements were also made in the infrastructure of TK Conventions system which is our corporate program aimed at fairs and organisations, and therefore management processes were facilitated and customer experience was enhanced.

OUR OPERATIONAL SOLUTIONS

A great number of projects were introduced in 2016 with a view to increasing the operational productivity. With Irregular Operations Communication System (IRROPS) Link Project, an application



was developed, in which all units are notified at the same time, the actions taken are shared online, in case of any disruption. With Airline Operational Database (AODB) project, a system was developed to make sure that the information regarding the Flight Operation is shared from a single point and Legacy system was renewed. FMIS (Fuel Management Information System), through which Fuel saving Analysis Program was purchased and integrated into Turkish Airlines IT systems, was launched for the fuel criteria which was not measured.

In 2016, the projects, which enable the automatic identification of the responsible unit that causes the lost baggage and end-to-end tracking of the baggage that belongs to all members of Star Alliance and returning the lost baggage to its owner as soon as possible, were completed within the scope of baggage management. Thanks to the Lost Baggage Passenger Contact Module which is directed via our website, it was ensured to track the status of the lost baggage or compensation transactions of our customers. CMAN-Transfer Passenger Management System, which ensures that connected passengers and delayed flights are identified, passenger and baggage transactions can be managed and transfer transactions can be performed automatically, was launched. With the IROPS Project launched, alternative flights began to be offered to the passengers who could not fly on the scheduled flights as a result of flight disruptions experienced due to operational reasons, making sure the passengers were transferred to the relevant flights.

Within the scope of cargo solutions, the first phase of Ramp Handling Project was put into practice, with which it is targeted to improve the tracking of the cargo at the apron, to carry out the SLA (Service Level Agreement) of the handling companies, to ensure that FFM messages sent to the counter station are

more accurate with instant offload transactions to be carried out under the aircraft and to minimise the customs penalties to arise for this reason.

Web portal, which was developed for booking, AWB (Air Way Bill) entries, price and schedule inquiries of foreign cargo agencies with which the Cargo Directorate within our company works with, was extended. A reporting system covering the system and processes, which will provide the information that will facilitate the decision-making processes of cargo business units, effectively, readily and quickly, was adopted. A web application, which aims to track the movements of AWBs circulating between the relevant units at the Cargo Directorate, was developed, with the Cargo AWB Tracking System.

Major projects aimed at team solutions were introduced in 2016. With Cress Project, flight crew was provided with an integrated environment which includes the functions they can use for administrative and operational transactions. CrewODS Project, which is a key step as regards the adaptation of team solutions into mobile world, was launched. Adaptation project was started by taking a decision within the scope of the system which is required to make planning considering the exhaustion factor in team planning process. With CabinCheck Project, it was ensured that the notifications made by the units of Cabin Services Department to cabin crew was recorded and a reportable system infrastructure was achieved by using information system instead of manual processes. With Lifus Tracking System Project, the assessment processes were digitalised by ensuring that the processes that were carried out with manual paper forms in LIFUS (Line Flight Under Supervision) flights for candidate Pilots, in Control flights for existing pilots and in Familiarisation and Control Flights for cabin crew, were performed with tablets.

OTHER SERVICES

THANKS TO THE AIRPORT MAPS FEATURE THAT WE ADDED IN OUR MOBILE APPLICATION, OUR PASSENGERS CAN EASILY FIND THE PLACES THEY WISH TO GO AT THE AIRPORT JUST AS THEY DO IN THE MAP APPLICATIONS THEY USE IN DAILY LIFE, VIEW THEIR LOCATIONS INSTANTLY AND FOLLOW THE ROUTE DRAWN TOWARDS THE PLACE THEY WOULD LIKE TO GO.



CORPORATE SOLUTIONS

In 2016, corporate solutions were introduced to increase the efficiency of our business processes. A web-based timetable was launched in accordance with the partnership standards, where the employees of Information Technologies enter the efforts they accomplish. With the Renewed Directorate Portals, the business processes of all Directorates within our partnership, which were performed on paper, were transferred into electronic environment. Letter Pass application through which the pass ticket requests of other airlines were managed were launched. We switched to Electronic Document Management System to ensure that the processes performed with wet signature in paper environment are executed in electronic environment by signing with mobile and electronic signature.

Verification portal was formed for the barcode document generated by the organisation for the external companies. Digital Document Management System which makes it possible to manage the document processes that belong to the partnership was developed. Major projects aimed at ERP (Enterprise Resource Planning) on which we carry out our financial and human resources processes were completed last year. ERP equipment, which expired economically, was renewed. SAP-ERP system was set up to check Eurocontrol overflight invoices on flight-country basis, compare them with the Flight Management (FPM) system and record them.

Flight Cost Inquiry, which will enable the flight costs to be established correctly and quickly, supports the decision-making mechanisms in determining flight frequencies, in new route openings, aircraft type changes in the routes, was launched. Revised budget processes was set up on SAP-ERP system. With Status Docket Project, Personnel (Promotion, Transfer, Rotation) request, approval and record movements were transferred into a joint platform to get access upon mobile approval function. The employee portal which serves the employees of the company was transferred to mobile platform. The visa transactions process that our company uses extensively was moved to digital environment.

DIGITAL INNOVATION

The companies will get access to online services via voice or messaging applications more frequently in the years to come, without the need of any interface. Taking this development into account, a boot was developed to enable our customers to complete their check-in procedures via Turkcell BiP messaging application, just as they have text chat and print their boarding pass cards. In 2017, it is planned to launch the boot application that runs on Facebook Messenger on which we will offer all our services such as flight inquiry, mile transactions, flight information, etc. and the boot application that runs on smart speakers such as Amazon Alexa, Arcelik, Sihirbaz, etc. through which flight status, deals and campaigns can be enquired with audio commands.

Thanks to the airport maps feature that we added in our mobile application, our customers can easily find the places they wish to go, just as they do in the map applications they use in daily life, view their locations instantly and follow the route drawn towards the place they would like to go. Next year, it is planned to send to the transfer passengers the gate information as well as the relevant map, via the interactive airport map contained in our mobile application, to add the map into the kiosks and perform baggage-tracking transactions.

In 2017, it is targeted to recognise and welcome the passengers arriving at the counter via the mobile phone, convey the transaction information into the system automatically, perform the check-in/check-out procedures of the flight crew automatically and monitor the entrance/exit of the employees at the overseas offices automatically, without the need of any turnstile and card scanning, within the scope of Internet of Things Project. It is planned to make security cards more enjoyable, to give the passengers a flight experience with virtual reality (cyberspace) devices by recording the period-covering his/her departure from home, entire flight and his/her return to home- on a 360-degree camera by using Enhanced Reality and Reality Enhanced with Virtual Reality Projects and carry out the technical or flight crew training performed on the aircraft with Microsoft HoloLens. Besides, with our Open API Project, it is targeted to create an ecosystem with which innovative solutions can be developed by making the online services we use, available to freelance developers and business partners.



OTHER SERVICES



THE WORKS OF TRANSITION TO ISTANBUL NEW AIRPORT, WHICH IS AIMED TO BE THE BIGGEST AIRPORT IN THE WORLD WITH 20 MILLION PASSENGER CAPACITY/ YEAR, ARE CARRIED OUT METICULOUSLY AND NECESSARY PREPARATIONS ARE MADE ON BEHALF OF ALL UNITS.

INVESTMENTS AND PASSENGER EXPECTATIONS

According to SITA "2016 Airport IT Trends" survey, 67% of aviation IT investments in 2016 was allocated for passenger self-services and same rate is expected to be maintained in the next three years. Besides, with Star Alliance Airport Automation project, it is intended to transform check-in, baggage drop and document check processes into self-service processes. The passenger questionnaires indicate that the expectations of the industry match up with those of passengers. 57% of the passengers who participated in the survey perform check-in transactions via website, kiosk or mobile application¹. Self bag-tagging and bag drop rates increased up to 31% and 14%, respectively.

With the self-services multiplied, the operational costs and queuing times can be reduced and also the passengers are able to control their trips. Web/mobile solutions called "Off-airport services" allow the passengers to complete the steps regarding their trips, without coming to passenger lounge.

PASSENGER EXPERIENCE AND SELF SERVICE

IATA defined passenger experience as a 14-step process² and Turkish Airlines speeded up the improvements particularly in the fields of check-in, document reading and verification. Furthermore, the care points, such as Denied Boarding, Transfer Desk, Tour İstanbul, etc., were supported. Our objective is to supply new and additional services to provide maintenance service in existing operational processes, improve the processes in our line of business and enhance the passenger experience. Based on the industrial objectives and Star Alliance Airport Automation project criteria, in 2016 we primarily focused on improving the self-service and extend the scope of these services.

SELF CHECK-IN

The surveys conducted indicate that 14% of the passengers perform the check-in transactions by using the kiosk devices situated at the airport. In 2017, it is aimed that 30% of our passengers perform the check-in transactions by using the kiosk devices. Within the scope of Kiosk interface 3.0 project, application user screens was updated in a way to support the customer experience. Fast check-in zone was created at Ataturk Airports and the kiosk assistants were meant to encourage the passengers to use the self-service.

Some of the projects that we plan to have completed in 2017 include: providing the passengers stranded in flights with services such as check-in, selection of a new flight on the kiosk and printing vouchers concerning the legal irregularity expenses.

SELF TAGGING

Self-service check-in is a concept which is available for the baggage along with the passenger. As per star alliance SAE 7.3 criterion, it is aimed that 20% of the local passengers with a baggage produce their own baggage tags using the services offered via the kiosk or web³. Our kiosks currently have the capability to produce bag tags and Home Printed Bag Tag project enables the passengers to produce their bag tags via the web. The application is planned to be extended in 2016 to all domestic flights and to be compatible with Star Alliance criteria.

In 2016, we introduce Self Bag Drop Project which is another project of ours, in the field of self baggage check-in. 8 retrofit devices were installed in island C at Ataturk Airport, allowing the passengers to experience unassisted / full service baggage drop processes.

SELF-PAYMENT

It is aimed that our passengers perform their transactions at the airport, by touching less contact point and in a shorter time. To this end, excess baggage service given at the counter was improved in 2017, enabling them to perform bank/ credit card scanning transactions by themselves.

Existing questionnaire devices available at the counter are expected to be replaced with new devices. In line with other utilization scenarios planned regarding the relevant devices, biometric technology integration will provide identity verification, loyalty services will bring integration (business upgrade with mile, check-in with membership number) and also the passengers will be able to select their seats via seat view, themselves.

SELF DOCUMENT VERIFICATION

Auto Document Check Project is another project of ours, which will be launched in 2017. Full list of documents required for their destinations will be sent over to international passengers via all self-service channels (kiosk, web, mobile), enabling them to check the suitability of basic documents such as passport/visa. At the same time, the passengers will be provided with information about the regulations of airport/ locations, in an effort to reduce the problems they experience during baggage claims and unfavourable experiences regarding long waiting times.

TRANSITION TO ISTANBUL NEW AIRPORT

Current situation analyses are made as regards the existing processes and feasibility works are

performed regarding the new needs of operational units.

New generation kiosk and bag drop solutions are searched and utilization scenarios are created concerning the integration of check-in and boarding processes with biometric solutions.

Another objective planned to be performed in 2017 is to carry out POC (proof of concept) works aimed at E-Gate (Electronic Gate) processes.

MOBILITY

Personnel mobility is expected to come to the fore at Istanbul New airport which is aimed to be the biggest airport in the world, with 200 million passenger capacity/year. With "Mobile BagTag Kit" project which was started in October 2016, it is aimed to use mobile solutions prior to transition to new airport and primarily it is planned to put mobile baggage tag production scenario into practice. Mobile boarding and check-in scenario will be handled in the second and third phases of the projects, respectively.

SUPPORT IN R&D AND LOCAL PRODUCTION

R&D projects will speed up in 2017 as we became the 317th R&D Centre. With "Local Kiosk" and "Local Self BagDrop" projects, it is aimed to support local producers/technology companies and transfer experience and knowledge regarding the processes.



¹ SITA Passenger IT Trends Survey
² IATA Passenger Experience
³ Star Alliance Core Values

HUMAN RESOURCES



TURKISH AIRLINES, WHICH HAS YOUNG HUMAN RESOURCE, IS CONFIDENT ABOUT THE FUTURE IN BECOMING THE BEST AIRLINE AFTER EUROPE-OF THE WORLD.

As a result of the progress that the aviation industry has made in Turkey and in the world, the number of destinations, to which Turkish Airlines fly, the number of aircraft in the fleet and consequently the number of staff employed, increase rapidly.

In 2016, 3,486 persons were employed, including 1,635 cabin attendants, 385 cockpit crew, 947 domestic ground staff, 12 overseas staff (relocated from Turkey) and 507 overseas staff (locally), in line with the human resource of the company.

Turkish Airlines employs a total of 24,124 persons as of end of 2016. With age average being 34.1, 48% of the employees are female, 52% is male. Turkish Airlines, which has a young human resource, is confident about the future, in becoming the best airline - after Europe - in the world.

The employees of the company are divided into groups, including cockpit, cabin and ground staff, depending on main professions. Cockpit crew, cabin crew and ground staff make up 19%, 41% and 40% respectively, of the human resource employed.

With average time of experience being 6.3 as of 2016, the number of employees per aircraft was as 72 at Turkish Airlines.

One of the leading air carriers in Turkey and a distinguished airline in the world, the works are carried out to make "human factor", which is the most important value at Turkish Airlines, more effective and valuable in all aspects.

EFFECTIVE AND PRODUCTIVE HUMAN RESOURCES POLICY

Human Resources policy of Turkish Airlines is to employ qualified employees who are able to fulfil their duties effectively and productively in accordance with the strategic plans and objectives of the company and are loyal to occupational and

ethical rules and to ensure the sustainability of the qualifications of these employees. In this context, human resources planning, identification of task definitions, and ensuring to establish "corporate culture and awareness", personnel employment, performance management, training and development, personnel affairs, social and economic rights, ensuring personnel satisfaction, working order, discipline and awarding affairs are the areas of application of our human resources policy. In addition, the personnel is liable to comply with any applicable laws, regulations and legislations, within the scope of task definition, in organisational structure.

TEAM SPIRIT

Turkish Airlines performs various works to increase the satisfaction of its employees and their loyalty to the organisation. The level of satisfaction and loyalty of its employees are regularly measured within the organisation, reported on unit basis and curative actions are taken, considering the strong/weak aspects which are identified.

Thanks to the works of Ethical Board, which have been carried out since 2012, an active system was created through which the subjects such as discrimination, conflict of interests and mobbing can easily be conveyed by the employees and finalised by the detailed investigation of Ethical Board.

Moreover, Turkish Airlines provide its employees with significant social benefits. These benefits include the service network which is extended over a wide region, private health insurance, private health insurance discounts available for the families of the employees, maternity, nursing, death, marriage allowances, nursery facility or allowance for female employees with children, free or discount domestic/international flight opportunity, visa facility, contracted accommodation facility all around the world, corporate discount



agreements from every industry, which are made available to the use of the employees.

OCCUPATIONAL HEALTH AND SAFETY

Turkish Airlines created its Occupational Health and Safety Policy to express its intentions as regards the Occupational Health and Safety, to set forth its strategy and to bring its employees, customers, suppliers, participants, all business partners and shareholders together under the same objective. The policy was prepared in accordance with the duties and common values of Turkish Airlines, considering the national and international legislation and good practices as well as business ethics and shared with the public opinion.

Turkish Airlines undertakes to carry out its activities in accordance with occupational health and safety policy.

It ensures that national, legal and other terms and conditions as well as international rules as regards the aviation industry, to which it is subjected, are complied with.

The company always prefers equipment and organisations with the minimum risk level to protect the

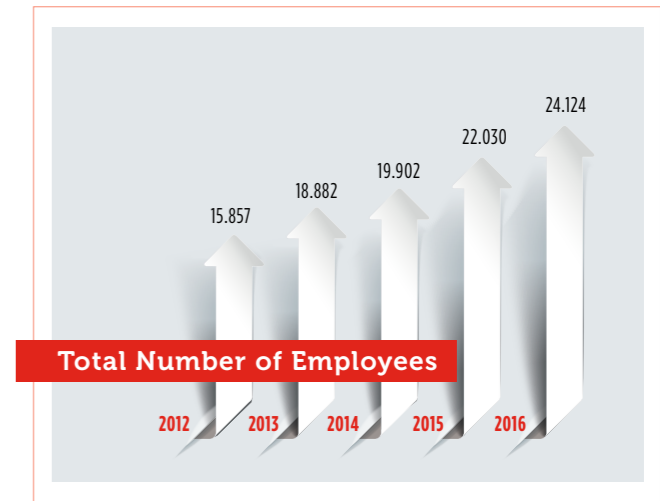
health and safety of employees in planning of the new business investments, expansion of fleet size and improvement of technological infrastructure.

It aims to increase the awareness of its employees and all shareholders on occupational health and safety.

Every stage of the organisation and shareholders are ensured to participate in improving the performance of occupational health and safety. Necessary corrective actions are taken in line with the concerns of the customers, employees, suppliers and public, by establishing an open dialogue with the employees, suppliers and local community for current and future activities.

Occupational health and safety risks of all activities are identified and action plans are developed for these risks to prevent work accidents and occupational diseases.

We also ensure continuous monitoring and availability of preventive medicine services at working environment and establish the necessary infrastructure for creating a healthy and safe working environment for the employees, sub employees and visitors.



We always make sure that the personnel working in critical positions are physically and medically ready to perform respective operations.

Occupational health and safety performance is continuously monitored, measured and the performance in this field is continually improved, considering the good practices in the world.

CONTINUOUS IMPROVEMENT

In line with our objective to become the best and 5-star airline in Europe, we develop innovative solutions and projects for more effective use of human resources.

A great number of process development works have been carried out in the field of human resources throughout the year. Developing Performance Management System, performing business assessment and work force analysis works within the company, creating competency inventory, increasing the career cooperations and making protocols with the universities and developing orientation program make up of some of the works that have been carried out in this scope.

QUALITY AND CORPORATE RESPONSIBILITY



TURKISH AIRLINES TOOK A MAJOR STEP IN INCREASING THE QUALITY OF ITS SERVICE BY ADDING TS EN ISO 10002 CUSTOMER SATISFACTION MANAGEMENT CERTIFICATE IN 2015, ITO ISO 90001 QUALITY MANAGEMENT CERTIFICATE, WHICH MAKES UP OF THE BASIS OF MANAGEMENT SYSTEM.

Turkish Airlines works with an understanding of service quality exceeding the customer expectations, without compromising the customer satisfaction, take necessary steps to offer the same service quality as the number of passengers increases and prefers eco-friendly technologies and methods in processes of planning new investments as regards the areas of its activity, extending its fleet and enhancing the technological infrastructure level.

Effective Compliance Monitoring System holds an important place in company's consistent commercial, financial and operational growth and continued success.

Effective Compliance Monitoring System of Turkish Airlines aims to;

- » ensure continuous compliance and conformity of all activities carried out, with all applicable laws, national and international civilian aviation rules as well as terms and conditions of Turkish Airlines,

- » ensure that the aviation operations in which its customers are direct and important part, are carried out in accordance with the highest safety and security rules of national and international civilian authorities,
- » ensure that the services, it commits to offer its customers, are carried out in at least the level as committed,
- » assure the sustainability of management maturity at a level to provide the best service to the customers with the most reasonable delivery times,
- » achieve and maintain a service quality that aims to exceed the expectations of the customers, rather than just satisfying them,
- » sustain its strong and wide business network and create a difference with its employees.

Turkish Airlines continually monitors the underlying business processes that bring out the service quality as perceived by the customers. Internal audits carried out by the auditors of the company are intended to achieve the purposes of Turkish Airlines Compliance Monitoring System. With respect to the services, it offers to its customers, Turkish Airlines takes all products and services no different than its own services. From this point of view, it controls the level of the requirements that each product and service supplied from the third parties and reaching the customers of Turkish Airlines directly or indirectly, has to possess and ensures that they have the quality it commits to its customers, with the Compliance Monitoring System. In 2016, the products and services supplied at each operational site were inspected with a view to ensuring the service standards of Turkish Airlines.

FULL MARKS TO OUR QUALITY

Turkish Airlines have been audited by a number of institution, particularly national and international civilian aviation authorities, in subjects of safe and secure operation conditions as well as the management systems applied. It successfully passed all audits conducted in 2016 and continued to develop its operational authorizations and management system certificates which are the guarantee of its sustainable success.

INTERNAL AUDITS, CONDUCTED BY THE AUDITORS OF THE COMPANY, ARE INTENDED TO ACHIEVE THE PURPOSES OF TURKISH AIRLINES COMPLIANCE MONITORING SYSTEM.

QUALITY MANAGEMENT SYSTEM

Turkish Airlines proves the maturity of its business processes and the solid basis of management system with TS EN ISO 9001 Quality Management System Certificate it has held since 2006. The Quality Management System, which still in force as a result of supervision examination conducted in 2016 by independent audit company, is one of the strongest management tools in reaching the sustainable success, which creates added value for both the business processes of the company and the customers of Turkish Airlines, thanks to the continuous improvement systematics.

CUSTOMER SATISFACTION MANAGEMENT SYSTEM

In 2015, Turkish Airlines added TS EN ISO 10002 Customer Satisfaction Management System into the management systems it implements. With Customer Satisfaction Management System, Turkish Airlines processes the customer complaints that it receives within the scope of passenger transportation services, more systematically, more effectively and more efficiently. On the other hand, thanks to the more accurate information obtained from the customer feedbacks, actual inputs are provided for each work to be carried out to improve the products and services. Our company, which maintained the validity of Customer Satisfaction Management System Certificate as a result of the supervision examination conducted in 2016 by independent audit company, carries on its works to increase the ground it has gained.



QUALITY AND CORPORATE RESPONSIBILITY



THE FACT THAT TURKISH AIRLINES CARRIES OUT SAFE AND SECURE OPERATIONS IN SUCH A LEVEL TO MEET THE REQUIREMENTS OF IOSA IS ONE OF THE SIGNIFICANT REFERENCE POINTS UNDERLYING ITS SUSTAINABLE SUCCESS.

SAFETY POLICY

Safety is the first priority of all stages of Turkish Airlines organisation. It is an essential part of the corporate values of the company, which can never be compromised. The employees in all stages endeavour at the highest level to improve the safety commitment by maintaining the best practices and standards in the industry.

Turkish Airlines makes known the operational safety principles that it internalises as an essential component of the service it offers, with the safety policy and supplies all kinds of supplies for the development of safety culture.

OPERATIONAL SAFETY AUDIT (IOSA) CERTIFICATE

IATA Operational Safety Audit (IOSA) Certificate that Turkish Airlines obtained in 2005 for the first time and is renewed every two years indicates that IATA registers Turkish Airlines as a safe airline in international arena. Beyond holding IOSA certificate. The fact that Turkish Airlines carries out safe and secure operations in such a level to meet the requirements of IOSA is one of the significant reference points underlying its sustainable success.

SAFA RATING 0.258

Turkish Airlines closed 2016 with 0.258 SAFA rating, in the SAFA rating obtained as a result of the audits conducted in the countries included in Safety Assessment of Foreign Aircraft (SAFA) program executed by European Aviation Safety Agency (EASA). This rating is quite a successful result, as compared to the European countries with a SAFA average of 0.52.

National and international relations, which were managed more efficiently as well as Safety Assessment of Company Aircraft (SACA) program implemented with the same method as SAFA program for the aircraft of the company, which was conducted by SACA team of our company, played a great role in attaining this rating. This rating, which is a result of the importance the company attaches on safety and security and the investments it has realized, contributed to reducing the finding average of Turkey, as well and this success was approved upon a certificate of appreciation presented by the General Directorate of Civilian Aviation.

THIRD COUNTRY OPERATOR (TCO) CERTIFICATE

Turkish Airlines has the authorisation to carry out passenger and cargo transportation to EASA member countries, with European Aviation Safety Agency (EASA) Third Country Operator (TCO) Certificate it holds. Ensuring the sustainability of EASA TCO Certificate that Turkish Airlines obtained in 2015 for the first time is the most important indication that it is safe and secure airline, which complies with the rules of EASA.

ENVIRONMENT AND FUEL EFFICIENCY

The fact that air transportation is an essential part of global economy and one of the fastest growing industries in the world necessitates that the environmental impacts emerging from these activities should be kept under control.

One of the leading airline companies in the world, our partnership carries out its activities to minimize the environmental impacts by controlling environment aspects emerging from all of its activities, products and services. While planning the new investments regarding its area of activity, expanding its fleet, it uses eco-friendly technologies. It aims to leave a cleaner and more liveable environment for the future generations by prioritising the flight safety and security and using the natural resources more effectively. It takes measures to reduce the greenhouse emissions and fight against climate change, with it works in fuel efficiency.

The works carried out by our company in fuel efficiency rely on three main bases;

- » Optimising our activities
- » Investing in new technologies
- » Improving our infrastructure

As a result of the works carried out in 2016, 43,975 tons of fuel was saved at our company and 138,522 tons of carbon was prevented from being emitted into the atmosphere.

OCCUPATIONAL HEALTH AND SAFETY

Our company carried out works to secure the health and safety of its employees, in all the activities it performs. It aims to avoid occupational accidents and diseases by controlling the dangers to which its employees are exposed and managing the risk. It encourages the culture of Occupational Health and Safety by raising awareness of its employees on Occupational Health and Safety. It creates the infrastructure required to provide its employees, sub employers and visitors with a healthy and safe working environment.

ENVIRONMENT MANAGEMENT SYSTEM & OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

Obtaining TS EN ISO 14001 Environment Management System and TS 18001 Occupational Health and safety Management System certificates in 2013, Turkish Airlines implements these two management systems, with the awareness of social responsibility. Renewing both certificates as a result of certificate renewal examination conducted in 2016 by independent audit company, our company adopts a systematic approach which manages the environmental impacts in all the activities it carries out, takes care of the use of eco-friendly technologies, secures the health and safety of all of its shareholders, manages the risks by being aware of the risks and forecasts the emergencies which might happen.



TURKISH AIRLINES CREATES THE NECESSARY INFRASTRUCTURE TO PROVIDE ITS EMPLOYEES, SUB EMPLOYERS AND VISITORS WITH A HEALTHY AND SAFE WORKING ENVIRONMENT TO PREVENT OCCUPATIONAL ACCIDENTS AND DISEASES, BY CONTROLLING THE DANGERS TO WHICH ITS EMPLOYEES ARE EXPOSED AND MANAGING THE RISKS.

CORPORATE COMMUNICATION

“BATMAN & SUPERMAN” CAMPAIGN, WHICH MADE AN OVERWHELMING IMPRESSION WORLDWIDE, BROUGHT TURKISH AIRLINES THE PRESTIGIOUS AWARDS SUCH AS CANNES SILVER LION, D&AD WOOD PENCIL FOR TIME OUT GUIDE AND GOLD IN EPICA AWARDS.

OUR SPONSORSHIPS

Culture - Art

“BATMAN VS. SUPERMAN” SPONSORSHIP

Our brand sponsored the movie “BvS: Dawn of Justice” within the scope of the cooperation with Warner Bros and therefore a Turkish brand participated in a Hollywood production for the first time.

Two separate advertising films were made with the starring characters of the movie, Ben Affleck, Henry Cavill and Jesse Eisenberg, within the scope of movie sponsorship. The advertisements in question met with the audience in the Super Bowl advertorials, one of the sports organisations which is highly preferred by the world. Our brand is the only Turkish brand to appear in Super Bowl. Following the Super Bowl, our advertising film was also aired in the national channels of over 150 countries along with the use of global channels, in addition to Super Bowl. Our broadcasts in the final game which was the most watched TV program of America with 114 million viewers, reached 35% of US households at least once with 257 million views.



SPORTS

FOOTBALL

EURO 2016 European Football Championship is the biggest sponsorship that our company performed in 2016 in football branch. Our brand is the only airline in 56-year history of the tournament. Euro 2016 was aired live on 260 TV channels in 190 countries, reaching 6 billion viewers. 2.5 million viewers had the opportunity to watch the matches at the stadiums, throughout the tournament. Turkish Airlines also sponsors the clubs such as Galatasaray, Besiktas, Tranzonspor and Bursaspor which previously became champions and the clubs of Basaksehir and Konya which were qualified to play in Europe in 2016-2017 season as well as the club of Rize, particularly Turkish Football Federation.



BASKETBALL

24 teams played more than 250 games in Turkish Airlines Euroleague that we sponsor and the Final Four was performed on 12-15 May 2016. Euroleague is the biggest basketball organisation after NBA and is aired by 132 different broadcasters in 190 countries. The tournament also reaches 2 billion viewers. Media return figures of our company's sponsorship realised at 140 million Euros throughout entire tournament. Turkish Airlines is the most popular brand of Euroleague with a rate of 97%.

GOLF

Turkish Airlines Open Golf Tournament took place in Antalya on 3-6 November 2016 with the participation of 78 golfers. The tournament that took place with the participation of the most successful and most popular golf players of the world is one of the four most important tournaments in European Tour schedule.

Turkish Airlines World Golf Cup tournament aimed at corporate customers took place 100 different destinations (locations) in 2016.

RUGBY

Our company is one the main sponsors of EPCR (European Professional Club Rugby) organisation. Challenge Cup and Champions Final, the 2 tournaments, organised by the organisation, were performed in Lyon, France on 13-14 May 2016.

EQUESTRIAN

One of the most prestigious equestrian festival of the world, organised in Aachen, Germany every year since 1898, Chio Aachen that we sponsor, took place on 4-17 July 2016.

CYCLING

The only intercontinental cycling tour of the world, 52nd Presidential Cycling Tour was aired in over 120 countries, particularly on eurosport and took place under the sponsorship of Turkish.



CORPORATE COMMUNICATION

ADVERTISING CAMPAIGNS

“HOW NICE IT IS NOW”

“How Nice it is Now” campaign, which was launched in Turkey in February-April period, was aired on TV, theatres and outdoor media. A general media planning was prepared within the scope of the campaign meant to reinforce the domestic flights and conserve the image and the advertising film was aired on 56 different TV channels and 2,380 theatres.

DIGITAL ADVERTISING CAMPAIGNS

Our company has carried out domestic and overseas sale communication campaign, product/service promotion works and communication works for the routes that have recently been opened and sponsorship communication works as regards the advertising activities approved within its strategies. Our advertisements were put on display in 119 countries.

IMAGE CAMPAIGNS

- » Batman vs. Superman
- » Turkish Airlines Euroleague
- » Euro 2016
- » Zack King – Safety Film
- » European Professional Club Rugby
- » Turkish Airlines Open



THE IMAGE WORKS CARRIED OUT IN 2016 ATTRACTED A GREAT DEAL OF ATTENTION ALL AROUND THE WORLD AND ALSO CONTRIBUTED TO THE BRAND VALUE OF TURKISH AIRLINES.

CULTURE ART PUBLICATIONS

Skylife, Skylife Business, Miles&Smiles, Heroes, AnadoluJet and other in-flight and corporate periodicals were published monthly. Special hajj-umrah supplements were published for our hajj and umrah flights and Koran, prepared with Ottoman Calligraphy, were handed out to 90,000 passengers as they returned from hajj.

SOCIAL MEDIA

We are placed near the top, among other airlines in the world, with the number of followers in social media (Facebook, Twitter, Instagram, YouTube). Thanks to these channels, our product-service promotions, sponsorship activities and other developments concerning our brand conveyed actively and awareness can be created with the high interaction. Besides, the awards, received with the projects carried out, reveals the impact in these media.

As of the end of 2016, we reached 9.5 million in Facebook, 1.4 million in Twitter and 686,000 in Instagram. In Youtube media, we are the 2nd airline brand with the biggest number of followers among our competitors.

CORPORATE SOCIAL RESPONSIBILITY

COMPUTER CLASSES INSTALLATION PROJECT

Our company has built computer classes in Africa with its volunteer staff and given coding training to the students, with a view to contributing to equal opportunities in education and supporting the schools at the destinations based in the developing countries.

SCIENCE SPONSORSHIPS AND SCIENCE FESTIVITIES

Supporting the works that help the children in our country to carry out scientific works and allow them to learn as they have fun, our company

sponsored various science festivities and hundreds of students who represent us abroad.

VOLUNTEERING WORKS

Humanitarian aid and education supports projects were carried out regarding the disadvantaged groups in our country and all around the world, particularly in Africa, with the participation of our volunteer staff.

ADDIS ABABA CATARACT PROJECT

Turkish Airlines organised a health camp in cooperation with a local hospital of the Ministry of Health in Ethiopia, at which around 1,000 patients had cataract operation.

SUPPORTED ORGANISATIONS

Our company support Special Athletes Sports Federation of Turkey which aims to rehabilitate the disabled athletes in our country where there are around 8.5 million disabled people, by providing them with sports services and activities to reintegrate them into the society and the Physically Handicapped Sports Federation of Turkey which aims to increase the recognition of special athletes, ensure that they are integrated with the society and represent them at the highest level in international activities; and also becomes the main transport sponsor in the national and international activities of both federations.

Turkish Airlines also sponsored the Humanitarian Summit organised by the United Nations, which brought together more than 5,000 participants, including the presidents of the countries, non-governmental organisation and public institutions.

PR NUMERICAL FIGURES

In 2016, a total of 15,203 news were broadcast in target media, 8,283 of which were positive, 6,137 of which were neutral and 683 of which were

negative. Multiple access was achieved with 39 million people in Istanbul and 145 million US Dollar advertising equivalent was obtained from these news.

As a result of regions-specific interviews and media meetings, advertising equivalent in total amounted to 3.5 million US Dollar while the press trips, editor visits and press meetings organised helped to get multiple accesses with 1.9 people. As a result of a total of 823 news and bulletin prepared with local content, 62 million dollar advertising equivalent was acquired and multiple access was achieved with 8.5 million people.

Bölgelere özel röportajlar ve medya buluşmaları sonucunda toplam reklam eşdeğeri 3,5 milyon ABD dolarını bulurken; düzenlenen basın gezileri, editör ziyaretleri ve basın toplantıları ile 1,9 milyon kişiye çoğul erişim sağlanmıştır. Lokal içerikle özel olarak hazırlanan toplam 823 haber ve bülten sonucunda ise 62 milyon dolar reklam eşdeğeri elde edilmiş ve 8,5 milyon kişiye çoğul erişim sağlanmıştır.



FINANCIAL RISK MANAGEMENT



FUTURE CASH FLOW FORECAST OF THE COMPANY IS CARRIED OUT REGULARLY EACH MONTH TO MANAGE THE CASH FLOW RISK EFFECTIVELY. FUTURE CASH PREDICTIONS OF THE COMPANY ARE ESTABLISHED WITH CASH FLOW FORECAST.

Financial risk management of our company is basically based on healthy cash flow and the supply of liquidity in the future and therefore following risk factors were defined as basic principle.

Nakit Akım Riski: Operasyonel faaliyetler ile operasyon dışındaki yatırım ve finansman gibi hususlar sonucunda oluşan kısa, orta ve uzun vadeli nakit giriş/çıkışında oluşması muhtemel uyumsuzluğun belirlenen iş hedeflerinden alıkoyması,

- » **Cash Flow Risk:** Detention of the irregularity likely to occur in short, medium and long-term cash input/exit as a result of considerations such as operational activities and non-operational investments and financing, from the business targets,
- » **Commodity Price Risk:** Financial impact of variations of the prices of jet fuel and carbon emission certificates,
- » **Interest Rate Risk:** Financial impact of the variations in the market value of aircraft financing, debts and cash in foreign currencies as the interest rates change,
- » **Foreign Currency Risk:** Financial impact of variations to occur in the values of different currencies comprising the income and expense,
- » **Other Party Risk:** Losses likely to occur in case the other parties go into default in terms of deposit and derivative transactions being carried out with national and international financial institutions.

Natural hedging methods are given priority for the management of defined financial risks. In case

natural hedging is not possible, special hedging strategies are developed and implemented for both risks. In this context, hedging transaction are carried out by using derivative instruments against fluctuations likely to be experienced in commodity price, exchange rates and interest rates and it is aimed to increase the predictability with the strategies implemented and to minimize the financial effect likely to occur as a result of fluctuation.

Our company is monitored constantly by Treasury and Risk Management Committee consisting of the managers as regards the functionality and efficiency of risk management strategies. Also the variations in market dynamics are sensitively monitored by the committee and the relevant strategies are improved and enhanced, if deemed necessary.

CASH FLOW RISK MANAGEMENT

The fact that the irregularity in short, medium and long-term cash input/exit occurring as a result of transactions such as operational activities, non-operational investment and investment financing disrupts is defined as cash flow risk. As the aviation industry requires high investment and the financing terms are longer as compared to many industries, our company places particular importance on establishing and implementing a proper cash management. Future cash flow forecast of the company is carried out regularly to manage the cash flow risk more effectively. The mentioned forecast is performed on the basis of currencies which are important in the income and expense of the company and also the exchange rate and fuel prices, which constitute a basis in the forecast, are updated in monthly periods.

With the Cash Flow Forecast, company's cash prediction for the future is formed and mentioned prediction is sensitively monitored by Treasury Risk Management Committee.

NWith the cash flow forecast updated on a monthly basis, it is aimed to constitute a reference for the strategic decisions to be taken. Therefore, hit rate of the forecast is very important. The forecast data contained in the mentioned work is compared with the actual data every month and necessary analyses are performed to ensure the efficiency of the forecast made.

In addition, the minimum cash level that needs to be kept was determined to ensure company



progression, considering the size, turnover and operations of the company. Existing cash levels and cash amount that are predicted to occur in the future are monitored according to this level and necessary actions are taken to avoid falling below the level.

COMMODITY RISK MANAGEMENT

FUEL PRICE RISK MANAGEMENT

Fuel expense stands out as the biggest operational expense item of our company. For this reason, the variations to occur in fuel prices has the potential to create a huge fluctuation on both cash and company's profitability. Our company developed a fuel price protection strategy, to minimize and keep the mentioned impact in a controllable level. In line with this strategy based on market conditions, Swap and Option-Based Derivative Instruments are used to fix the fuel cost in a single price or keep it in a certain band range. Although the jet fuel is the basic consumption, transactions are carried out on crude oil which has a high relationship historically with jet fuel price and has a deeper market depth. In this context, past crude oil and jet fuel prices and anticipated crude oil and jet fuel prices, correlations and price volatilities between them are monitored regularly.

Transactions are carried out in the rates which gradually decrease for 24-month period, with contract amounts aiming at around 50% jet fuel consumption amount predicted for the next month, to avoid fuel price risk. Swap or Cost-Free Band Option Structured Derivative instruments written on crude oil- whichever is suitable- are used, in a way certain instruments are used in

certain price ranges, considering the market conditions and indicators.

However, the risk protection level that is wished to be achieved is assessed depending on the price movements and level of the market.

To monitor the fuel price risk, structural changes occurring in oil prices and market dynamics in line with the developments experienced as regards the global economy are monitored closely. In addition to the developments in the fuel market, other strategies implemented in the aviation industry are assessed to determine the fuel price risk protection methodology, not to differ from the market, in this context, the works as regards the developments likely to occur in the next period are also carried out.

CARBON EMISSION RISK MANAGEMENT

Aviation industry was included in European Union Carbon Emission Trade System (EU-ETS) on 1 January 2016. Therefore, our company became liable to comply with the EU-ETS regulations like other airline companies flying to Europe.

According to the system, the airlines are required to purchase carbon credit from the market in case they exceed the carbon release top limit assigned to them by the authorities to which they are subjected. Within this framework, our company developed relevant strategies for financial risk protection transactions aimed at obtaining carbon credit and made necessary planning to use derivative instruments, in case of need.

FINANCIAL RISK MANAGEMENT



THE VARIATIONS OCCURRING IN OIL PRICES AND MARKET DYNAMICS FLUCTUATING IN LINE WITH THE GLOBAL ECONOMIC DEVELOPMENTS ARE MONITORED CLOSELY BY OUR COMPANY. NECESSARY MEASURES ARE TAKEN AND PLANNING IS MADE IN THIS RESPECT.

INTEREST RATE RISK MANAGEMENT

Within the frame of interest rate risk management, our company regularly monitors and analyses the interest rate market, prepares the indebtedness structure, performs sensitivity against interest rate changes and weighted average maturity analyses and follows up the potential cost changes arising from interest. Risk protection transactions are carried out by ensuring that loan rates are completely fixed at certain rates or kept within certain interest levels (range) during the credit period for some part of debt portfolio, to manage the mentioned interest risk.

On the other hand, our company prioritizes the cash flow planning and manages the interest rate risk occurring as a consequence of assessment of cash flow on hand on yield-driven basis, by trying to keep the maturity and return relationship at the optimum level.

EXCHANGE RATE RISK MANAGEMENT

Variation risk, likely to occur in cash flows and profitability of the Company due to any potential fluctuations in foreign exchange rates, is called foreign exchange risk.

With respect of our company, which earns a significant portion of its income on the basis of Euro and performs a major portion of its expenses on the basis of US Dollar and TRY, foreign exchange rates which had fluctuations in the past and are expected to maintain such fluctuations course in the next period, pose a risk due the said reasons.

Primarily, natural hedging is targeted in terms of foreign exchange rate risk management. In this context, it is aimed to ensure that the composition of the currencies in the income and expense occurs at close rates and to mitigate the effect of the fluctuations likely to occur in exchange rates, while determining the foreign exchange rates constituting a basis for all contracts made by our company. In line with the mentioned strategy, the use of Euro in pricing of the tickets for international flights departing from Turkey were discontinued in May 2015 and thus Euro was replaced by US Dollar. Therefore, the ratio of US Dollar in the income was increased and the ratio of Euro was decreased, making the distribution of income-expense currencies more balanced.

In addition, the historical correlation values with Turkish Lira, US Dollar and Euro, which are the basic currencies of over 100 currencies in the income and expense, are monitored and the relationships of the currencies with each other are assessed in terms of balancing the income and expense currencies.

On the other hand, it is observed that our company was in the long position in Euro while it was in the short position with US Dollar and Turkish Lira, even after natural hedging practices. In this context, Euro, US Dollar and Turkish Lira currency positions, anticipated for each month, are established based on Company's monthly-updated future cash flow forecast and it is intended to be hedged against any potential foreign exchange rate risk, by using derivative products.

In respect of closing the calculated US Dollar open position with Euro, any of Swap, 2-Barrier Band, 3 Barrier Band and 4-Barrier Band- whichever is suitable for the market conditions- is used in a manner to cover the next 24-month period. As for Turkish lira open position, Swap instrument is used and Euro is sold and Turkish lira is purchased at a fixed and single rate in a way to cover the next 24-month period. In the transactions carried out, it is intended to achieve hedging rate for the portion varying at the range of 25%-35% of US Dollar open position and for the portion of 30% of Turkish Lira open position within the next month following the current month and gradually-decreasing hedging rates are intended in the following months.

COUNTER PARTY RISK MANAGEMENT

Various measures are taken to minimise the potential problems which may occur with respect to the financial institutions that are other parties in the financial transaction carried out by our company under a number of titles. In this context, an approach, which might minimize the long-term

counter party risk and includes equal and objective criteria for each institution, is adopted with respect to deposit and derivative transactions. Especially, relevant agreements are signed with the financial organisations against the loan risk likely to occur as a result of derivative transactions. In deposit and derivative transactions, it is not preferred to carry out transactions with the organisations below the threshold credit risk rating determined by considering the credit risk ratings specified by international credit rating agencies for the financial institutions. We work with the financial institutions above the threshold value, within the limits assigned according to the risk levels specified within the credit risk assessment methodology.

Moreover, in the event that credit ratings of the financial institutions with which a transaction is made strategically and the mentioned limits are updated periodically or the credit rating of any financial institution decreases or the relevant insurance premiums (CDS) increase, then

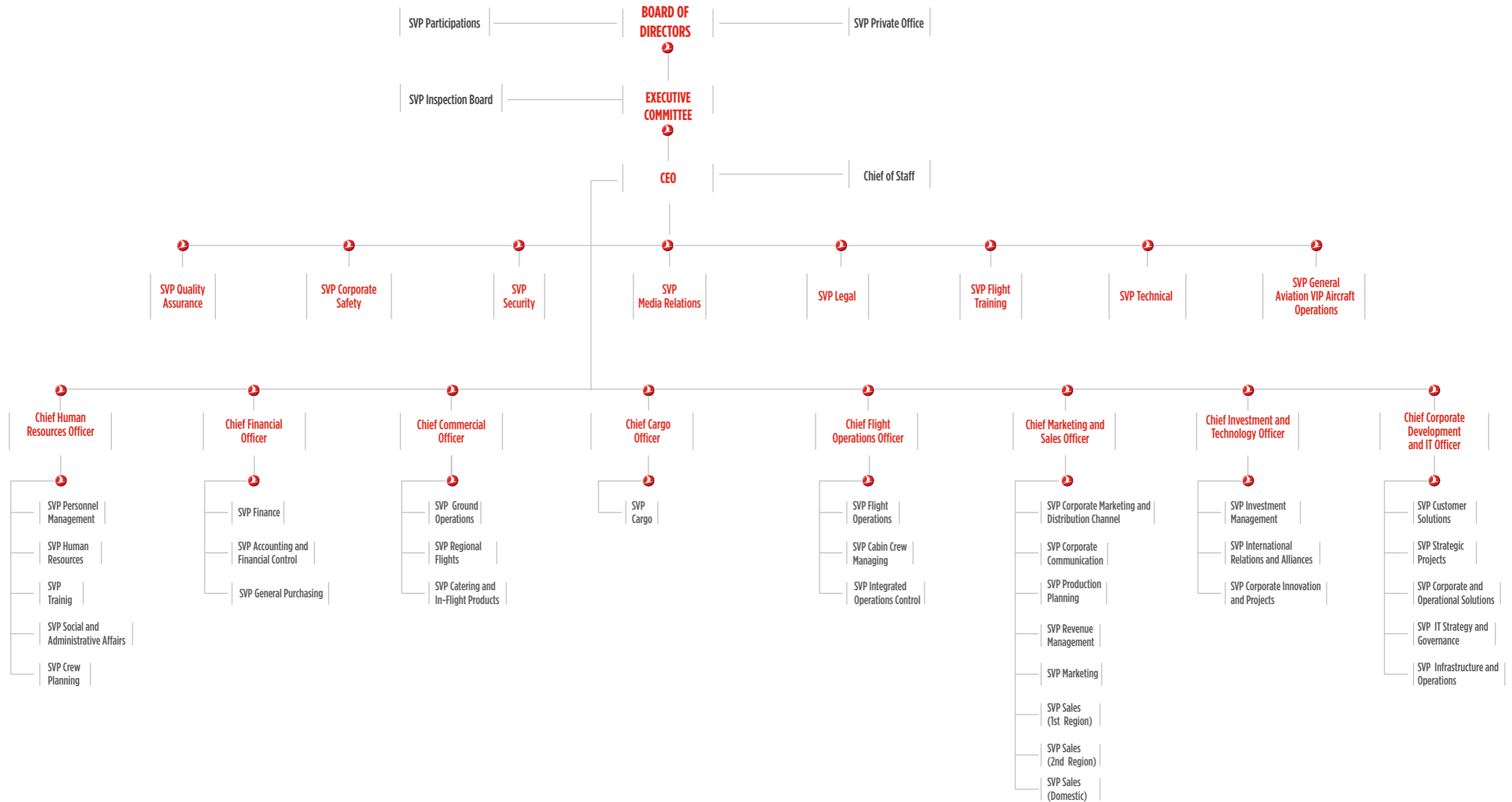
particular importance is given to monitor very closely any transaction with such institution. If the credit rating falls below the specified limits, then our company may cease the transactions with such financial institution unilaterally, at its own discretion.

In respect of management of the credit risk, which may arise from the use of a derivative product by our company, "Framework Agreement for Derivatives" are executed with the domestic financial institutions while "International Swaps and derivatives Association" (ISA) and any other required agreements are executed with the international financial institutions. Particularly, any matter as regards the credit risk management are regulated within the scope of a separate agreement called "Credit Support Annex" (CSA).

Credit risk is reduced by carrying out guarantee offsetting transactions in certain periods based on the mentioned agreement.



ORGANISATIONAL CHART



CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

1. Statement of Compliance with Corporate Governance Principles

The Incorporation, which aims at promoting and representing Turkey and Turkish Aviation industry in international arena in the best possible manner and which has adopted the transparency, fairness, responsibility and accountability as a principle, complies with any and all mandatory principles set out in the Corporate Governance Principles attached to the Capital Market Board (CMB) Communiqué n: II-17.1 and pays utmost attention to abide by non-mandatory principles thereof. The principles no: 4.2.5, 4.2.8, 4.3.9, and 4.5.5 are non-mandatory Corporate Governance Principles, which are not observed by the Incorporation and the reasons thereof are given in the relevant parts of the report.

The Incorporation keeps carrying out activities for continuous development of Corporate Governance approach and for enhancement of the level of compliance with the Corporate Governance Principles. In 2015, Sustainability Reporting was carried out for the first time within the organisation of the Incorporation and any improvable matters with respect to all stakeholders were identified during such process. Accordingly, any and all Incorporation policies, systems, procedures and documents such as “Code of Conduct Manual”, which are included in the subjects of Corporate Governance, have been reviewed, and any actions for revision thereof have been started to be taken for such purpose. In 2016, Turkish Airlines stucked at the studies and investments it has carried out for a sustainable future, and continued to be a component of the Borsa Istanbul Sustainability Index.

PART I – SHAREHOLDERS

2. Investor Relations Department

There is an Investor Relations Management, directly reporting to Dr. Murat Şeker, Chief Financial Officer, which has been established in order to operate with respect to informing any domestic and foreign investors in a correct, consistent and timely manner and ensuring the communication and information exchange between the Board of

Directors and the regulators and participants of the capital markets and observing the compliance with the regulations and Articles of Association with respect to exercise of shareholding rights and also fulfilling the obligations for disclosure in compliance with any and all kinds of regulations, within the organisation of Turkish Airlines.

In 2016, Investor Relations Department participated in 15 investor conferences and roadshows, performed 30 teleconferences and held more than 70 individual/corporate investor meetings, in order to share any financial, operational and strategical developments in relation to the Incorporation with investors and analysts. During these conferences, and teleconferences, it was convened with the 307 investors/analysts from 214 corporates and funds, at the head office of the Incorporation and at the offices of the investors. All analysts who issued a report about our Incorporation were contacted and accurate and proper information was conveyed during the preparation of the reports and feedback related to their reports were delivered. Approximately 2.500 applications were received by the Incorporation by e-mail within the activity period 2016 for the purpose of obtaining information. Besides the applications received by e-mail, many investors and shareholders were also informed by phone.

Aiming to further improve the transparent communication it established with its stakeholders in 2016, Investor Relations Department introduced the Investor Relations Application compatible with iPad, iPhone and Android devices to the service of the users. Thanks to the application, domestic and foreign investors as well as all Turkish Airlines stakeholders got the opportunity to have access to up-to-date developments, material disclosures, operational and financial statements, investor presentations, activity reports and many other documents regarding Turkish Airlines, via 3 different digital platforms and in 2 languages.

Investor Relations Department submitted the report for activities it conducted in 2016, to the

information of the Board of Directors of the Incorporation on 17.03.2017. Contact info of the Investor Relations staff is provided below:

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Özge Şahin

Investor Relations Supervisor
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Mehmet Fatih Korkmaz

Engineer
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E-mail: korkmazmehmet@thy.com

3. Exercise of Right to Information by Shareholders

The Investor Relations Department of our Incorporation replies any requests of information and any inquiries, delivered thereto by either the stakeholders or any other shareholders by means of different communication channels, by using the most efficient means of communication as soon as possible. On the other hand, there is an Investor Relations web page (investor.turkishairlines.com), which is accessible through the corporate web site of the Incorporation, in order for ensuring the efficient exercise of the rights of shareholders to obtain information and any investors and any other stakeholders may access any public financial and operational data, material disclosures and any and all announcements for exercise of the shareholding rights through such web site. Besides, any persons/organisations, signing up for the distribution list, may be informed about any up-to-date operational and financial disclosures by e-mail.

No regulation on request for assignment of a special auditor is available under the Articles of Association; and no request was made to assign a special auditor in 2016.

4. General Meetings

The regulations as regards the General Assembly Meetings of our Incorporation are set out in the Articles of Association, publicly available on the Investor Relations web site of the Incorporation.

Ordinary General Assembly Meeting, during which the accounting and activities of 2015 were discussed, was held on 04.04.2016 at VIP Meeting Hall at the General Management Building situated at Atatürk Airport Yesilkoy-Bakirkoy/Istanbul, the principal office address of the Incorporation. The shareholders, representing TRY 966.222.633,79 (70%) of TRY 1.380.000.000, which was the issued capital of the Incorporation, attended the Ordinary General Assembly Meeting and no other stakeholders or press participated in the meeting. The General Assembly Meeting was held physically and electronically as per the legislation of Turkish Commercial Code No: 6102 and the regulations of the CMB.

The announcement and invitation to the Ordinary General Assembly Meeting was published in Trade Registry Gazette (TTS), nr. 17.03.2016/9034, in Sabah newspaper dated 17.03.2016 and on the Electronic General Assembly System, which is available with in the organisation of Central Registration Agency and Public Disclosure Platform as well as on the website of investor relations three weeks before the date of the meeting, along with the notifications and disclosures required to be made by the Incorporation in accordance with the relevant regulations. As per the article no: 437 of Turkish Commercial Code (TCC), financial statements, consolidated financial statements, annual activity report of the board of directors, audit reports and profit distribution proposal of the Board of Directors were uploaded on the website of the Incorporation before the date of General Assembly Meeting in accordance with the periods specified by the regulations and submitted

to the examination of the shareholders at the principal office and branches of the Incorporation.

It was ensured that the Members of the Board, other related persons and other authorised persons in charge of preparing the financial statements as well as the auditors were present at the General Assembly Meeting in order to provide required information and respond to any inquiries with respect to any specific matters in the agenda. The subjects on the agenda were submitted objectively and in detail through a clear and understandable method during the General Assembly Meeting of the Incorporation and the shareholders were provided with an opportunity to convey their opinions and ask questions under equal circumstances.

Although the practice for replying the questions of the shareholders verbally and for replying the comprehensive questions in writing was available during the General Assembly Meeting, no question which required to be replied was asked in this meeting. The questions asked during the meeting were replied verbally and such replies were added into the minutes of the meeting. The minutes of meeting which included the questions asked in the meeting and replies thereof are available on the website of the Investor Relations of our Incorporation. No agenda suggestion was proposed by the stakeholders during this meeting. The minutes of the General Assembly Meeting and the list of participants are disclosed publicly on the same day via the Public Disclosure Platform and submitted to the information of the shareholders on the website of the Investor Relations of the Incorporation and on the Electronic General Assembly System. The minutes of the General Assembly Meetings of the previous years and any other documents are also available on the web site of the Investor Relations of the Incorporation. The Minutes of the General Assembly Meeting, dated 04.04.2016, was published in the TTS, dated 29.04.2016 and no: 9065

Since there was no process where favourable vote of the majority of the Independent Members of

the Board was sought for adoption of a resolution in the Meeting of the Board of Directors and where the General Assembly Meeting was consulted to adopt a resolution due to the dissenting votes of the Members, such an agenda was not available in the General Assembly Meeting.

Information about the charitable donations incurred within the period in accordance with our Donation Policy adopted by the General Assembly is provided through a separate agenda item during the General Assembly Meeting. Total amount of donation granted by our Incorporation in 2015 for Turkish Airlines Sports Clubs was TRY 264.054 and no other donation was available. Donation Policy of the Incorporation is submitted to the information of the shareholders via the website of the Investor Relations of the Incorporation.

5. Voting Rights and Minority Rights

Voting right is regulated in the article no: 31 of the Articles of Association, as specified below:

“Each shareholder or proxy attending the ordinary or extraordinary Shareholders Assembly Meetings will be vested with one vote for each share, provided that the provisions of Article 6/d of this Articles of Association are reserved.”

As per the subparagraph 5 of the article no: 14 of the Articles of Association;

It is required for the Board member representing Group C share to attend the meeting and his affirmative vote is required for the effectiveness of the resolutions of the Board of Directors regarding the followings issues:

- » Resolutions which will clearly adversely affect the mission of the Incorporations as indicated in Article 3.1 of this Articles of Association;
- » Any suggestion to be made to the Shareholders Assembly for any modification in the Articles of Association;

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

- » 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 a revenue to meet its own operating costs based on exclusive market conditions or through other sources.

The privileges of group C share may only be limited by the The Privatization High Council or any other public institution, which will take over the duties of the Board.

Our Incorporation pays utmost attention to ensure the exercise of minority rights. In accordance with the Article no: 10 of the Articles of Association, any shareholder holding the public group A shares may only be nominated to the Board of Directors provided that they are represented at the rate of minimum 2% of the total issued capital in the Ordinary General Assembly Meeting during which the Members of the Board are elected.

The shareholders submitted no request for representation of the minority in the management during the Ordinary General Assembly Meeting held in 2016, where the accounting and activities for 2015 were discussed. Also, there is no company,

with which no relationship based on mutual interests is available and cumulative voting method is not specified under the Articles of Association.

6. Right of Dividend

The principles for determination and distribution of the distributable profit within the organisation of the Incorporation are regulated in the article no: 36 of the Articles of Association. There is no privilege in respect of participation to the profit.

General Assembly determines the time and method of payment of the profit, by taking into account the communiqués of the CMB. Accordingly, profit distribution policy of the Incorporation has been determined by taking into account the strategic targets, growth trend and financial needs of the Incorporation as well as the expectations of the shareholders in accordance with the Turkish Commercial Code, the Capital Market Law, relevant legal regulations and the provisions set out in the Articles of Association and such policy is available on the website of the Investor Relations of the Incorporation and in the annual report of the Board of Directors. Profit distribution policy includes clearly any minimum details in such a manner that will enable the shareholders to estimate the procedures and principles for distribution of the profit to be obtained by the Incorporation in the following periods and is based upon the adoption of a balanced policy between the interests of the shareholders and that of the Incorporation.

The proposal of the Board of Directors of the Incorporation, as regards the revision of the Profit Distribution Policy of the Incorporation, was approved by the General Assembly at the Ordinary General Assembly Meeting, dated 04.04.2106 and the updated policy is available on the web site of Investor Relations of the Incorporation.

According to the consolidated financial statements belonging to the accounting period of 01.01.2015-31.12.2015 prepared in accordance with the International Financial Reporting Standards within the

framework of the provisions of the Communiqué of the CMB Serial: II, and Number: 14.1 and audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., net profit for the period is TRY 2.993.000.000. On the other hand, according to the legal books (under the provisions of Turkish Tax Procedure Law) the net loss of the period is TRY 413.851.522 and previous years' loss account has a balance of TRY 205.332.466.

Accordingly, it has been decided, in the Ordinary General Assembly Meeting dated 04.04.2016 that, the loss amount according to the legal books will be transferred to previous years' loss account. As there will not be any distributable profit (according to the legal books), the net profit of TRY 2.993.000.000 (according to IFRS) will be transferred to the previous years' profit account and that no profit distribution to the shareholders of the Incorporation shall be distributed for the year of 2015.

7. Transfer of Shares

The shares held by the foreign shareholders may not exceed 40% of the total issued capital of the Incorporation, as per the Article 6 of the Articles of Association of our Incorporation, regarding "Shareholders Nature". In calculating the rates of the shares held by the foreigner shareholders, the rate of foreign shareholding in the shares held by the shareholder holding Group A shares which are not open for public will be taken into consideration as well.

As per the article no: 7 of the Articles of Association, as regards the transfer of shares, the transfer of shares shall be subject to the provisions set out in TCC, Capital Market Regulations and Civilian Aviation Regulations and no provision, which would obstruct the free transfer of shares by the shareholders, is available in the Articles of Association of our Incorporation. The nature of shareholding and any matters concerning the transfer of shares are specified in the relevant sections of the Articles of Association, along with the implementation principles

and the reasons thereof and are available on the website of Investor Relations of the Incorporation.

PART II – PUBLIC DISCLOSURE AND TRANSPARENCY 8. Disclosure Policy

A Disclosure Policy was established by the Board of Directors of the Incorporation in an effort to determine the general principles and procedures as regards any information to be shared with the shareholders, investors, other participants of the capital markets and any other relevant stakeholders and as regards the method, frequency and means to be used, while sharing such information as well as regarding any public disclosures, in accordance with the Material Events Communiqué of CMB and Corporate Governance Communiqué, the relevant provisions of TCC and the regulations of Borsa Istanbul (BIST).

In respect of implementation of the disclosure policy, it is essential to inform all stakeholders, including the shareholders, investors, employees and customers, about any information, events and developments, which might affect the investment decisions of the investors, on equal terms in a timely, accurate, complete, understandable and readily manner, so as to be accessible at the lowest cost.

In this context, 64 Material Disclosures were made by our Incorporation in 2016 and no request for additional disclosures for such Material Disclosures was submitted by CMB and BIST. Our Incorporation paid attention to deliver any material disclosures to investors, savers, institutions and organisations in a simultaneous, timely, understandable accurate, interpretable and full manner.

The power and responsibility for monitoring, supervising and improving the disclosure policy of our Incorporation belongs to the Board of Directors. Any amendments to be made in the disclosure policy shall take effect upon the approval of the Board of Directors and be published on the website of the Incorporation.

9. Corporate Website and Its Contents

Corporate website of our Incorporation is www.turkishairlines.com and the website of Investor Relations, which is also accessible through the corporate website, is investor.turkishairlines.com and both websites have English versions. Any information on the corporate and Investor Relations website of the Incorporation is identical to and/or consistent with the disclosures made in accordance with the relevant provisions of the legislation and contains no contradictory or incomplete information. The website of Investor Relations contains current Shareholding Structure, last version of the Articles of Association along with the TTSG on which any amendments were published, the agenda of the General Assembly, the form for voting by proxy, the list of the participants, additional/supplementary information and minutes of the meeting, annual reports, financial statements, business activity data, Incorporation presentations, Corporate Governance Principles Compliance Reports, information about the Board of Directors and Committees, Material Disclosures, Press Releases, Code of Ethics, Policies (Profit Distribution Policy, Disclosure Policy, Pricing Policy, Donation Policy), details of the transaction with the associated parties, share details, analyst details, independent auditor details, Trade Registry Gazette details, contact details and frequently asked questions, including any matters specified under the Corporate Governance Policies.

Any information available on the website of Investor Relations are also prepared in English, in such a way to be exactly the same as the Turkish version, for the purpose of enabling international investors to benefit from such information. Investors are able to convey their opinions and suggestions to the Investor Relations Department via the relevant form under the heading "Opinions and Suggestions" available on the website of Turkish Airlines Investor Relations. The investors are redirected to the e-mail address "ir@thy.com" in order to deliver any inquiries under the heading "Contact". In addition, any persons/institutions, signing up the distribution list through the website, can

be informed of any up-to-date operational and financial disclosures by e-mail.

The content, which is required to be available on the website in a dedicated way pursuant to the "Regulation on the Websites to be Established by Equity Companies", dated 31.05.2013, of the Ministry of Customs and Trade, is accessible through the link "Information Society Services" available on the home page of the website of the Incorporation.

10. Activity Report

The activity report of our Incorporation is prepared in such a way to allow the public access to complete and accurate information about the activities of the Incorporation and contains all information specified under the relevant regulations and Corporate Governance Principles.

PART III – STAKEHOLDERS

11. Disclosures to Stakeholders

In addition to those specified under the statutory regulation and material disclosures, any other information and disclosures in relation to the Incorporation, which are considered to concern any other stakeholders, are also disclosed in a timely and explanatory manner through the most appropriate means of communication. Shareholders and participant of capital markets as well as the suppliers, financial institutions and all other stakeholders are informed continuously through the press releases, annual reports, sustainability reports, website and the applications available under the Disclosure Policy of the Incorporation. Announcements are made through the internal arrangements in order to inform the employees about the general practices and activities of the Incorporation and the Intranet of the Incorporation is actively used and also the periodical "Empathy", which is an internal communication publication, is published on a monthly basis. Communication channels of the Incorporation have been established in a way to be accessed by any and all stakeholders and the contact details were also published on the website of the Incorporation.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

	Stakeholder Groups	Key Interaction Topics	Main Interaction Channels	Frequency
INTERNAL	Shareholders, Financial Partners, Investors	Minority Rights, Operational and Financial Performance, Strategy, Corporate Governance	E-mail distribution list, "ir@thy.com"	Continuous
			Private "Investor Relations (ir)" internet site	Continuous
			Shareholders General Meeting	Annual
			Investor Meeting	Annual
			Presentations, Reports, Publications	Quarterly
	Employees, Labour Unions	Business Ethics, Cultural Values, Employee Satisfaction, Organisation and right of Collective Bargaining Flight Safety and Security, Occupational Health and Safety, Anti-Discrimination and Diversity, Performance and Career Development, Use of Sustainable Resources	"Ethical Way"	Annual
			E-mails: flightsafety@thy.com; security@thy.com	Continuous
			"Empathy" Corporate TV	Continuous
			"Empathy" Personnel Bulletin	Monthly
			"Empathy" web site "I have an Idea" page	Continuous
Governmental, Regulatory Authorities, Local Authorities	Social and Economic Development, Customer Rights, Compliance with Legislation, Financial Performance, Flight Safety and Security, Forestation, Occupational Health and Safety, Noise, Waste management	Meetings & Activities & Forums & Summits	Annual	
		Surveys	Annual	
		Audits	Regularly	
		Audits	Regularly	
		Meetings	Ad-Hoc Meetings	
EXTERNAL	Certification, Organisations	Environment Management, Flight Safety and Security, Occupational Health and Safety, Noise, Waste management	Audits	Regularly
	Customer,	Accessibility, Customer Satisfaction and Service Quality, Customer Rights, Flight Safety and Security, Innovative Products and Services, Sustainable Catering	Customer Relations / Call Center	Continuous
			Web-Based / In-Flight Feedback Form	Continuous
			Customer at airport Satisfaction Measurement Tools	Continuous
			Online Customer Satisfaction Surveys	Annual
			In-Flight Safety Brochures and Videos	Continuous
			In-Flight "Skylife" Magazine	Monthly
			Social Media (Facebook, Twitter, blog)	Continuous
			Corporate Website	Continuous
Society	Social and Economic Development, Social Responsibility Projects	Meetings with Associations and Charity Organizations, School and Hospital Visits	Ad-Hoc Meetings	
Non-Governmental Organisations	Corporate Social Responsibility Projects, Accessibility	Corporate Social Responsibility (CSR) Fair and Events	Ad-Hoc Meetings	
Academic Institutions, Universities	Training, Employment and Career Opportunities	Meetings	Regularly	
		Career Days	Annual	
		Social Media (Linkedin)	Continuous	

Stakeholders may, at all times, contact the Corporate Governance Committee or Audit Committee via the Department of Investor Relations or directly via the channels such as e-mail, mail, phone, etc. In case of conflicts of interest between the stakeholders or in case of inclusion of any stakeholder in more than one interest group, a balanced policy is followed in order to protect the rights possessed as much as possible and it is aimed at protecting each right independently.

12. Stakeholder's Participation in Management

Management meetings, in which domestic and international managers and senior executives of the Incorporation participate, are held within the organisation of the Incorporation on a regular basis every year, in addition to the meetings in which the suppliers, domestic and international sales agencies, sales organisations of the Incorporation and personnel holding various positions participate regularly and an exchange of opinions in relation to the workshops and panels is achieved during such meetings.

Moreover, a suggestion system is implemented within the Incorporation and the employees submit their suggestions for improvement and development with respect to any matter in relation to the Incorporation through such system and any suggestions deemed appropriate are implemented. Also, the Incorporation pays attention to the opinions and suggestions of all stakeholders as well as the surveys for customer satisfaction.

Further details in relation to the stakeholder groups, interaction subjects, interaction channels and interaction frequency of the Incorporation are given below.

13. Human Resources Policy

The Incorporation has in place a Human Resources Policy which has been determined by the Board of Directors and any and all actions for sub-departments and all personnel, which are organised based on the processes, are carried out

in accordance with the regulations. The principle for equal opportunities for the persons with equal requirements is adopted during recruitment and career planning processes. The procedures and principles of recruitment processes of our Incorporation are specified under the General Employment Procedure of the Incorporation and in the employment process charts. The processes vary according to the work groups as cockpit crew, cabin crew, internal staff and external staff. The procedure outlines the information about the departments having responsibilities at each stage, the announcement criteria, process flows and management of personnel records.

The procedures and principles of the Performance Assessment System, which is implemented within the Incorporation, as well as the performance assessment criteria are set out in the Performance Management System Manual of the Incorporation and is accessible to any and all employees via the intranet of our Incorporation. Any initiatives to improve and extend the Performance Management System are now ongoing.

The relations with the employees are carried out through the Personnel Relations Supervisor's Office. This office is responsible for improving the communication with the employees, measuring the employee satisfaction, and reporting on manager basis, taking actions to increase employee satisfaction and motivation, ensuring the settlement of the questions and issues and carrying out any announcements in relation to the employees. Any questions and issues received by this office through a number of channels are resolved in coordination with the relevant departments. All measures are taken in order not to discriminate based on race, religion, nationality and gender and in order to protect the employees against any physical, mental and emotional abuses. In 2016, 45 reports were received from the employees of our Incorporation through the Ethical Way, which is the designated authority to apply. These reports included the matters such

as employee-employee, employee-manager communication problems and criticism about the general practices of the organisation and working conditions. The task definitions of the employees of our Incorporation are regularly published on the intranet page of Turkish Airlines. All employees can access the task definition via the intranet page of Turkish Airlines.

On the other hand, most of the employees of our Incorporation is a member of the labour union. The relations between the employees and the employer, at each level, with respect to the Collective Bargaining Agreement and any matter concerning the staff, are conducted in the most efficient manner and in a manner to obtain result, through the agency of the representatives and union executives assigned by the labour union, in numbers and proportions specified in the legal legislation. All employees get fair treatment in terms of the rights granted and also training programs are conducted to improve their skills, knowledge and experience. The employees are provided with a safe working environment and conditions, both in Turkey and overseas.

14. Code of Ethics and Social Responsibility

Carrying on its activities in accordance with its identity as the flag carrier, our Incorporation pays utmost attention to act sensitively towards its social responsibilities while performing its activities and guides and encourages its subsidiaries accordingly. Code of Conduct Manual of the Incorporation was created by the Board of Directors in accordance with the Corporate Governance Principles and published on the website of the Incorporation.

The Code of Conduct of the Incorporation covers fundamental principles and values of ours as well as various matters such as compliance with the regulations, anti-bribery, anti-corruption and anti competition, etc. Our employees learn about the Code of Conduct and are informed about the Corporate Code of Conduct Manual of the Incorporation as they commence to work within

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

the Incorporation. Therefore, it is ensured that the employees act respectfully towards the laws, ethical values, social norms and environment in terms of their words and behaviours in line with the generally-recognized principles in business life.

In addition, the Ethical Way, which is an Ethical Reporting Line, established within the Incorporation, is a reporting system created in order to ensure that all kinds of acts that are contrary to the corporate principles, with respect to the discrimination, bribery, conflict of interests and anti-competitive practices, are reported by the employees of Turkish Airlines, in an anonymous way. The Ethical Way, managed by a fully independent third party company, is a line specific to the questions and/or reports of the employees of Turkish Airlines, as regards to the ethical issues. The Ethic Committee, consisting of four board members and one chairman, which is in charge of dealing with such applications, hears each personnel in relation to the application submitted to the Ethical Way and receives the opinions of the relevant departments before it submits its decisions and suggestions to the Chief Executive Officer (CEO).

Our Incorporation carries on its domestic and international activities by taking into account both its climatic and environmental as well as social responsibilities. There is no legal action filed against the Incorporation, due to any damage to the environment. The Sustainability Report, which includes all activities performed by the Incorporation with respect to its relevant responsibilities, is accessible through the website of the Investor Relations.

Our Incorporation has built computer classrooms in 7 destinations in Africa and provided the students with coding training courses with its volunteer staff, in an effort to provide equal opportunities in education and support the schools in the destination based in the developing countries.

On the other hand, our Incorporation supported the works allowing the children in our country to be directed to scientific studies and to learn as

they play and also sponsored a number of institutions, various scientific festivals and hundreds of children representing our country abroad.

With the participation of over 1000 volunteer employees, humanitarian aid and education supports projects were carried out regarding the disadvantaged groups in our country and over 40 countries all around the world, particularly in Africa, with the participation of our volunteer staff.

An example to this is the projects of cataract which is still the most important cause of visual impairment around the world, despite the treatment techniques. Ethiopia is one of the countries which has the highest blindness rate, with a rate of 1.6% and as Turkish Airlines, a health camp was organised in cooperation with a local hospital of the Ministry of Health in Ethiopia, at which around 1000 patients had cataract operation.

Our Incorporation support Special Athletes Sports Federation of Turkey which aims to rehabilitate the disabled athletes in our country which has a population of around 8,5 million disabled people, by providing them with sports services and activities to reintegrate them into the society, without discriminating among disabled and healthy people and the Physically Handicapped Sports Federation of Turkey which aims to increase the recognition of special athletes, ensure that they are integrated with the society and represent them at the highest level in international activities; and also becomes the main transport sponsor in the national and international activities of both federations.

For the first time in its history, the Incorporation sponsored the Humanitarian Summit organised by the United Nations, which brought together more than 5.000 participants, including the presidents of the countries, non-governmental organisation and public institutions.

In addition to all these, as the main sponsor of the championship “Euroleague Basketball”, which is

the biggest basketball organisation in Europe, the Incorporation was supported by the basketball teams through the project “One Team” and continued to initiate many social projects aimed at mentally and physically disabled people and take the disadvantaged groups such as TOSIDO in a tour at our facilities and around Istanbul and carry out dozens of sustainable projects during 2016, which were already started in 2015.

All kinds of actions are taken in order to ensure customer satisfaction with respect to the marketing and selling the services of the Incorporation.

And any requests from the customers as regards the services they purchase are satisfied rapidly. The Incorporation complies with the quality standards with respect to the services it renders. Attention is paid for the confidentiality of any details about the customers and suppliers, within the framework of trade secrets.

PART IV – BOARD OF DIRECTORS

15. Structure and Composition of the Board of Directors

The Board of Directors of our Incorporation manages and represents the Incorporation, primarily by observing the long-term interest of the Incorporation and optimising the risk, growth and yield balance with the decisions it takes, with a rational and tactical risk management approach. Our Board of Directors sets strategic targets of the Incorporation, determines the required work force and financial resources and audits the performance of the management.

Board of Directors consists of nine members appointed by the General Assembly. It is obligatory to appoint 8 members of the Board of Directors, by electing amongst the candidates nominated by the Group A shareholders having highest votes, and to appoint one member by electing amongst the candidates nominated by the Group C shareholder. Minimum six members of the Board, including the member representing the Group

C shares, must be Turkish Citizens. The term of office for the Board Members is two (2) years as per the Article 10 of the Articles of Association. The General Assembly may discharge the Members of the Board before the expiry of their term of office. The Members of the Board, whose term of office is expired, may be reappointed.

Three members of the Board are assigned to serve in the Executive Committee while other six members are non-executive members. Three of the non-executive members serve as Independent Board Members, as set out in the Corporate Governance Principles of CMB. Due to the dynamic nature of the aviation industry it would be more favorable in terms of uniformity, if the Chairman of the Board and the Executive Committee is the same person. Therefore, the Chairman of the Board and the Executive Committee of our Incorporation is the same person.

CEO is not the Chairman of the Board. No individual member has unlimited decision-making power at the Incorporation since all strategic and

managerial decisions are taken by the Executive Board by majority of votes.

Although the Board of Directors does not have a specific target in terms of the ratio of female members, the Board of Directors had one female member as of 2016. Significant changes made in the structure of our Board of Directors in 2016 are listed below.

» It has been decided to appoint Mr. Ogün Şanlıer as Independent Board Member, by majority of votes, in the Ordinary General Assembly Meeting dated 04.04.2016.

» Due the resignation of Assoc. Prof. Dr. Temel KOTİL from Vice Chairman and the Member of the Board on 21.10.2016, the Board of Directors has decided to appoint Mr. Bilal EKŞİ as the Member of the Board, to be submitted to the approval at the next General Assembly Meeting, pursuant to Article 10 of our Articles of Association. It has also been decided to appoint Bilal EKŞİ as the Deputy Chairman of the Board.

» On the same date, due to the resignation of Assoc. Prof. Dr. Temel KOTİL from Deputy Chairman and the Member of the Executive Committee, it has been decided to appoint Mr. Bilal EKŞİ as the Deputy Chairman and the Member of the Executive Committee.

Information regarding the Members of the Board as of 31.12.2016 is given below and the majority of the Members of the Board are non-executive members, in accordance with the Corporate Governance Principles of CMB:

The resumes of the Members of the Board and other roles they assume outside the Incorporation are available in the section “Board of Directors” of the Activity Report and under the Corporate Governance section of the website of Investor Relations of our Incorporation. The Statements of Independence of the Independent Members were submitted to the Public Disclosure Platform. No circumstance, which would remove the independence, occurred as of the relevant activity period.

Name & Surname	Position	Start of Office	Independency Status	Other Committees Involved and Roles
M. İlker Aycı	Chairman of the Board	04.04.2014	Non-Independent	Executive Committee/Chairman
Bilal Ekşi	CEO, Deputy Chairman of the Board	21.10.2016	Non-Independent	Executive Committee/Deputy Chairman
İsmail Cenk Dilberoğlu	Member of the Board	06.04.2015	Non-Independent	Executive Committee /Member
İsmail Gerçek	Member of the Board	08.04.2011	Non-Independent	Corporate Governance Committee /Member
Prof. Dr. Mecit Eş	Member of the Board	29.03.2013	Non-Independent	
Mehmet Büyükeksi	Member of the Board	03.03.2004	Non-Independent	Corporate Governance Committee /Member
Ogün Şanlıer	Member of the Board	06.04.2015	Independent	Audit Committee/Member Early Identification of Risks Committee / Chairman
M. Muzaffer Akpınar	Member of the Board	24.04.2007	Independent	Audit Committee/Chairman Early Identification of Risks Committee/Member
Arzu Akalın	Member of the Board	04.04.2014	Independent	Corporate Governance Committee /Chairman

Information, regarding the executives who held office as a Member of the Board in 2016, but are no longer in office as of 31.12.2016, is given below.

Name & Surname	Position	Start of Office	Independency Status	Other Committees Involved and Roles
Assoc. Prof. Dr. Temel Kotil	CEO, Deputy Chairman of the Board	26.04.2005	Non-Independent	Executive Committee/Deputy Chairman

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

16. Principles of Operation of the Board of Directors

The activities of the Board of Directors of our Incorporation are regulated in the article no: 14 of the Articles of Association and;

The Board of Directors convenes as required by the business and in any case at least once a month. The venue of the meeting is the head office of the Incorporation. Meeting can be held anywhere else upon the decision of the Board of Directors. The activities to be discussed at the meetings should be determined as an agenda and the members of the board should be informed of such agenda prior to the meeting. The Chairman of the Board sets the agenda of the meetings of the Board of Directors in consultation with other board members and the CEO. The Members pay utmost attention to attend each meeting and submit opinions during the meetings. Invitation for the meetings of the Board of Directors and any information and documents in relation to the agenda items are submitted to the members at least three days before the date of the meeting for the purpose of ensuring the equal flow and distribution of information. Opinions of any members who cannot attend the meetings, but present their opinions to the Board of Directors in writing, are submitted to the information of other members.

The Board of Directors convenes upon the attendance of at least six members. The Board of Directors takes its resolutions with the favourable vote of at least five members. Any member who fails to attend four consecutive meetings or six meetings in total within a period of one year, without being deemed to be on leave by the Board of Directors or without any justified reason, shall be considered to have resigned.

Each Member of the Board is entitled to one vote. Any matters to be valid, provided that the

Members of the Board of Directors, representing the group C shares, attend the meeting and cast a favourable vote, are provided in "5. Voting Rights and Minority Rights" of this report.

Agenda items are discussed explicitly and in all aspects during the Meetings of the Board of Directors.

The Chairman of the Board makes his/her own best efforts to ensure the efficient participation of non-executive members to the Meetings of the Board of Directors. Any opposing votes cast by the Members of the Board of Directors are also recorded in the resolution book with their reasonable and detailed justifications.

The Members of the Board spares sufficient time for the activities of the Incorporation. In the event that any Member of the Board serves as an executive or a Member of the Board at any other company or that he/she provides any other company with a consultancy service, then such situation will not lead to a conflict of interest nor will it hinder his/her duty within the Incorporation. Therefore, the fact that the Members of the Board carry out any duty or duties outside the Incorporation is not subjected to certain prescribed rules or otherwise restricted.

In 2016, 48 Meetings of the Board of Directors were held and 269 resolutions were taken. In respect of such meetings, there are no associated party transactions or any material transactions which were discussed in these meetings and not approved by Independent Board Members and required to be submitted to the approval of the General Assembly.

The Board of Directors plays a leading role in establishing an effective communication between the Incorporation and shareholders and in settling

and resolving the disputes which might be experienced and collaborates closely with the Corporate Governance Committee and Investor Relations Department for such purposes.

An Executive Liability Insurance, covering any damages/losses requested from the executives due to any failure in fulfillment of their responsibilities by paying utmost attention and care as expected from them, and due to any error, negligence or failure during the performance of their duties, has been maintained by the Incorporation and the amount of insurance coverage is 25 Million US Dollars.

17. The Number, Organisation and Independency of Committees of the Board of Directors

Following committees were established within the Board of directors in accordance with TCC and CMB regulations in order to ensure that Board of Directors fulfills its duties and responsibilities properly.

Also a Nomination Committee or Remuneration Committee were not established in 2016 and Corporate Governance Committee was adopted to carry out such duties, as well. Early Identification of Risks Committee was established in April 2014 and its duties and working principles were set out. The Members of the Audit Committee, Corporate Governance Committee and Early Identification of Risks Committee were determined by the Board of Directors and disclosed to the public. The fields of duty and working principles of such committees were also determined by the Board of Directors. All kinds of sources and supports, required for the performance of duties by the committees, are provided by the Board of Directors.

The Chairman of the Executive Committee and The CEO do not assume any duty at the committees at our Incorporation. Although attention is paid not

to assign any Member of the Board in more than one committee, Mr. Ogun Şanlıer, one of the members of the Board of Directors, serves as both the Chairman of the Early Identification of Risks and as a Member of the Audit Committee and Mr. Mehmet Muzaffer Akpınar, one of the Members of the Board of Directors, serves as both a member of the Early Identification of Risks and as the Chairman of the Audit Committee, since the chairmen of three committees which were established within the Board of Directors and the Members of the Audit Committee are required to be elected among the Independent Members of the Board of Directors.

Turkish Airlines, Inc.
Corporate Governance Committee
Chairman: Arzu Akalın
Members: Mehmet Büyükeksi, İsmail Gerçek, Kadir Coşkun (Investor Relations Manager)

Corporate Governance Committee, reporting directly to the Board of Directors, supports and assists the Board of Directors by carrying out activities for compliance of the Incorporation with the internationally recognised Corporate Governance Principles and determination of the Members of the Board of Directors and senior executives and for assessment of remuneration, reward and performance and career planning as well as for investor relations and public disclosures. Corporate Governance Committee reviews and assesses the systems and processes established or to be established by the with respect to the implementation of the managerial practices ensuring the increase of performance of the Incorporation and submits its opinions in this respect and also observes the activities of the Investor Relations Department. Corporate Governance Committee submitted one written report to the Board of Directors, in 2016.

Turkish Airlines, INC.
Audit Committee
Chairman: Mehmet Muzaffer Akpınar
Member: Oğün Şanlıer

The Audit Committee, directly reporting to the Board of Directors, assists the Board of Directors by coordinating the activities to be carried out for ensuring the compliance of the Incorporation practices with the national and international laws and regulations, improving the work processes through regular audits and ensuring transparency of information. The Audit Committee is responsible for taking all necessary measures to ensure conduct of any internal and independent audits in a proper and transparent manner and carrying out any duty assigned by the Capital Market Regulations. The members of the Audit Committee are elected among the Independent Members of the Board of Directors and both members have five-year experience in audit/accounting and finance. The committee convenes quarterly, before the announcement of the quarterly financial results. In 2016, the Audit Committee presented four written reports to the Board of Directors.

Turkish Airlines, INC.
Early Identification of Risks Committee
Chairman: Oğün Şanlıer
Member: Mehmet Muzaffer Akpınar

Early Identification of Risks Committee was formed and authorised by the Board of Directors in April 2014. The Committee is made up of two members and the Chairman of the Committee is selected among the Independent Members of the Board.

Early Identification of Risks Committee;

a) Carries out activities in relation to early identification of the risks threatening the existence,

growth and continuity of the Incorporation as well as implementation of the relevant measures against any risks detected and management of such risks.

b) Reviews the risk management systems at least once a year.

The Committee documents and keeps records of all its activities and submits an assessment report on current developments along with its opinions and recommendations to the Board of Directors every two months. The Committee convened six times in 2016 and submitted risk assessment reports to the Board of Directors.

18. Risk Management and Internal Control Mechanism

Risk Management Mechanism

It is critical for the Incorporation to adopt an effective risk management strategy in order to keep the potential risks under control and ensure a sustainable growth, in the aviation industry with a high competition. In order to minimize the impact of fuel oil, carbon emission, interest rates, cash flow and fluctuations in exchange rates as well as counterparty risk and to provide a reasonable assurance against potential risks, a Treasury and Risk Management Committee was established within our Incorporation, consisting of the Head of Financing, Head of Accounting and Financial Control, Financial Risk Management Manager, Treasury Manager, General Finance Manager, Budget Manager, Financial Control Manager, Financial Analysis Manager and Investor Relations Manager, chaired by the Chief Financial Officer, under the coordination of Financial Risk Management Department. The Committee establishes the Financial Risk Management strategy of our Incorporation and carries out necessary works as regards the Management of Financial Risks that our Incorporation

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

ration encounter/may encounter. In this context, the procedures as regards the risks related to the fuel oil prices, among the financial risks to which the Incorporation was exposed, were initiated in June 2016 and the number of instruments used throughout the years were increased within the market experience gained and also the risk protection procedures are continued within the constantly developing, dynamic strategy. Currently, we try to minimize the fuel oil risk by using Swap and option-based costless banded structures although they vary according to the price levels.

An effective exchange rate policy is implemented based primarily on the natural risk management, for the exchange rates by also taking into account the assessment of the portfolio of the current cash, in order to minimize the impact of the fluctuations in exchange rates predicted as a serious element of risk given the area of activity of the Incorporation and to keep under control the risks which might arise from the potential risks likely to occur between the income and expense which was planned and realised on the basis of exchange rates.

In addition, it is aimed to minimize the mentioned risks likely to occur as a result of potential negative fluctuations which might be experienced in the exchange rates, by using derivative transactions, upon a strategy which was initiated in 2013. In this context, following the determination of Euro, US Dollar and Turkish Lira currency positions predicted to occur each month, based on the Incorporation's monthly-updated forward-looking cash flow forecast; forward contracts were used in order to sell Euro at a fixed and single rate and buy US Dollar and Turkish Lira in the next 24-month period for certain part of the mentioned positions. Upon the changes made in early 2015, a dynamic strategy, involving option-based banded structures and forward contracts, was introduced in order to close US

Dollar open positions with Euro and the forward contract continued to be used to close Turkish lira open positions. On the other hand, while the ticket prices for the international flights departing from domestic terminals were determined in Euro, the mentioned pricing has been made in US Dollar as of May 2015, as a natural hedging, with a view to reducing the need to use derivative products.

Our Incorporation can be affected by the financial risks related to the fluctuations in exchange rates, due to the nature of the industry it is involved and its activities. The Incorporation regularly carries out the implementations of monitoring and analysing the interest rate market, preparing the structure of indebtedness, conducting the analyses of the sensitivity against interest rates and weighted average maturity and following up the potential cost changes stemming from the interest. In an effort to manage the mentioned interest rate risk, hedging procedures are carried out by ensuring that the loan interest rates remain completely fixed in certain rates or between certain rates (range) for a portion of the debt portfolio over the course of the loan maturity date.

Internal Control Mechanism:

Our Incorporation has an Inspection Board to inspect the Incorporation's activities and efficiency of the corporate governance, risk and control processes in a systematic and disciplined approach, to advise and provide assurance on the efficiency and effectiveness of such processes and submit opinions and recommendations in this respect.

To that end, the Audit Board reports to and advises senior management to ensure;

- » the conduct of the Incorporation's activities in accordance with the statutory and internal regulations of the Incorporation, agreements

- and defined strategies, policies and targets,
- » Good governance, effective management of internal control and risk processes,
- » Effective and efficient use of the resources of the Incorporation,
- » Provision of reliable, consistent and updated data,
- » Continuous improvement of the divisions and processes,
- » Improvement of the quality of the Incorporation's services to ensure highest customer satisfaction level,
- » Effective communication of the information obtained during the audits to the relevant units of the organisation,
- » Ensuring coherence and coordination between the divisions,
- » Detection of any faults, frauds and misconducts which might lead to a loss of income and assets of the organisation and implementation of necessary actions,

and follows up whether the findings and recommendations in the report are fulfilled.

19. Strategic Targets of The Incorporation

An Operating Budget, covering the operational and financial plans regarding the next 1-year activity period and a Business Plan, covering the 10-year operational and financial plans, that give detailed information about the first five years, while giving macro information about the second five years, are prepared within the participation of all units and discussed in detail, finalized and approved during the budget meetings in which the top management and the Board of Directors attends.

In addition, the Strategic Targets, which include the off-budget, long-term targets of the Incorporation, such as the market share, customer satisfaction and brand equity as well as the annual

Corporate Objectives, which will help to achieve these targets, are determined according to the Target management Procedure.

The responsible persons/managers are assigned to the relevant units in accordance with the Annual Corporate Objectives Managers General Instruction and target achievements are monitored regularly through the Corporate Performance Monitoring System and reported to the Compliance Review Board that convene monthly. Chaired by the CEO, this Board reviews the level of accomplishment of the targets, by taking the performance of previous periods into account, as well, and therefore the deviations in the objectives, if any, are identified and necessary actions are taken.

The Board of Directors approves the strategic targets set by the managers of our Incorporation and continuously and effectively reviews the level of accomplishment in such targets as well as the activities and previous performance of the Incorporation. In doing so, the Board always strives to ensure compliance with the international standards and takes immediate and proactive actions, where necessary.

In order to monitor the strategic targets and previous performance of the Incorporation, reports are submitted to the Board of Directors, including

- i) A summary as regards the up-to-date financial and operational status of the Incorporation and budget deviations, at every Board Meeting and,
- ii) Informative presentations on the assessments of the performance of the Incorporation for the previous period, the rate of accomplishment of its annual corporate targets, the reasons for deviations, if any, and cost analyses, following the announcement of quarterly financial results.

Necessary measures and actions are determined based on these assessments and the budget and business plan are revised, if necessary.

20. Financial Rights

Any rights, benefits and remuneration provided to the members of the Board and senior management of our Incorporation as well as the criteria used to determine such rights, are set out in our Corporate Remuneration Policy. The proposal of our Incorporation regarding the amendment of the Remuneration policy was approved at the General Assembly Meeting, dated 04.04.2016 and up-to-date Remuneration Policy was disclosed to the public and announced on the website of the Investor Relations, as well.

The remuneration of the Members of the Board of Directors is discussed as a separate item on the agenda of the General Assembly Meeting. No payment plan based on dividends, stock options or the performance of the Incorporation is used for the remuneration of the Independent Members of the Board of Directors. The Incorporation may not lend money or extend credit to any member of the Board of Directors.

Net wage is paid to the members of the Executive Committee and the Board of Directors. Bonus payment is paid but honorarium is not given.

Moreover, a gross bonus payment, equivalent of their net monthly wages, is made quarterly. In 2016, the sum of all financial benefits, including remuneration and bonus paid to the members of the Board of Directors, CEO and Chief Officers, was TRY 12.511.140

ASSESSMENT OF THE BOARD ON THE EFFECTIVENESS OF THE BOARD COMMITTEES

Corporate Governance Committee, Audit Committee and Early Identification of Risks Committee, available within the Board of Directors, carry out activities in accordance with the relevant legislation and task and working principles specified by the Board of Directors. In 2016, such committees continued to carry out their duties in the fields they were assigned and reported to the Board of Directors.

The duties of the Corporate Governance Committee are set out in the Corporate Governance Communiqué, no. II-17.1, of the Capital Market Board. Accordingly, the Committee is liable to monitor whether the Corporate Governance Principles are implemented at the Company and- if not- to identify the reason thereof, the conflicts of interest arising from failure to fully comply with these principles and advise the Board of Directors on the improvement of Corporate Governance Principles and supervise the works of the investor relations department. Furthermore, since no separate Nominating Committee or a Remuneration Committee was formed within the Board of Directors, Corporate Governance Committee fulfills the duties of such committees.

Corporate Governance Committee which also fulfilled the duties of the Remuneration Committee, convened in 2016 to review the Remuneration Policy of the Incorporation and created the proposal to revise the Remuneration Policy in an effort to define the remuneration principles for

the Members of the Board and the managers who had administrative responsibilities, based on the assessments and findings.

The mentioned policy was submitted for approval and accepted in the Ordinary General Assembly Meeting, dated 04 April 2016.

The Audit Committee convened prior to the announcement of the quarterly financial results, to make sure that the publicly announced financial results were sufficiently transparent and comprehensible and that all necessary measures were taken to conduct independent external audits transparently and efficiently. The Committee also supervised the operation and efficiency of internal control and internal audit system of the company. In 2016, the Audit Committee presented four written reports to the Board of Directors.

The Early Identification of Risks Committee convened bi-monthly in 2016, identified the risks in the areas that the Incorporation carried out its activities and notified the Board of Directors in writing, of the relevant subjects and reviewed the risk management systems, as well.

In 2016, the Committee offered its findings and proposals to the Board of Directors, as regards the matters including such the effect of increasing the daily utilization time of Ataturk Airport from 20 hours 30 minutes up to 22 hours, on the activities of our Company, with a view to increasing the frequency and create an effective schedule by minimizing the risks in the growth strategy of the Incorporation; the austerity measures which might be implemented to enhance the financial structure of the Incorporation; reassessing the budget for 2016 by reviewing the current situation concerning the fuel oil, exchange rates and interest rate risks; identification of the risks which stand out as regards the construction of new airport terminal and runways; the positive effect of the changes made in the delivery dates of the passenger aircraft planned to be introduced into the fleet of our Company between 2018-2022 and increasing the predictability in the cash flow of our Incorporation.

As a result of the mentioned activities, the Committees fulfilled their fundamental duties by paying utmost attention and contributed greatly to the activities of the Board of Directors, ensuring that the Board can display an effective management.

ASSESSMENT OF THE BOARD ON 2016 RESULTS

2016 has been a challenging year for Turkish Airlines, during which it was affected by unfavourable events experienced in the world and our region. In this year, Turkish economy fought against unfavourable conditions such as Ataturk Airport attack and treacherous coup attempt experienced in our country and Turkish Airlines fulfilled the responsibility on its part, in the best way, with the awareness of being a National Flag Carrier. As the Board of Directors, we give our condolences to our heroes who lost their lives last year; May God Rest Their Soul and wish the veterans a long life and express our gratitude towards our colleagues for the working discipline and determination and perseverance they demonstrated in the period.

In addition to the unfavourable conditions that Turkey suffered, particularly the political and financial instabilities experienced in Europe and Middle East, increasing global and regional risks adversely affected the aviation demand and created pressure on the unit revenues. The fact that oil costs remained low have also caused the total capacity and consequently the competition in the sector to remain high, while it led to a revenue loss as it was directly reflected on the ticket prices in this period during which the demand has been so low. Another factor which affected the demand and airline financials was the fluctuations in the exchange rates. Particularly, the depreciation of the currencies of the developing countries against US Dollar has caused the industry to have hard times in pricing and planning.

Given the wide geography in which our company operates, the impacts of the mentioned events on the passenger volume and operation revenues were remarkable. 2016 budget targets which were announced to the public were revised in accordance with the unfavourable conditions experienced in our country and the current developments and submitted to the information of the investors in 2016. The financial and operational results of 2016, which were realized, matched up with the revision expectations, to a large extent.

Turkish Airlines has maintained its low cost structure thanks to the austerity measures it has taken in this challenging period and continued to be the only air carrier which had the lowest unit expenditure, amongst the compeer air carriers. With respect to the operational expenses and also in some fixed and indirect expenditures, lower expenditure levels, as compared to the budgeted ones, were achieved without compromising the service quality and thus the operations were carried out without any interruption, all in all, these achievements show that 250 million dollar worth of savings plan, which was predicted for the second half of the year, was successfully implemented, correct steps were taken in managing the network and fleet-based active capacity.

Thanks to that fact that it has the largest flight network around the world and its ability to fly to the secondary cities, Turkish Airlines has taken

a number of measures such as increasing the capacity also in the destinations with a high potential and opening new routes with high network contribution, with quick decisions, by implementing active capacity management and increased the number of total passengers up to 62.8 million in 2016 despite the turbulent environment which occurred around the world and across the region. In respect of cargo operations, it increased both the amount of cargo carried and cargo revenues significantly in 2016, thanks to its increasing service quality.

Continuing to get the credit of the passengers by holding the title of "The Best Airline in Europe" in Skytrax passenger assessments for the last six years, Turkish Airlines will continue to expand its flight network continuously with the vision of making Istanbul one of the biggest and the most important aviation hubs in the world, to increase its market share in all destinations with the right strategies, to promote the brand equity and recognition and to get Turkey to make profit, thanks to its consistent growth.

LEGAL DISCLOSURES AND DOCUMENTS

The following information is also included in our Annual Report in addition to the issues stipulated in the other sections of the Corporate Governance Principles listed in the annex of the CMB Communiqué On Corporate Governance (II-17.1):

Information on major legal actions/lawsuits filed against the Company and their potential consequences

None.

Information on any amendments in the regulations that might have significant impacts on the activities of the Company

None.

Conflicts of interest between the Company and its service providers that provide investment consulting and rating services, etc.; and actions taken by the Company to avoid such conflicts of interest.

None.

STATEMENT OF INDEPENDENCY

I hereby declare that I run for the office of "Independent Member" of the Board of Directors of Turkish Airlines Inc. in accordance with the criteria stipulated by applicable regulations, the Articles of Association and the Capital Markets Board's Corporate Governance Principles, and accordingly that;

a) no employment-related relationship in respect of any managerial position, whereby any substantive duties and responsibilities may be assumed, has been established between the Company and any affiliates, who either hold the control of or have any significant influence on the management of the Company, or any shareholders who hold the control of the management of the Company, or have a significant influence on the Company, or any legal persons, who hold the control of the management of such shareholders, and myself, my spouse and any of my relatives by blood and by marriage up to the second degree, within the last five years; and also that I have not held more than 5% of the capital or the voting rights or the privileged shares of the Company, either collectively or individually, or any commercial relationship which is of substantial nature has not been established; and also that;

b) within the last five years, particularly in respect of the auditing, rating and consulting activities for the Company (including tax inspection, legal inspections and internal inspections); I have not been a shareholder (holding 5% or more of the shares), or any employee serving at any managerial positions whereby any substantial duties and responsibilities may be assumed, or a member of the board of directors, of any such company, from which the Company has procured any services or products or to which the Company has sold any services or products to a material extent in accordance with the agreements executed for such purpose; and also that;

c) I enjoy the professional educational background, knowledge and experience to properly and duly fulfill my duties as an independent member of the board of directors, and also that;

ç) I will not hold any full time roles at any public institutions or agencies after I was elected as a member, excluding as a faculty member at a university to the extent that it is in compliance with the applicable regulations,

d) I am resident in Turkey according to the Income Tax Law numbered 193 dated 31/12/1960,

e) I am strongly bound by ethical standards, and enjoy the professional reputation and experience to positively contribute to the operations of the Company, maintain my impartiality in any potential case of conflict of interest amongst the shareholders of the Company, and to make decisions freely with due consideration of the rights and benefits of the stakeholders, and also that;

f) I will be able to allocate time for the affairs of the Company to such an extent that I would be able to fully perform and carry out the duties and tasks which I have assumed, and to follow up the functioning of the activities and operations of the Company, and also that;

g) I have not held the office of a member of the board of directors at the board of directors of the Company for a period longer than six years within the last decade, and also that;

ğ) I have not held office as an independent member of the board of directors of more than three of the companies which hold the control of management of the Company or the shareholders who hold the control of management of the same, and at more than five of the listed companies in total; and also that;

h) I have not been registered and announced for the legal person which has been elected as a member of the board of directors.

Respectfully,



Arzu AKALIN

STATEMENT OF INDEPENDENCY

I hereby declare that I run for the office of "Independent Member" of the Board of Directors of Turkish Airlines Inc. in accordance with the criteria stipulated in the applicable regulations, the Articles of Association and the Capital Markets Board's Corporate Governance Principles, and accordingly it was resolved that the exception specified under Article 6, paragraph 2 of the Communiqué on Corporate Governance be applied to me, as per the letter dated 21/05/2015, numbered 29833736-1181 of the Capital Markets Board. Therefore, being exempt from Article 4.3.6, subparagraph (g) of the said Communiqué, I hereby declare that:

a) no employment-related relationship in respect of any managerial position, whereby any substantive duties and responsibilities may be assumed, has been established between the Company and any affiliates, who either hold the control of or have any significant influence on the management of the Company, or any shareholders who hold the control of the management of the Company, or have a significant influence on the Company, or any legal persons, who hold the control of the management of such shareholders, and myself, my spouse and any of my relatives by blood and by marriage up to the second degree, within the last five years; and also that I have not held more than 5% of the capital or the voting rights or the privileged shares of the Company, either collectively or individually, or any commercial relationship which is of substantial nature has not been established; and also that;

b) within the last five years, particularly in respect of the auditing, rating and consulting activities for the Company (including tax inspection, legal inspections and internal inspections); I have not been a shareholder (holding 5% or more of the shares), or any employee serving at any managerial positions whereby any substantial duties and responsibilities may be assumed, or a member of the board of

directors, of any such company, from which the Company has procured any services or products or to which the Company has sold any services or products to a material extent in accordance with the agreements executed for such purpose; and also that;

c) I enjoy the professional educational background, knowledge and experience to properly and duly fulfill my duties as an independent member of the board of directors, and also that;

c) I will not hold any full time roles at any public institutions or agencies after I was elected as a member, excluding as a faculty member at a university to the extent that it is in compliance with the applicable regulations,

d) I am resident in Turkey according to the Income Tax Law numbered 193 dated 31/12/1960,

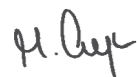
e) I am strongly bound by ethical standards, and enjoy the professional reputation and experience to positively contribute to the operations of the Company, maintain my impartiality in any potential case of conflict of interest amongst the shareholders of the Company, and to make decisions freely with due consideration of the rights and benefits of the stakeholders, and also that;

f) I will be able to allocate time for the affairs of the Company to such an extent that I would be able to fully perform and carry out the duties and tasks which I have assumed, and to follow up the functioning of the activities and operations of the Company, and also that;

ğ) I have not held office as an independent member of the board of directors of more than three of the companies which hold the control of management of the Company or the shareholders who hold the control of management of the same, and at more than five of the listed companies in total; and also that;

h) I have not been registered and announced for the legal person which has been elected as a member of the board of directors.

Respectfully,



Muzaffer AKPINAR

I hereby declare that I run for the office of "Independent Member" of the Board of Directors of Turkish Airlines Inc. in accordance with the criteria stipulated by applicable regulations, the Articles of Association and the Capital Markets Board's Corporate Governance Principles, and accordingly that;

a) no employment-related relationship in respect of any managerial position, whereby any substantive duties and responsibilities may be assumed, has been established between the Company and any affiliates, who either hold the control of or have any significant influence on the management of the Company, or any shareholders who hold the control of the management of the Company, or have a significant influence on the Company, or any legal persons, who hold the control of the management of such shareholders, and myself, my spouse and any of my relatives by blood and by marriage up to the second degree, within the last five years; and also that I have not held more than 5% of the capital or the voting rights or the privileged shares of the Company, either collectively or individually, or any commercial relationship which is of substantial nature has not been established; and also that;

b) within the last five years, particularly in respect of the auditing, rating and consulting activities for the Company (including tax inspection, legal inspections and internal inspections); I have not been a shareholder (holding 5% or more of the shares), or any employee serving at any managerial positions whereby any substantial duties and responsibilities may be assumed, or a member of the board of directors, of any such company, from which the Company has procured any services or products or to which the Company has sold any services or products to a material extent in accordance with the agreements executed for such purpose; and also that;

c) I enjoy the professional educational background, knowledge and experience to properly and duly fulfill my duties as an independent member of the board of directors, and also that;

c) I will not hold any full time roles at any public institutions or agencies after I was elected as a member, excluding as a faculty member at a university to the extent that it is in compliance with the applicable regulations,

d) I am resident in Turkey according to the Income Tax Law numbered 193 dated 31/12/1960,

e) I am strongly bound by ethical standards, and enjoy the professional reputation and experience to positively contribute to the operations of the Company, maintain my impartiality in any potential case of conflict of interest amongst the shareholders of the Company, and to make decisions freely with due consideration of the rights and benefits of the stakeholders, and also that;

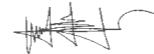
f) I will be able to allocate time for the affairs of the Company to such an extent that I would be able to fully perform and carry out the duties and tasks which I have assumed, and to follow up the functioning of the activities and operations of the Company, and also that;

g) I have not held the office of a member of the board of directors at the board of directors of the Company for a period longer than six years within the last decade, and also that;

ğ) I have not held office as an independent member of the board of directors of more than three of the companies which hold the control of management of the Company or the shareholders who hold the control of management of the same, and at more than five of the listed companies in total; and also that;

h) I have not been registered and announced for the legal person which has been elected as a member of the board of directors.

Respectfully,



Ogün ŞANLIER

REPORT ON AFFILIATES

The Conclusion of the Report on Affiliates, as regards the Accounting Period 01.01.2016 – 31.12.2016, prepared within the scope of the Article No. 199 of Turkish Commercial Code:

Based on the Article No. 10 of the Communiqué Serial no. II.17.1, of the Capital Market Board (CMB), information on the method of price determination with THY Opet Havacılık Yakıtları A.Ş. was submitted in the Report of Affiliates, which was prepared by our Company, since the amount within an accounting period, with respect to intensive and continuous fuel supply/acquirement transactions of our Company with THY Opet Havacılık Yakıtları A.Ş., reached in excess of 10% of the ratio thereof to the cost of the sales contained in the financial statements for 2016, which were disclosed to the public and it is predicted that the same transactions will continue in accordance with the specified principles in the accounting period for 2017 as well.

STATEMENT OF LIABILITY

STATEMENT OF LIABILITY ISSUED AS PER ARTICLE 9, SECTION II OF THE CAPITAL MARKETS BOARD “COMMUNIQUE ON THE PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS”

RESOLUTION OF THE BOARD OF DIRECTORS REGARDING APPROVAL OF FINANCIAL STATEMENTS AND ANNUAL REPORTS;

DATE OF THE RESOLUTION: 2/29/2016

NUMBER OF RESOLUTION: 61

The board of directors' annual report and the consolidated financial statements issued on December 31, 2015 and approved by the Board's resolution dated 29.02.2016, numbered 61 are provided attached. Accordingly, we hereby declare that:

- a) the financial statements and annual report in question were reviewed by us,
- b) the financial statements and the annual report of the board of directors do not contain any misrepresentation on material issues or any material deficiency as of the date on which such representation is made, which might cause the report to be misleading, to the best of our knowledge with respect to our duties and responsibilities;
- c) the consolidated financial statements, drawn up in accordance with the financial reporting standards, that are currently in force, reflect the truth with respect to the assets and liabilities of the Company as well as its financial standing and profits and losses honestly and that the annual report, together with consolidated statements, truthfully reflect the course of progress and performance of the business of the Company as well as the financial standing of the Company, including significant risks and uncertainties encountered by the Company, to the best of our knowledge with respect to our duties and responsibilities;

Respectfully,

TURKISH AIRLINES INC.



Dr. Zekeriya DEMİR
Head of Accounting and Financial Control



Dr. Murat ŞEKER
Chief Financial Officer



Bilal EKŞİ
CEO

**TÜRK HAVA YOLLARI
ANONİM ORTAKLIĞI AND ITS
SUBSIDIARIES**

Consolidated Financial Statements
For The Year Ended 31 December 2016
with Independent Auditor's Report



Akıs Bağımsız Denetim ve
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Independent auditor's report

To the shareholders of Türk Hava Yolları Anonim Ortaklığı

Opinion

We have audited the consolidated financial statements of Türk Hava Yolları Anonim Ortaklığı (“the Company”) and its subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Timing of recognition and accuracy of passenger revenue

Refer to note 2.3.1 'Revenue' and 'Passenger revenue recognition' for the relevant accounting policy and a discussion of significant accounting estimates.

The key audit matter

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (unflown) are recorded as passenger flight liabilities.

The Group develops estimates using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

Aircraft maintenance and infrastructure support services are recognized on accrual basis at the fair value of the amount obtained or to be obtained based on the assumptions that delivery is realized, the income can be reliably determined and the inflow of the economic benefits related with the transaction to the Group is probable

As a result of the judgement required in determining the timing for recognition of unflown tickets and the complexity in determining the amount of revenue to be recognised for flown flights, this is a key focus area in our audit.

How the matter was addressed in our audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition, which was considered to be a significant risk, included:

- Testing of controls, assisted by our own IT specialists, including, among others, those over the ticket sales: and
- Detailed analysis of revenue and the timing of its recognition based on expectations derived from our industry knowledge and external market data, following up variances from our expectations.

We also tested the application controls of the systems configured to recognise revenue for those tickets.

To address the accuracy of the output of the passenger revenue systems, we tested the relevant computer system controls, these being the user access, program change controls and application controls over internal passenger revenue systems. Our tests of these controls were designed to ensure that these key computer systems operated as they are designed, and are protected from tampering of data or software logic that would result in inaccurate accounting information relating to passenger revenue.

The selected application controls tested included those relating to the completeness of transfers of data between systems, ticket validation to identify data errors and the assignment of ticket prices to each flight. Key manual controls were also tested to ensure the appropriate

Determining the fair value of Miles and Smiles miles and the miles that will expire without use

Refer to note 2.3.1 'Revenue' and note 2.3.21 'Frequent flyer programme' for the relevant accounting policy and a discussion of significant accounting estimates.

<p>The key audit matter</p> <p>The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s).</p> <p>The amount deferred as a liability is measured based on the fair value of the awarded miles. The fair value is measured on the basis of the value of the awards for which they could be redeemed. The amount deferred is recognized as revenue on redemption of the points including a portion of the points that the Group does not expect to be redeemed by the customers ("breakage").</p> <p>Turkish Airlines uses estimates to determine the fair value of the awards for which the miles will be redeemed.</p> <p>The accounting and estimation for determining the fair value of miles awarded in the Frequent Flyer programme and the proportion of miles that will expire without being used is complex, requires judgement to be applied and is a key focus area of our audit.</p>	<p>How the matter was addressed in our audit</p> <p>We assessed the assumptions applied in the mathematical models used to determine the fair value of expected Miles and Smiles awards.</p> <p>This included undertaking a comparison to historical redemption patterns and testing the calculations for award values against observable inputs such as published market air fares. We tested the controls implemented over the models. We challenged the assumptions used to estimate the number of miles that will expire without use, including a comparison to historical experience and planned changes to the programme that may impact future redemption activity.</p> <p>We also tested the application controls of the systems configured to recognise revenue for those tickets.</p> <p>To address the accuracy of the output of the miles systems, we tested the relevant computer system controls.</p> <p>The selected application controls tested included those relating to the completeness of transfers of data between systems, miles validation to identify data errors and the assignment of miles which earned/used to each flight. Key manual controls were also tested to ensure the appropriate treatment of exceptions.</p>
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Accounting for aircraft related assets and carrying values

Refer to note 2.3.3 'Property plant and equipment and 'Accounting for aircraft related assets' for the relevant accounting policy and a discussion of significant accounting estimates.

<p>The key audit matter</p> <p>The accounting for aircraft has a material impact on Turkish Airlines due to the cumulative value of the aircraft and long lived nature of these assets.</p> <p>The key aspects requiring judgement include:</p> <ul style="list-style-type: none"> The determination of the useful lives and residual values of the aircraft. This takes into account physical, economic and commercial considerations, The determination of components of aircraft <p>The Group has classified the cost of assets that are acquired directly or through finance leases into the following parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; a) fuselage, b) overhaul maintenance for the fuselage, c) engine and d) overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life.</p>	<p>How the matter was addressed in our audit</p> <p>We compared the estimates of useful lives and residual values to the Turkish Airlines' fleet plan, recent aircraft transactions and contractual rights.</p> <p>We assessed the determination of the significant components of aircraft assets against our understanding of significant components of aircraft as identified across the aviation industry.</p> <p>We challenged the application of the Group's depreciation policies, with reference to the estimated useful lives and residual values of aircraft and related equipment as well as management's plans for future fleet composition including future acquisitions and retirement of aircrafts.</p> <p>We have compared useful lives of component with overall average range of aviation industry.</p> <p>We have recalculated depreciation charge over the predetermined components useful lives.</p>
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Determining aircraft maintenance provisions

Refer to note 2.3.3 'Property plant and equipment and note 3(d) 'Aircraft maintenance and overhaul costs for the relevant accounting policy and a discussion of significant accounting estimates.

<p>The key audit matter</p> <p>Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and finance leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft. For aircraft held under operating leases the Company is contractually committed to either return the aircraft in a certain condition or to compensate the lessor upon return of the aircraft. The estimated airframes and engine maintenance costs are accrued and charged to profit or loss over the lease term, based on the present value of the estimated future cost of the major airframe overhaul, engine maintenance calculated by reference to hours or order operated during the year.</p> <p>We focus on this area because of an inherent level of management judgement required calculating the amount of provision needed as a result of the complex and subjective elements around these variable factors and assumptions.</p>	<p>How the matter was addressed in our audit</p> <p>We understood and evaluated the controls that the Group has put in place in respect of the aircraft maintenance provision.</p> <p>We evaluated the methodology and key assumptions adopted by management in estimating the provisions and tested the mechanics of the underlying calculations therein. Specifically, we:</p> <ul style="list-style-type: none"> Assessed the process by which the variable factors within the provision were estimated, Understood and challenged the key assumptions used by management by comparing past assumptions made by management in prior years with actual events as well as the current year's assumptions, Validated the input data, Tested the integrity and arithmetic accuracy of the provision model through recalculation.
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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

A member of KPMG International Cooperative



Hatice Nesrin Tuncer
Partner

10 March 2017
İstanbul, Turkey

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES****Consolidated Balance Sheet as at 31 December 2016**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

ASSETS	Notes	Audited	Audited
		31 December 2016	31 December 2015
Current Assets			
Cash and Cash Equivalents	5	1,466	900
Financial Investments	6	349	62
Trade Receivables			
-Trade Receivables From Non-Related Parties	10	379	361
Other Receivables			
-Other Receivables from Related Parties	9	3	3
-Other Receivables from Non-Related Parties	12	843	1,382
Derivative Financial Instruments	36	197	100
Inventories	13	217	216
Prepaid Expenses	14	98	74
Current Income Tax Assets	34	23	12
Other Current Assets	26	26	36
TOTAL CURRENT ASSETS		3,601	3,146
Non-Current Assets			
Financial Investments	6	47	1
Other Receivables			
-Other Receivables from Non-Related Parties	12	516	1,058
Investments Accounted by Using Equity Method	3	247	246
Investment Property	15	1	1
Property and Equipment	16	13,476	11,415
Intangible Assets			
- Other Intangible Assets	17	73	89
- Goodwill	18	12	12
Prepaid Expenses	14	518	415
TOTAL NON-CURRENT ASSETS		14,890	13,237
TOTAL ASSETS		18,491	16,383

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES****Consolidated Balance Sheet as at 31 December 2016**

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

LIABILITIES	Notes	Audited	Audited
		31 December 2016	31 December 2015
Current Liabilities			
Short Term Borrowings	7	1,357	250
Short-Term Portion of Long-Term Borrowings	7 and 19	1,064	763
Other Financial Liabilities	8	4	15
Trade Payables			
-Trade Payables to Related Parties	9	129	132
-Trade Payables to Non-Related Parties	10	487	539
Payables Related to Employee Benefits	11	143	121
Other Payables			
-Other Payables to Non-Related Parties	12	93	84
Derivative Financial Instruments	36	146	568
Deferred Income	14	796	1,104
Current Tax Provision	34	2	10
Short-Term Provisions			
-Provisions for Employee Benefits	22	44	52
-Other Provisions	22	17	15
Other Current Liabilities	26	215	218
TOTAL CURRENT LIABILITIES		4,497	3,871
Non- Current Liabilities			
Long-Term Borrowings	7 and 19	7,822	6,636
Other Payables			
-Other Payables to Non-Related Parties	12	11	12
Deferred Income	14	6	16
Long-Term Provisions			
-Provisions for Employee Benefits	24	113	119
Deferred Tax Liability	34	955	887
TOTAL NON- CURRENT LIABILITIES		8,907	7,670
Equity			
Share Capital	27	1,597	1,597
Items That Will Not Be Reclassified to Profit or Loss			
-Actuarial (Losses) on Retirement Pay Obligation	27	(11)	(8)
Items That Are or May Be Reclassified to Profit or Loss			
-Foreign Currency Translation Differences	27	(106)	(84)
-Fair Value Gains / (Losses) on Hedging Instruments	27	20	(327)
Restricted Profit Reserves	27	36	36
Previous Years Profit	27	3,628	2,559
Net (Loss) / Profit for the Period		(77)	1,069
TOTAL EQUITY		5,087	4,842
TOTAL LIABILITIES AND EQUITY		18,491	16,383

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Consolidated Statement of Profit Loss and Other Comprehensive Income

For the Year Ended 31 December

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	Audited 2016	Audited 2015
PROFIT OR LOSS			
Sales Revenue	28	9,792	10,522
Cost of Sales (-)	29	(8,656)	(8,420)
GROSS PROFIT		1,136	2,102
General Administrative Expenses (-)	30	(315)	(272)
Marketing and Sales Expenses (-)	30	(1,171)	(1,148)
Other Operating Income	31	145	244
Other Operating Expenses (-)	31	(86)	(31)
OPERATING (LOSS) / PROFIT BEFORE INVESTMENT ACTIVITIES		(291)	895
Income from Investment Activities	32	137	102
Expenses from Investment Activities	32	(20)	(1)
Share of Investments' (Loss) / Profit Accounted by Using The Equity Method	3	44	80
OPERATING (LOSS) / PROFIT		(130)	1,076
Financial Income	33	300	532
Financial Expenses (-)	33	(229)	(201)
(LOSS) / PROFIT BEFORE TAX		(59)	1,407
Tax Income (Expense)		(18)	(338)
Current Tax Expense	34	(23)	(12)
Deferred Tax Income / (Expense)	34	5	(326)
(LOSS) / PROFIT FOR THE YEAR		(77)	1,069
OTHER COMPREHENSIVE INCOME			
Items That May Be Reclassified Subsequently To Profit or Loss		325	(179)
Currency Translation Adjustment		(22)	(37)
Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges		430	(179)
Fair Value Gains/(Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges		4	1
Income Tax Relating Items That May Be Reclassified Subsequently to Profit or Loss		(87)	36
Items That Will Not Be Reclassified Subsequently To Profit or Loss		(3)	2
Actuarial Gains on Retirement Pay Obligation		(4)	3
Income Tax Relating Items That Will Not Be Reclassified Subsequently to Profit or Loss		1	(1)
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR		322	(177)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		245	892
Basic (Loss) Earning Per Share (Full US Cents)	35	(0.06)	0.77
Diluted (Loss) Earning Per Share (Full US Cents)	35	(0.06)	0.77

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Share Capital	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss		Retained Earnings		Total Equity
		Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Restricted Profit Reserves	Previous Years Profit	Net (Loss) for The Year	
As of 31 December 2015	1,597	(8)	(84)	(327)	36	2,559	1,069	4,842
Transfers	-	-	-	-	-	1,069	(1,069)	-
Total comprehensive income	-	(3)	(22)	347	-	-	(77)	245
As of 31 December 2016	1,597	(11)	(106)	20	36	3,628	(77)	5,087

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2015

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Share Capital	Items That Will Not Be Reclassified Subsequently To Profit or Loss		Items That May Be Reclassified Subsequently To Profit or Loss		Restricted Profit Reserves	Retained Earnings		Total Equity
		Actuarial (Losses) Retirement Pay Obligation	Foreign Currency Translation Differences	Fair Value Gains/ (Losses) on Hedging Instruments Entered Into For Cash Flow Hedges	Previous Years Profit		Net Profit for The Year		
As of 31 December 2014	1,597	(10)	(47)	(185)	36	1,714	845	3,950	
Transfers	-	-	-	-	-	845	(845)	-	
Total comprehensive income	-	2	(57)	(142)	-	-	1,069	892	
As of 31 December 2015	1,597	(8)	(84)	(327)	36	2,559	1,069	4,842	

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended 31 December

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

	Notes	Audited 2016	Audited 2015
(Loss) / profit for the year		(77)	1,069
Adjustments to Reconcile Profit (Loss)			
Adjustments for Depreciation and Amortisation Expense	16 and 17	1,148	924
Adjustment for Fair Value of Investment Property		-	4
Adjustments for Provisions Related with Employee Benefits	22 and 24	28	30
Adjustments for (Reversal of) Provisions for Payables	22	6	2
Adjustments for Free Provisions for Probable Risks		5	6
Adjustments for Interest Income	32 and 33	(89)	(27)
Adjustments for Interest Expense	33	202	162
Adjustments For Unrealised Foreign Exchange Gains		(385)	(403)
Adjustments for Manufacturers' Credits		3	5
Adjustments for Fair Value Losses / (Gains) on Derivative Financial Instruments		(89)	14
Adjustments for Undistributed Profits of Associates	3	(44)	(80)
Adjustments for Tax Expenses	34	18	338
Adjustments for Losses / (Gains) Arised From Sale of Tangible Assets	32	16	(2)
Adjustments for Losses Arised from Sale of Other Non-Current Assets		29	-
Changes in Working Capital		771	2,042
(Increase)/Decrease in Trade Receivables from Non-Related Parties		(22)	90
Decrease / (Increase) in Other Non-Related Party Receivables Related with Operations		358	(294)
Adjustments for Increase in Inventories		(1)	(21)
Adjustments for Increase in Prepaid Expenses		(127)	(121)
Decrease in Trade Payables to Related Parties		(3)	(16)
(Decrease) / Increase in Trade Payables to Non-Related Parties		(52)	24
Adjustments for Increase / (Decrease) in Payables Due to Employee Benefits		22	(7)
Increase in Other Operating Payables to Non-Related Parties		5	6
Decrease in Deferred Income		(321)	(348)
Decrease in Other Assets Related with Operations		10	3
Cash Flows From Operations		640	1,358
Payments for Provisions Related with Employee Benefits	24	(16)	(9)
Income taxes refund (paid)	34	(11)	(4)
Net Cash From Operating Activities		613	1,345
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Cash Receipts Proceed from sales of property, plant and equipment		122	23
Cash Payments From Purchasing of property, plant and equipment (*)	16 and 17	(878)	(738)
Cash (Payments) / Receipts From Purchasing of Other Long-Term Assets		(333)	25
Other Cash Advances and Loans		731	109
Cash Outflow Arising From Capital Increase in Investments		(6)	-
Dividends Received		23	28
Interest Received		85	26
Net Cash Flows From Investing Activities		(256)	(527)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from Loans		1,229	250
Payments of finance lease liabilities		(890)	(678)
Interest Paid		(191)	(121)
Other Outflows of Cash		(11)	(4)
Net Cash Flows From (Used in) Financing Activities		209	(553)
Net Change in Cash and Cash Equivalents		566	265
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		900	635
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	1,466	900

(*) USD 2,482 portion of property and equipment and intangible assets purchases in total of USD 3,360 for the year ended 31 December 2016 was financed through finance leases. (31 December 2015: USD 2,481 portion of property and equipment and intangible assets purchases in total of USD 3,219 was financed through finance leases.)

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

1. COMPANY ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was incorporated in Turkey in 1933. As of 31 December 2016 and 2015, the shareholders and their respective shareholdings in the Company are as follows:

	31 December 2016	31 December 2015
Republic of Turkey Prime Ministry Privatization Administration	49.12%	49.12%
Other (publicly held)	50.88%	50.88%
Total	100.00%	100.00%

The number of employees working for the Company and its subsidiaries (together the “Group”) as of 31 December 2016 are 30,541 (31 December 2015: 27,676). The average number of employees working for the Group for the year ended 31 December 2016 and 2015 are 29,733 and 26,391 respectively. The Company is registered in İstanbul, Turkey and its head office address is as follows:

Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mahallesi, Havaalanı Caddesi No: 3/1 34149 Yeşilköy İSTANBUL.

The Company’s stocks have been traded on Borsa İstanbul (BIST) since 1990.

Subsidiaries and Joint Ventures

The table below sets out the consolidated subsidiaries of the Group as of 31 December 2016 and 2015:

Name of the Company	Principal Activity	Ownership Rate		Country of Registration
		31 December 2016	31 December 2015	
THY Teknik A.Ş. (THY Teknik) ^(*)	Aircraft Maintenance Services	100%	100%	Turkey
THY Aydın Çıdır Havalimanı İşletme A.Ş. (THY Aydın Çıdır)	Training & Airport Operations	100%	100%	Turkey

^(*) In the Extraordinary General Assembly Meeting of THY Teknik A.Ş. dated 22 May 2015, it was decided to merge with THY Habom A.Ş. The merge was carried out under legal structure of THY Teknik A.Ş. by transferring all assets, liabilities, rights and obligations. The merge was registered and published on at 10 June 2015.

The table below sets out joint ventures of the Company as of 31 December 2016 and 2015:

Company Name	Country of Registration and Operations	Ownership Share (%)	Voting Power (%)	Principal Activity
Güneş Ekspres Havacılık A.Ş. (Sun Express)	Turkey	50%	50%	Aircraft Transportation
THY DO&CO İkrâm Hizmetleri A.Ş. (Turkish DO&CO)	Turkey	50%	50%	Catering Services
P&W T.T. Uçak Bakım Merkezi Ltd. Şti. (TEC)	Turkey	49%	49%	Maintenance Services
TGS Yer Hizmetleri A.Ş. (TGS)	Turkey	50%	50%	Ground Services
THY OPET Havacılık Yakıtları A.Ş. (THY Opet)	Turkey	50%	50%	Aviation Fuel Services
Goodrich Thy Teknik Servis Merkezi Ltd. Şti. (Goodrich)	Turkey	40%	40%	Maintenance Services
Uçak Koltuk Sanayi ve Ticaret A.Ş. (Uçak Koltuk)	Turkey	50%	50%	Cabin Interior Products
TCI Kabin İç Sistemleri San. ve Tic. A.Ş. (TCI)	Turkey	50%	50%	Cabin Interior Products
Türkbine Teknik Gaz Türbinleri Bakım Onarım A.Ş. (Türkbine Teknik) ^(*)	Turkey	-	-	Maintenance Services
Vergi İade Aracılık A.Ş.	Turkey	30%	30%	VAT Return and Consultancy

^(*) All of the 50% shares of the Group in Türkbine Teknik were sold on December 7, 2016 at a price of 1 USD.

The Group owns 49%, 40% and 30% equity shares of TEC, Goodrich and Vergi İade Aracılık A.Ş. respectively. However, based on the contractual arrangements between the Group and the other respective investors, decisions about the relevant activities of the arrangements require both the Group and the other respective investor agreement. Thus, the Group concluded that it has joint control over TEC, Goodrich and Vergi İade Aracılık A.Ş.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 BASIS OF PRESENTATION

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

Board of Directors has approved the consolidated financial statements as of 31 December 2016 on 10 March 2017. General Assembly and the related regulatory bodies have the authority to modify the financial statements.

Basis of Preparation

The consolidated financial statements, except for investment property and derivative financial instruments, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Adjustment of Financial Statements in Hyperinflationary Periods

As of 1 January 2005, “IAS 29: Financial Reporting in Hyperinflationary Economies” was no longer applied henceforward.

Functional and Reporting Currency

Functional currency

The consolidated financial statements of the Group are presented in US Dollars, which is the presentation currency of the Company.

Although the currency of the country in which the Company is domiciled is Turkish Lira (TL), the Company’s functional currency is determined as US Dollar. US Dollar is used to a significant extent in, and has a significant impact on the operations of the Company and reflects the economic substance of the underlying events and circumstances relevant to the Company. Therefore, the Company uses the US Dollar in measuring items in its financial statements and as the reporting currency. All currencies other than the currency selected for measuring items in the consolidated financial statements are treated as foreign currencies. Accordingly, transactions and balances not already measured in US Dollar have been premeasured in US Dollar in accordance with the relevant provisions of IAS 21 (the Effects of Changes in Foreign Exchange Rates).

Except where otherwise indicated, all values are rounded the nearest million (US Dollar 000,000).

Basis of Consolidation

a. The consolidated financial statements include the accounts of the parent company, THY, its Subsidiaries and its Joint Ventures on the basis set out in sections (b) below. Financial statements of the subsidiaries and affiliates are adjusted where applicable in order to apply the same accounting policies. All transactions, balances, profit and loss within the Group are eliminated during consolidation.

b. The Group has ten joint ventures (Note: 1). These joint ventures are economical activities whereby decisions about strategic finance and operating policy are jointly made by the consensus of the Group and other investors. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method. Under the equity method, joint ventures are initially recognized at cost and adjusted to recognize any distributions received impairments in the joint ventures and the Company’s share of the profit or loss after the date of acquisition. Joint ventures’ losses that exceed the Group’s share are not recognized, unless the Company has incurred legal or constructive obligations on behalf of the joint venture.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.1 BASIS OF PRESENTATION (CONT'D)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control occurs when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- » The fair value of the consideration transferred; plus
- » The recognized amount of any non-controlling interests in the acquire; plus
- » If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- » The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.2 CHANGES AND ERRORS IN ACCOUNTING ESTIMATES

The significant estimates and assumptions used in preparation of these consolidated financial statements as at and for the year ended 31 December 2016 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2015.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3.1 Revenue

Rendering of services:

Revenue is measured at the fair value of the consideration received or to be received. Passenger fares and cargo revenues are recorded as operating revenue when the transportation service is provided. Tickets sold but not yet used (unflown) are recorded as passenger flight liabilities.

The Group develops estimates using historical statistics and data for unredeemed tickets. Total estimated unredeemed tickets are recognized as operating revenue. Agency commissions relating to the passenger revenue are recognized as expense when the transportation service is provided.

Aircraft maintenance and infrastructure support services are recognized on accrual basis at the fair value of the amount obtained or to be obtained based on the assumptions that delivery is realized, the income can be reliably determined and the inflow of the economic benefits related with the transaction to the Group is probable.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.1 Revenue (cont'd)

Dividend and interest income:

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income generated from equity investments is recognized as shareholders gain the dividend rights.

2.3.2 Inventories

Inventories consist of non-repairable spare parts, consumables and supplies such as flight equipment and purchased merchandises.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is the sum of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Average cost method is applied in the calculation of cost of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

2.3.3 Property and Equipment

Tangible assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are carried at cost less any impairment loss, if any. Legal fees are also included in cost. Borrowing costs are capitalized for assets that need substantial time to prepare the asset for its intended use or sale. As the similar depreciation method used for other fixed assets, depreciation of such assets begins when they are available for use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. Expected useful life, residual value and depreciation method are reviewed each year for the possible effects of changes in estimates, and they are recognized prospectively if there are any changes in estimates.

Assets acquired under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The Group has classified the cost of assets that are acquired directly or through finance leases into the following parts, by considering the renewal of significant parts of the aircrafts identified during the overhaul maintenance and overhaul of aircraft fuselage and engine; a) fuselage, b) overhaul maintenance for the fuselage, c) engine and d) overhaul maintenance for the engines. Overhaul maintenance for the fuselage and overhaul engine repair parts are depreciated over the shorter of the remaining period to the next maintenance or the remaining period of the aircraft's useful life.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.3 Property and Equipment (cont'd)

They are capitalized subsequent to overhaul maintenance for the fuselage and engines and are depreciated over the shorter of the next maintenance period or the remaining period of the aircraft's useful life.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The useful lives and residual values used for property and equipment are as follows:

	Useful Life (Years)	Residual Value
Buildings	25 and 50	-
Aircrafts and Engines	20	10%
Cargo Aircraft and Engines	20	10%
Overhaul Maintenance for Aircrafts' Fuselage	6	-
Overhaul Maintenance for Engines	3-8	-
Overhaul Maintenance for Spare Engines	3-13	-
Components	7	-
Repairable Spare Parts	3 and 7	-
Simulators	20	%10
Machinery and Equipment	3-15	-
Furniture and Fixtures	3-15	-
Motor Vehicles	4-7	-
Other Equipment	4-15	-
Leasehold Improvements	Lease period/5 years	-

2.3.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.5 Intangible Assets

Intangible assets include rights, information systems and software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Rights and other intangible assets are depreciated over their useful life of 3 and 5 years, on a straight-line basis. Slot rights are assessed as intangible assets with indefinite useful life, as there are no time restrictions on them.

Goodwill

Goodwill that arises upon acquisition of subsidiaries is presented in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 2.1. Goodwill is measured at cost less accumulated impairment losses.

2.3.6 Impairment on Assets

The carrying amounts of the Group's assets are reviewed at each reporting date and (for assets with indefinite useful lives, whenever there is an indication of impairment) to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amounts are estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of estimated future cash flows resulting from continuing use of an asset and from disposal at the end of its useful life. Impairment losses are accounted in profit or loss.

An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount is recognized as income in the consolidated financial statements and cannot exceed the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

Group considers aircrafts, spare engines and simulators together ("Aircrafts") as cash generating unit subject to impairment and impairment calculation was performed for Aircrafts collectively. In the examination of whether net book values of aircrafts, spare engines and simulators exceed their recoverable amounts, the higher value between value in use and sale expenses deducted net selling prices in US Dollars is used for determination of recoverable amounts. Net selling price for the aircrafts is determined according to second hand prices in international price guides. The differences between net book values of these assets and recoverable amounts are recognized as impairment gains or losses under income and expenses from investment activities.

2.3.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.8 Financial Instruments

Financial assets and liabilities are recognized in the consolidated financial statements when the Group is a legal party to these financial instruments.

(a) Financial assets

Financial investments are recognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Investments are recorded or deleted from records on the date of trading activity based on an agreement providing a requirement for investment instrument delivery in compliance with the duration determined by related market.

Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss", "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as derivatives that are not designated and effective hedging instruments.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriates a shorter period.

Income is recognized on an effective interest basis for available-for-sale financial assets and loans and receivables.

Loans and receivables

Trade, loan and other receivables are initially recorded at fair value less any transaction costs. At subsequent periods, loans and receivables are measured at amortized cost using the effective interest method.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.8 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicator of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets at amortized cost, the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously recognized or written off are credited against the allowance account and are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments with their maturities equal or less than three months from date of acquisition that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

(b) Financial liabilities

The Group's financial liabilities and equity instruments are classified in accordance with the contractual arrangements and recognition principles of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The significant accounting policies for financial liabilities and equity instruments are described below.

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or loans, borrowings and payables.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value, and at each reporting period revalued at fair value as of balance sheet date. Changes in fair value are recognized in profit and loss.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.8 Financial Instruments (cont'd)

(b) Financial Liabilities (cont'd)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The major source of interest rate risk is finance lease liabilities. The Group's policy is to convert some financial liabilities with fixed interest rates into financial liabilities with floating interest rates, and some financial liabilities denominated in EUR into financial liabilities denominated in USD. The derivative financial instruments obtained for this purpose are not subject to hedge accounting and profit/loss arising from the changes in the fair values of those instruments is directly accounted in profit or loss.

The Group converted some of the floating-rate loans into fixed-rate loans through derivative financial instruments.

The Group applies hedge accounting since 2009 to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in interest rates. The Group also enters into derivative financial instruments to hedge against jet fuel price risks. The Group applies hedge accounting to these transactions, as they are designated to hedge against cash flow risks arising from fluctuations in jet fuel prices.

Use of derivative financial instruments is managed according to the Group policy approved by the Board of Directors and compliant with the risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivative financial instruments are calculated according to the fair value at contract date and again are calculated in the following reporting period at fair value base. The effective portions of changes in the fair value of derivatives which are designated as cash flow hedge are recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivatives is recognized in profit or loss.

2.3.9 Foreign Currency Transactions

Transactions in foreign currencies are translated into US Dollar at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated the rates prevailing at the date when fair value determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising on settlement and translation of foreign currency items are included in profit or loss.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.9 Foreign Currency Transactions (cont'd)

The closing and average US Dollar-TL exchange rates as at 31 December 2016, 2015 and 2014 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2016	3.5192	3.0181
Year ended 31 December 2015	2.9076	2.7191
Year ended 31 December 2014	2.3189	2.1865

The closing and average US Dollar - Euro exchange rates as at 31 December 2016, 2015 and 2014 are as follows:

	Closing Rate	Average Rate
Year ended 31 December 2016	1/ 1.0542	1/ 1.1059
Year ended 31 December 2015	1/ 1.0929	1/ 1.1102
Year ended 31 December 2014	1/ 1.2164	1/ 1.3282

2.3.10 Earnings per Share

Earnings per share are calculated by dividing net profit by weighted average number of shares outstanding in the relevant period. In Turkey, companies are allowed to increase their capital by distributing free shares to shareholders from accumulated profits. In calculation of earnings per share, such free shares are considered as issued shares. Therefore, weighted average number of shares in the calculation of earnings per share is found by applying distribution of free shares retrospectively.

2.3.11 Events After the Reporting Date

Events after the balance sheet date are those events, which occur between the balance sheet date and the date when the consolidated financial statements are authorized for issue.

If adjustment is necessary for such events, the Group's consolidated financial statements are adjusted to reflect such events.

2.3.12 Provisions, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous Contracts

Present liabilities arising from onerous contracts are calculated and accounted for as provision. It is assumed that an onerous contract exists if Group has a contract which unavoidable costs to be incurred to settle obligations of the contract exceed the expected economic benefits of the contract.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.13 Segmental Information

There are two main operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Company management uses the operating profit calculated according to IFRS while evaluating the performance of the segments.

2.3.14 Investment Property

Investment properties, which are properties, held to earn rentals and/or for capital appreciation are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

When an investment property is transferred from investment property measured at fair value (whether to own-use properties or to inventories), the transfer is accounted for at fair value. The fair value at the date of transfer is then deemed to be the property's cost for subsequent accounting under IAS 2 or IAS 16. Any difference between the carrying amount of the property before transfer and its fair value on the date of transfer is recognized in profit or loss in the same way as any other change in the fair value of investment property.

2.3.15 Taxation and Deferred Tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the current tax and deferred tax expenses.

Current tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.15 Taxation and Deferred Tax (cont'd)

Deferred Tax (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and affiliates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, where the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

2.3.16 Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

2.3.17 Employee Benefits / Retirement Pay Provision

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses. Actuarial gains and losses are accounted as other comprehensive income.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3.18 Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.3.19 Manufacturers' Credits

Manufacturers' credits are received against acquisition or lease of aircraft and engines. The Group records these credits as a reduction to the cost of the owned and amortizes them over the related asset's remaining economic life. Manufacturers' credits related to operating leases are recorded as deferred revenue and amortized over the lease term.

2.3.20 Maintenance and Repair Cost

Regular maintenance and repair costs for owned and leased assets are charged to operating expense as incurred. Aircraft and engine overhaul maintenance checks for owned and finance leased aircrafts are capitalized and depreciated over the shorter of the remaining period to the following overhaul maintenance checks or the remaining useful life of the aircraft. For aircraft held under operating leases the Company is contractually committed to either return the aircraft in a certain condition or to compensate the lessor upon return of the aircraft. The estimated airframes and engine maintenance costs are accrued and charges to profit or loss over the lease term, based on the present value of the estimated future cost of the major airframe overhaul, engine maintenance calculated by reference to hours or order operated during the year.

2.3.21 Frequent Flyer Program

The Group provides a frequent flyer program named "Miles and Smiles" in the form of free travel award to its members on accumulated mileage. Miles earned by flights are recognized as a separately identifiable component of the sales transaction(s).

The amount deferred as a liability is measured based on the fair value of the awarded miles. The fair value is measured on the basis of the value of the awards for which they could be redeemed. The amount deferred is recognized as revenue on redemption of the points including a portion of the points that the Group does not expect to be redeemed by the customers ("breakage").

The Group also sells mileage credits to participating partners in "Miles and Smiles" program. Revenue is recognized when transportation is provided.

2.4 IMPORTANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND KEY ACCOUNTING JUDGEMENTS

Preparation of the financial statements requires the amounts of assets and liabilities being reported, explanations of contingent liabilities and assets and the uses of accounting estimates and assumptions which would affect revenue and expense accounts reported during the accounting period. Group makes estimates and assumptions about the future periods. Actual results could differ from those estimations.

Accounting estimates and assumptions which might cause material adjustments on the book values of assets and liabilities in future financial reporting period are given below:

The Determination of Impairment on Long Term Assets:

Basic assumptions and calculation methods of the Group relating to impairment on assets are explained in Note 2.3.6.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.4 IMPORTANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND KEY ACCOUNTING JUDGEMENTS (CONT'D)

Calculation of the Liability for Frequent Flyer Program:

As explained in Note 2.3.21, Group has a FFP program called "Miles and Smiles" for its members. In the calculation of the liability historical statistics are used for miles earned from flights.

Useful Lives and Salvage Values of Tangible Assets:

Group has allocated depreciation over tangible assets by taking into consideration the useful lives and salvage values explained in Note 2.3.3.

Deferred Tax:

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. There are deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future in the Group. Based on available evidence, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

Corporate Tax Law 32/A and the effects of Resolution issued on "Government Assistance for Investments" by the Council of Ministers:

An incentive standard that reconstitutes government assistance for investments initiated effective from 28 February 2009 with the clause 32/A of the Corporate Tax Law by the 9th article of the 5838 numbered Law in order to support investments through taxes on income.

The new investment system becomes effective upon the issuance of the Council of Ministers' resolution "Government Assistance for Investments" No: 2009/15199 on 14 July 2009. Apart from the previous "investment incentive" application, which provides the deduction of certain portion of investment expenditures against corporate tax base, the new support system aims to provide incentive support to companies by deducting "contribution amount", which is calculated by applying the "contribution rate" prescribed in the Council of Ministers' resolution over the related investment expenditure, against the corporate tax imposed on the related investment to the extent the amount reaches to the corresponding "contribution amount".

The Group obtained an Incentive Certificate dated 28 December 2010 and numbered 99256 for the finance lease aircrafts that joined its fleet between 2010 and 2014 (except December) from the related authority. For the related aircraft investment, 20% contribution rate and 50% corporate tax discount rate apply. Additionally, for the aircrafts to be joined the fleet from December 2014, the Group obtained another Incentive Certificate dated 18 December 2014 and numbered 117132, of which the 15% contribution rate and 50% corporate tax discount rate apply.

The total contribution amount resulting from these investment certificates as of 31 December 2016 is 1,350 USD (31 December 2015: 1,219 USD). Until the contribution amount is fully consumed by reduction from future corporate taxes, the corporate income attributable to related investments will be taxed by 10% rate instead of 20% rate, due to 50% corporate tax discount rate applicable.

There is no clear guidance in regards to the accounting for government tax incentives on investments in IAS 12 "Income Tax" and IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". Since the use of "contribution amount" depends on future earnings from the related investment over many years, the Group management considers that the accounting for the related investment contribution will be more appropriate if the grant is classified as profit or loss on a systematic and rational basis over the useful life of the related assets.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.5 NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The standard replaces existing IFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.5 NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONT'D)

Standards issued but not yet effective and not early adopted (cont'd)

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014-2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidated financial statements.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONT'D)

2.5 NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONT'D)

Standards issued but not yet effective and not early adopted (cont'd)

Improvements to IFRSs (cont'd)

Annual Improvements to IFRSs 2014-2016 Cycle (cont'd)

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

IAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

2.6 DETERMINATION OF FAIR VALUES

Various accounting policies and explanations of the Group necessitate to determinate the fair value of both financial and non-financial assets and liabilities. If applicable, additional information about assumptions used for determination of fair value are presented in notes particular to assets and liabilities.

Evaluation methods in terms of levels are described as follows:

- » Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.
- » Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.
- » Level 3: Variables, which are not related to observable market variable for assets and liabilities (unobservable variables).

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

	31 December 2016	31 December 2015
Sun Express	77	90
Turkish DO&CO	57	54
TEC	43	26
TGS	31	40
THY Opet	30	28
Uçak Koltuk	5	2
TCI	3	3
Goodrich	1	1
Vergi İade Aracılık *	-	-
Türkbine Teknik	-	2
	247	246

(*) The Group's share in its shareholders' equity is less than USD 1.

Financial information for Sun Express as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	972	813
Total liabilities	818	633
Shareholders'equity	154	180
Group's share in joint venture's shareholders' equity	77	90

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	1.085	1.226
(Loss) / profit for the year	(26)	72
Group's share in joint venture's (loss) /profit for the year	(13)	36

Financial information for Turkish DO&CO as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	175	174
Total liabilities	62	66
Shareholders'equity	113	108
Group's share in joint venture's shareholders' equity	57	54

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	357	377
Profit for the year	32	34
Group's share in joint venture's profit for the year	16	17

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (CONT'D)

Financial information for TEC as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	168	151
Total liabilities	79	97
Shareholders' equity	89	54
Group's share in joint venture's shareholders' equity	43	26
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	342	240
Profit for the year	34	10
Group's share in joint venture's profit for the year	17	5

Financial information for TGS as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	115	139
Total liabilities	53	59
Shareholders' equity	62	80
Group's share in joint venture's shareholders' equity	31	40
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	261	257
Profit for the year	12	25
Group's share in joint venture's profit for the year	6	13

Financial information for THY Opet as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	458	213
Total liabilities	399	157
Shareholders' equity	59	56
Group's share in joint venture's shareholders' equity	30	28
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	1.357	1.825
Profit for the year	39	26
Group's share in joint venture's profit for the year	19	13

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (CONT'D)

Financial information for Uçak Koltuk as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	19	17
Total liabilities	9	13
Shareholders' equity	10	4
Group's share in joint venture's shareholders' equity	5	2
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	9	7
(Loss) for the year	(2)	1
Group's share in joint venture's (loss) for the year	(1)	-

Financial information for TCI as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	11	11
Total liabilities	4	6
Shareholders' equity	7	5
Group's share in joint venture's shareholders' equity	3	3
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	7	9
(Loss) for the year	(2)	(8)
Group's share in joint venture's (loss) for the year	(1)	(4)

Financial information for Goodrich as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	5	4
Total liabilities	2	2
Shareholders' equity	3	2
Group's share in joint venture's shareholders' equity	1	1
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	10	10
Profit for the year	1	1
Group's share in joint venture's profit for the year	1	-

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (CONT'D)

Financial information for Turkbine Teknik as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total assets	-	5
Total liabilities	-	-
Shareholders' equity	-	5
Group's share in joint venture's shareholders' equity	-	2
	1 January -	1 January -
	31 December 2016	31 December 2015
Revenue	-	1
Profit for the year	-	-
Group's share in joint venture's profit for the year	-	-

Share of investments' profit / (loss) accounted by using the equity method are as follows:

	1 January -	1 January -
	31 December 2016	31 December 2015
Sun Express	(13)	36
Turkish DO&CO	16	17
TEC	17	5
TGS	6	13
THY Opet	19	13
Uçak Koltuk	(1)	-
TCI	(1)	(4)
Goodrich	1	-
	44	80

4. SEGMENTAL REPORTING

Group management makes decisions regarding resource allocation to segments based upon the results and the activities of its air transport and aircraft technical maintenance services segments for the purpose of segments' performance evaluation. The Group's main activities can be summarized as follows:

Air Transport ("Aviation")

The Group's aviation activities consist of mainly domestic and international passenger and cargo air transportation.

Technical Maintenance Services ("Technical")

The Group's technical activities consist of mainly aircraft repair and maintenance services and providing technical and infrastructure support related to aviation sector.

The detailed information about the sales revenue of the Group is given in Note 28.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (CONT'D)

4.1 TOTAL ASSETS AND LIABILITIES

Total Assets	31 December 2016	31 December 2015
Aviation	18,335	16,200
Technical	1,258	1,198
Total	19,593	17,398
Less: Eliminations due to consolidation	(1,102)	(1,015)
Total assets in consolidated financial statements	18,491	16,383

Total Liabilities

Total Liabilities	31 December 2016	31 December 2015
Aviation	13,389	11,438
Technical	455	508
Total	13,844	11,946
Less: Eliminations due to consolidation	(440)	(405)
Total liabilities in consolidated financial statements	13,404	11,541

4.2 PROFIT / (LOSS) BEFORE TAX

Segment Results:

1 January - 31 December 2016	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	9,624	168	-	9,792
Inter-Segment Sales	34	893	(927)	-
Revenue	9,658	1,061	(927)	9,792
Cost of Sales (-)	(8,814)	(774)	932	(8,656)
Gross Profit	844	287	5	1,136
Administrative Expenses (-)	(219)	(101)	5	(315)
Marketing and Sales Expenses (-)	(1,167)	(4)	-	(1,171)
Other Operating Income	153	32	(40)	145
Other Operating Expenses (-)	(88)	(28)	30	(86)
Operating (Loss) Before Investment Activities	(477)	186	-	(291)
Income from Investment Activities	137	-	-	137
Expenses from Investment Activities	(20)	-	-	(20)
Share of Investments' (Loss) Accounted by Using The Equity Method	27	17	-	44
Operating (Loss)	(333)	203	-	(130)
Financial Income	299	13	(12)	300
Financial Expense (-)	(227)	(14)	12	(229)
(Loss) Before Tax	(261)	202	-	(59)

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

4. SEGMENTAL REPORTING (CONT'D)

4.2 PROFIT / (LOSS) BEFORE TAX (CONT'D)

Segment Results (cont'd):

1 January - 31 December 2015	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	10,334	188	-	10,522
Inter-Segment Sales	38	762	(800)	-
Revenue	10,372	950	(800)	10,522
Cost of Sales (-)	(8,519)	(701)	800	(8,420)
Gross Profit	1,853	249	-	2,102
Administrative Expenses (-)	(181)	(98)	7	(272)
Marketing and Sales Expenses (-)	(1,144)	(4)	-	(1,148)
Other Operating Income	264	30	(50)	244
Other Operating Expenses (-)	(55)	(19)	43	(31)
Operating Profit Before Investment Activities	737	158	-	895
Income from Investment Activities	102	-	-	102
Expenses from Investment Activities	(1)	-	-	(1)
Share of Investments' Profit Accounted by Using The Equity Method	76	4	-	80
Operating Profit	914	162	-	1,076
Financial Income	537	8	(13)	532
Financial Expense (-)	(200)	(14)	13	(201)
Profit Before Tax	1,251	156	-	1,407

4.3 INVESTMENT OPERATIONS

1 January - 31 December 2016	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	3,215	145	-	3,360
Current period depreciation and amortization change	1,030	118	-	1,148
Investments accounted by using the equity method	202	45	-	247

1 January - 31 December 2015	Aviation	Technic	Inter-segment elimination	Total
Purchase of property and equipment and intangible assets	2,995	224	-	3,219
Current period depreciation and amortization change	816	108	-	924
Investments accounted by using the equity method	215	31	-	246

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash	2	2
Banks – Time deposits	1,357	823
Banks – Demand deposits	99	69
Other liquid assets	8	6
	1,466	900

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

5. CASH AND CASH EQUIVALENTS (CONT'D)

Details of the time deposits as of 31 December 2016 are as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2016
1,284	TL	7.43% - 10.12%	January 2017	370
764	USD	1.85% - 3.16%	March 2017	766
209	EUR	1.60% - 1.97%	March 2017	221
				1,357

Details of the time deposits as of 31 December 2015 are as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2016
498	TL	9.32% - 11.87%	March 2016	172
26	USD	1.64% - 1.72%	January 2016	26
571	EUR	1.27% - 1.56%	March 2016	625
				823

6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

	31 December 2016	31 December 2015
Time deposits with maturity more than 3 months	349	62

Time deposit with maturity of more than 3 months as of 31 December 2016 is as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2016
123	USD	3.03% - 3.12%	May 2017	123
214	EUR	1.64% - 1.90%	June 2017	226
				349

Time deposit with maturity of more than 3 months as of 31 December 2015 is as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2015
56	EUR	1.35% - 1.48%	April 2016	62

Long-term financial investments are as follows:

	31 December 2016	31 December 2015
Debt to securities/held to maturity	46	-
- Eurobondlar	1	1
Other	47	1

Details of Eurobonds as of 31 December 2016 is as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2016
46	USD	4.75% - 8.50%	June 2019 - March 2026	46

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

6. FINANCIAL INVESTMENTS (CONT'D)

Other long-term financial investments are as follows:

	31 December 2016	31 December 2015
Sita Inc.	1	1
Star Alliance Gmbh	<1	<1
Emek İnşaat ve İşletme A.Ş.	<1	<1
UATP Inc.	<1	<1
	<u>1</u>	<u>1</u>

Long-term financial investments are accounted at cost since they are not traded in an active market.

Details of the long-term financial investments of the Group at 31 December 2016 are as follows:

Company Name	Country of Registration and Operations	Ownership Share	Voting Power	Principal Activity
Sita Inc.	Netherlands	Less than 0.1%	Less than 0.1%	Information & Telecommunication Services
Star Alliance Gmbh	Germany	7.76%	7.76%	Coordination Between Star Alliance Member Airlines
UATP Inc.	USA	4%	4%	Payment Intermediation Between Passengers and Airlines
Emek İnşaat ve İşletme A.Ş.	Turkey	0.3%	0.3%	Construction

7. BORROWINGS

Short term borrowings are as follows:

	31 December 2016	31 December 2015
Short term borrowings	<u>1,357</u>	<u>250</u>

Short term borrowings as of 31 December 2016 is as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2016
250	USD	1.02%	January 2017	250
1,050	EUR	0.50% - 0.75%	October 2017	<u>1,107</u>
				<u>1,357</u>

Short term borrowings as of 31 December 2015 is as follows:

Amount	Currency	Interest Rate	Maturity	31 December 2015
250	USD	0.69%	March 2016	<u>250</u>

Short term portions of long term borrowings are as follows:

	31 December 2016	31 December 2015
Finance lease obligations (Note: 19)	1,038	763
Bank borrowings	26	-
	<u>1,064</u>	<u>763</u>

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

7. BORROWINGS (CONT'D)

Long term borrowings are as follows:

	31 December 2016	31 December 2015
Finance lease obligations (Note: 19)	7,726	6,636
Bank borrowings	96	-
	<u>7,822</u>	<u>6,636</u>

Details of bank borrowings as of 31 December 2016 is as follows:

	31 December 2016	31 December 2015
Less than 1 year	26	-
Between 1 – 5 years	96	-
Over 5 years	-	-
	<u>122</u>	<u>-</u>

Cost of the bank borrowings 5.5 year term denominated in 115 million EURO is bearing annual interest rate of Euribor + 2.45%.

8. OTHER FINANCIAL LIABILITIES

Short-term other financial liabilities of the Group are as follows:

	31 December 2016	31 December 2015
Other financial liabilities	<u>4</u>	<u>15</u>

Other financial liabilities consist of overnight interest-free borrowings from banks obtained for settlement of monthly tax and social security premium payments.

9. RELATED PARTY TRANSACTIONS

Other short-term receivables from related parties are as follows:

	31 December 2016	31 December 2015
Turkish DO&CO (*)	<u>3</u>	<u>3</u>

(*) The amounts are dividend receivables of 2015.

Short-term trade payables to related parties that are accounted by using the equity method are as follows :

	31 December 2016	31 December 2015
THY Opet	43	54
Turkish DO&CO	33	28
Sun Express	19	19
TEC	19	19
TGS	14	11
Goodrich	1	1
	<u>129</u>	<u>132</u>

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

9. RELATED PARTY TRANSACTIONS (CONT'D)

Transactions with related parties for the year ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
a) Sales to related parties		
Sun Express	28	36
TEC	15	24
TGS	6	5
Sun Express Deutschland	3	-
Turkish DO&CO	1	2
Goodrich	1	-
THY Opet	-	1
	54	68
b) Purchases from related parties		
THY Opet	1,154	1,551
Turkish DO&CO	326	339
TEC	298	184
TGS	245	214
Sun Express	218	250
Goodrich	6	7
Uçak Koltuk	4	6
TCI	1	6
	2,252	2,557

Transactions between the Group and THY Opet are related to the supply of aircraft fuel; transactions between the Group and Turkish DO&CO are related to catering services; transactions between the Group and Sun Express are related to wet lease and seat sales operations; transactions between the Group and TGS are related to ground services and transactions between the Group and TEC are related to engine maintenance services. Receivables from related parties are not collateralized and maturity of trade receivables is 30 days.

The total amount of salaries and other short term benefits provided for the Board Members, General Manager and Deputy General Managers are USD 4 (1 January-31 December 2015: USD 4).

10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from non-related parties as of 31 December 2016 and 2015 are as follows :

	31 December 2016	31 December 2015
Trade receivables	455	433
Allowance for doubtful receivables	(76)	(72)
	379	361

Provision for doubtful receivables has been determined based on past experience for uncollectible receivables. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 37.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

10. TRADE RECEIVABLES AND PAYABLES (CONT'D)

Trade payables to non-related parties as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Trade payables	486	539
Other trade payables	1	-
	487	539

11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Salary accruals	103	98
Social security premiums payable	40	23
	143	121

12. OTHER RECEIVABLES

Other short-term receivables from non-related parties as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Predelivery payments made for aircrafts	596	1,139
Receivables from technical purchases	130	133
Bank deposits with transfer limitations ^(*)	62	59
Value added tax receivables	39	38
Receivables from pilots for flight training	10	11
Receivables from employees	1	1
Other receivables	5	1
	843	1,382

^(*) As of 31 December 2016, the balance of this account includes bank deposits in Morocco, Ethiopia, Ghana, Bangladesh, Sudan, Egypt, Argentina, Algeria, Greece, Nigeria, Ukraine, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique and Benin.

Other long-term receivables from non-related parties as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Receivables related to investment certificates	211	172
Predelivery payments made for aircrafts	207	392
Receivables from pilots for flight training	67	58
Deposits and guarantees given	15	12
Interest and commodity swap agreement deposits	11	418
Bank deposits with transfer limitations ^(*)	5	5
Other receivables	-	1
	516	1,058

^(*) As of 31 December 2016, the balance of this account includes bank deposits in Syria.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

12. OTHER RECEIVABLES (CONT'D)

Other short-term payables to non-related parties are as follows:

	31 December 2016	31 December 2015
Taxes and funds payable	79	61
Deposits and guarantees received	12	15
Payables to insurance companies	-	6
Other liabilities	2	2
	93	84

Other long-term payables to non-related parties are as follows:

	31 December 2016	31 December 2015
Deposits and guarantees received	11	12

13. INVENTORIES

	31 Aralık 2016	31 Aralık 2015
Spare parts	176	167
Other inventories	60	66
	236	233
Provision for impairment (-)	(19)	(17)
	217	216

The change in the value of provision for impairment for the years ended 31 December 2016 and 2015 is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Provision at the beginning of the year	17	12
Charges during the year	2	5
Provision at the end of the year	19	17

14. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses are as follows:

	31 December 2016	31 December 2015
Advances given for purchases	27	12
Prepaid operating lease expenses	16	17
Prepaid sales commissions	12	12
Prepaid advertising expenses	12	22
Prepaid borrowings interest expenses	5	-
Prepaid insurance expenses	5	-
Other prepaid expenses	21	11
	98	74

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

14. PREPAID EXPENSES AND DEFERRED INCOME (CONT'D)

Long-term prepaid expenses are as follows:

	31 December 2016	31 December 2015
Prepaid engine maintenance expenses	440	356
Prepaid aircraft financing expenses	59	43
Advances given for fixed asset purchases	11	10
Other prepaid expenses	8	6
	518	415

Deferred income is as follows:

	31 December 2016	31 December 2015
Passenger flight liabilities	785	1,091
Other short-term deferred income	11	13
	796	1,104

Passenger flight liability is as follows:

	31 December 2016	31 December 2015
Flight liability generating from ticket sales	578	833
Flight liability generating from Frequent flyer program	207	258
	785	1,091

Short-term deferred income is as follows:

	31 December 2016	31 December 2015
Unearned bank protocol revenue accruals	6	7
Advances received	5	3
Other income accruals	-	3
	11	13

Long-term deferred income is as follows:

	31 December 2016	31 December 2015
Gross manufacturer's credits	31	31
Unearned bank protocol revenue accruals	1	8
Accumulated depreciation of manufacturer's credit	(26)	(23)
	6	16

15. INVESTMENT PROPERTY

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	1	36
Foreign currency translation difference	-	(7)
Valuation gain (Note: 34)	-	4
Transfer to property and equipment (Note:16)	-	(32)
Closing balance	1	1

Valuation is performed by independent valuation firms, authorized by Turkish Capital Markets Board, with reference to market prices for similar properties. The Group does not have any rent income or operating expenses from investment property. Determination of fair value of investment property is within the scope of Level 2 in terms of valuation technique.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

16. PROPERTY AND EQUIPMENT

Cost	Land, Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
Opening balance at 1 January 2016	216	318	169	13,926	546	488	472	152	16,287
Additions	2	30	24	2,899	65	118	27	191	3,356
Transfer (*)	-	20	1	52	32	-	2	(108)	(1)
Transfers between the account	-	4	(4)	-	-	-	-	-	-
Disposals	-	(5)	(14)	(598)	(35)	(67)	(1)	-	(720)
Closing balance at 31 December 2016	218	367	176	16,279	608	539	500	235	18,922

Accumulated Depreciation

Opening balance at 1 January 2016	56	146	104	4,100	195	172	99	-	4,872
Depreciation charge	10	30	24	915	42	69	37	-	1,127
Transfers between the account	-	2	(2)	-	-	-	-	-	-
Disposals	-	(1)	(14)	(466)	(33)	(38)	(1)	-	(553)

Closing balance at 31 December 2016	66	177	112	4,549	204	203	135	-	5,446
Net book value 31 December 2016	152	190	64	11,730	404	336	365	235	13,476

As of 31 December 2016, carrying value of the aircrafts and spare engines acquired through finance leases is USD 11,439 (31 December 2015 : 9,432 USD) Depreciation expenses are recognized in cost of sales amounting to USD 1,081 (31 December 2015:USD 860), general administrative expenses is amounting to USD 61 (31 December 2015:USD 58) and marketing and sales expenses is amounting to USD 6 (31 December 2015:USD 6).

(*) Tangible assets amounting to USD 1 are transferred to intangible assets.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

16. PROPERTY AND EQUIPMENT (CONT'D)

Cost	Land, Land improvements and buildings	Technical equipments simulators and vehicles	Other equipments, and fixtures	Aircrafts	Spare engines	Components and repairable spare parts	Leasehold improvements	Construction in progress	Total
Opening balance at 1 January 2015	164	284	144	11,301	459	346	446	111	13,255
Additions	14	36	32	2,715	87	172	26	98	3,180
Transfers	6	-	1	50	-	-	-	(57)	-
Transfers from investment property (Note:15)	32	-	-	-	-	-	-	-	32
Disposals	-	(2)	(8)	(140)	-	(30)	-	-	(180)
Closing balance at 31 December 2015	216	318	169	13,926	546	488	472	152	16,287

Accumulated Depreciation

Opening balance at 1 January 2015	47	125	90	3,430	163	132	67	-	4,054
Depreciation charge	9	23	21	724	32	63	32	-	904
Disposals	-	(2)	(7)	(54)	-	(23)	-	-	(86)

Closing balance at 31 December 2015	56	146	104	4,100	195	172	99	-	4,872
Net book value 31 December 2015	160	172	65	9,826	351	316	373	152	11,415

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

17. OTHER INTANGIBLE ASSETS

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2016	44	137	5	186
Additions	-	4	-	4
Disposals	-	(2)	-	(2)
Transfers	-	1	-	1
Closing balance at 31 December 2016	44	140	5	189

Accumulated Amortization

Opening balance at 1 January 2016	-	96	1	97
Amortization charge	-	21	-	21
Disposals	-	(2)	-	(2)
Closing balance at 31 December 2016	-	115	1	116
Net book value at 31 December 2016	44	25	4	73

	Slot Rights and Acquired Technical Licenses	Other Rights	Other Intangible Assets	Total
Cost				
Opening balance at 1 January 2015	23	121	5	149
Additions	21	18	-	39
Disposals	-	(2)	-	(2)
Closing balance at 31 December 2015	44	137	5	186

Accumulated Amortization

Opening balance at 1 January 2015	-	77	1	78
Amortization charge	-	20	-	20
Disposals	-	(1)	-	(1)
Closing balance at 31 December 2015	-	96	1	97
Net book value at 31 December 2015	44	41	4	89

The Group considers slot rights and licenses obtained by purchase of MNG Teknik and included in other rights above amounting to USD 10 at cost as intangible assets having indefinite useful lives since they do not have expiry dates and usable in the foreseeable future.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

18. GOODWILL

The goodwill amounting to 12 USD is recognized from the acquisition of MNG Teknik has been recognized in the consolidated financial statements. In 2015, an impairment test has been implemented by the Company and no impairment has been noted on the net book value of goodwill.

19. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

	31 December 2016	31 December 2015
Less than 1 year	1,189	896
Between 1 - 5 years	3,491	3,419
Over 5 years	4,969	3,898
	9,649	8,213

Less: Future interest expenses

	(885)	(814)
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Principal value of future rentals stated in financial statements

	8,764	7,399
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Interest Range:

	31 December 2016	31 December 2015
Floating rate obligations	4,942	4,038
Fixed rate obligations	3,822	3,361
	8,764	7,399

The Group leased certain of its aircrafts and spare engines under finance leases. The lease term is 10-12 years. The Group has options to purchase related assets for an insignificant amount at the end of lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased asset.

As of 31 December 2016, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.81% (31 December 2015: 3.13%) for the fixed rate obligations and 1.15% (31 December 2015: 1.06%) for the floating rate obligations.

20. GOVERNMENT GRANTS AND INCENTIVES

Incentive certificates No: 28.12.2010 / 99256 and No: 18.12.2014 / 117132 were obtained from the related authority for investment of aircrafts. Due to these certificates, the Group will have advantages of reduction of corporate tax, customs duty exemption and support for insurance premium of employers. Please refer to Note: 2.3.16 for the accounting of corporate tax effect of the investment certificates.

21. BORROWING COSTS

During the year of 2016, there is no capitalized borrowing cost on property and equipment. (31 December 2015: None).

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

22. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 December 2016 and 2015 are as follows:

Short-term provision for employee benefits is as follows:

	31 December 2016	31 December 2015
Provisions for unused vacation	44	52
Changes in the provisions for the years ended 31 December 2016 and 2015 are set out below:		
	1 January - 31 December 2016	1 January - 31 December 2015
Provisions at the beginning of the year	52	58
Provisions for the current year	3	7
Foreign currency translation differences	(11)	(13)
Provisions at the end of the year	44	52

The Group recognizes an obligation for unused vacation days based on salaries of employees at the end of each reporting period.

Other short-term provision is as follows:

	31 December 2016	31 December 2015
Provisions for legal claims	17	15
Changes in the provisions for legal claims for the years ended 31 December 2016 and 2015 are set out below:		
	1 January - 31 December 2016	1 January - 31 December 2015
Provisions at the beginning of the year	15	16
Provisions for the current year	9	6
Provisions released	(3)	(4)
Foreign currency translation differences	(4)	(3)
Provisions at the end of the year	17	15

The Group recognizes provisions for lawsuits against itself due to its operations. The law suits against the Group are usually reemployment law suits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. These amounts have not been discounted since the effect is not material. It is expected that provision amount will be paid within one year.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

23. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letter of guarantees given as of 31 December 2016 is USD 1,040 (31 December 2015: USD 316).

	31 December 2016		31 December 2015	
	Original currency amount	USD equivalent	Original currency amount	USD equivalent
A, Total amounts of GPM given on the behalf of its own legal entity	-	1,040	-	316
- Collaterals				
TL	27	8	27	9
EUR	930	980	11	13
USD	48	48	291	291
Other	-	4	-	3
B, Total amounts of GPM given on the behalf of subsidiaries that are included in full consolidation	-	-	-	-
C, Total amounts of GPM given in order to guarantee third party debts for routine trade operations	-	-	-	-
D, Total amounts of other GPM given	-	-	-	-
i, Total amount of GPM given on behalf of the Parent	-	-	-	-
ii, Total amount of GPM given on behalf of other group companies not covered in B and C	-	-	-	-
iii, Total amount of GPM given on behalf of third parties not covered in C	-	-	-	-
		<u>1,040</u>		<u>316</u>

The ratio of other GPM ("D") given by the group to its equity is 0% as of 31 December 2016 (31 December 2015: 0%)

b) Operational lease obligations: The breakdown of operational lease obligations related to aircrafts is as follows:

	31 December 2016	31 December 2015
Less than 1 year	327	286
Between 1 – 5 years	773	738
More than 5 years	178	176
	<u>1,278</u>	<u>1,200</u>

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

23. COMMITMENTS (CONT'D)

c) Other operational lease debts

The Group has operational lease agreements for 15 years related to the land for the aircraft maintenance hangar and building and another operational lease agreement for 23 years related to the land for the aircraft maintenance hangar. The liabilities of the Group related to these lease agreements are as follows:

	31 December 2016	31 December 2015
Less than 1 year	4	5
Between 1 – 5 years	20	21
More than 5 years	29	37
	<u>53</u>	<u>63</u>

d) Aircraft purchase commitments

To be delivered between the years 2013-2023, the Group signed a contract for 259 aircrafts with a list price value of 34.7 billion US Dollars (full). 2 of these aircrafts were delivered in 2013, 10 were delivered in 2014, 33 were delivered in 2015 and 43 were delivered in 2016. The Group has made an advance payment of 820 million US Dollars (full) relevant to these purchases as of 31 December 2016.

24. EMPLOYEE BENEFITS

Provisions for long-term retirement pay liability as of 31 December 2016 and 2015 is comprised of the following:

	31 December 2016	31 December 2015
Provisions for retirement pay liability	<u>113</u>	<u>119</u>

Provisions for retirement pay liability are recorded as follows:

Under Labor Law effective in Turkey, it is an obligation to make legal retirement pay to employees whose employment is terminated in certain ways. Also, according to Article 60 of Social Security Law numbered 506 which was revised by the laws 2422, dated 6 March 1981 and numbered 4447, dated 25 August 1999, it is an obligation to make legal retirement pay to those who entitled to receive retirement pay when leaving their work. Some transfer provisions related to employment conditions prior to retirement are removed from the Law by the revise made on 23 May 2002.

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,258 (full) as of 31 December 2016.

Retirement pay liability is not subject to any funding legally. Provisions for retirement pay liability are calculated by estimating the present value of probable liability that will arise due to retirement of employees.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

24. EMPLOYEE BENEFITS (CONT'D)

IAS 19 (“Employee Benefits”) stipulates the progress of company’s liabilities by use of actuarial valuation methods under defined benefit plans. Actuarial assumptions used in calculation of total liabilities are described as follows:

The key assumption is that maximum liability amount increases in accordance with the inflation rate for every service year. Provisions in the accompanying consolidated financial statements as of 31 December 2016 are calculated by estimating present value of liabilities due to retirement of employees. Provisions in the relevant balance sheet dates are calculated with the assumptions of 7.00% annual inflation rate (31 December 2015: 7.00%) and 11.00% interest rate (31 December 2015: 11.00%). Estimated amount of non-paid retirement pay retained in the Company due to voluntary leaves is assumed as 2.45% (31 December 2015: 2.40%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,258 (full) which is in effect since 31 December 2016 is used in the calculation of Group’s provision for retirement pay liability.

Movement in the provisions for retirement pay liability is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Provisions at the beginning of the year	119	127
Service charge for the year	25	27
Interest charges	4	4
Actuarial loss / (gain)	4	(3)
Payments	(16)	(9)
Foreign currency translation difference	(23)	(27)
Provisions at the end of the year	<u>113</u>	<u>119</u>

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

25. EXPENSES BY NATURE

Expenses by nature for the years ended 31 December 2016 and 2015 are as follows:

	1 January-31 December 2016	1 January-31 December 2015
Fuel expenses	2,673	2,997
Personnel expenses	1,865	1,640
Depreciation expenses	1,148	924
Ground services expenses	645	619
Aircraft maintenance expenses	590	516
Passenger services and catering expenses	582	585
Air traffic control expenses	504	506
Airport expenses	448	410
Commissions and incentives	321	346
Wet lease expenses	252	285
Operating lease expenses	244	211
Reservation systems expenses	219	215
Advertisement and promotion expenses	214	204
Service expenses	75	64
Rents	67	59
Insurance expenses	50	32
IT & communication expenses	47	41
Taxes and duties	33	31
Transportation expenses	27	29
Consultancy expenses	13	11
Utility expenses	9	10
Systems use and associateship expenses	8	6
Membership fees	6	5
Other expenses	102	94
	10,142	9,840

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

26. OTHER ASSETS AND LIABILITIES

Other current assets as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Value added tax receivable	23	34
Personnel and business advances	3	2
	26	36

Other short-term liabilities as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Accruals for maintenance expenses of aircraft under operating lease	209	214
Accruals for other expenses	5	3
Other liabilities	1	1
	215	218

27. SHAREHOLDERS' EQUITY

The ownership structure of the Group's share capital is as follows:

	Grup	%	31 December 2016	%	31 December 2015
Republic of Turkey Prime Ministry Privatization Administration ^(*)	A, C	49.12	678	49.12	678
Other (publicly held)	A	50.88	702	50.88	702
Paid-in capital (Turkish Lira)			1,380		1,380
Inflation adjustment on share capital (Turkish Lira) ^(**)			1,124		1,124
Historic capital (Turkish Lira) ^(***)			2,504		2,504
Historic capital (USD Equivalent) ^(***)			1,597		1,597

^(*) 1,644 (full) shares belonging to various private shareholders were not taken into consideration when the Group was included to the privatization program in 1984. Subsequently, these shares were registered on behalf of Privatization Administration according to Articles of Association of the Group, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

^(**) Inflation adjustment on share capital represents indexation of historical capital payments based on inflation indices until 31 December 2004.

^(***) Historic capital amounts are represented in Millions of Turkish Lira.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

27. SHAREHOLDERS' EQUITY (CONT'D)

As of 31 December 2016, the Group's issued and paid-in share capital consists of 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. These shares are registered. The Class C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and has the following privileges:

Articles of Association 7: Positive vote of the board member representing class C share with Board's approval is necessary for transfer of shares issued to the name.

Articles of Association 10: The Board of Directors consists of nine members of which one member has to be nominated by the class C shareholder and the rest eight members has to be elected by class A shareholders.

Articles of Association 14: The following decisions of the Board are subject to the positive vote of the class C Shareholder:

- Decisions that will negatively affect the Company's mission Defined in Article 3.1. of the Articles of Association,
- Suggesting change in the Articles of Association at General Assembly,
- Increasing share capital,
- Approval of transfer of the shares issued to the name and their registration to the "Share Registry",
- Every decision or action which directly or indirectly put the Company under commitment over 5% of its total assets of the latest annual financial statements prepared for Capital Market Board. (This sentence will expire when the Company's shares held by Turkish State decrease under 20%.)
- Decisions relating to mergers and liquidation,
- Decisions cancelling flight routes or significantly decreasing frequency of flight routes, not including the ones that cannot even recover their operational expenses, subject to the market conditions.

Restricted Profit Reserves

Turkish Commercial Code (TCC) stipulates that the general legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. Additionally, not limited with 20% of paid-in share capital, the general legal reserve is appropriated at the rate of 10% per annum of all cash dividends in excess of 5% of the paid-in share capital. Under TCC, the legal reserves can only be used to offset losses, to sustain business when conditions get worse, to prevent unemployment and are not available for any other usage unless they exceed 50% of paid-in share capital.

Foreign Currency Translation Differences

Currency translation differences under equity arise from Group's joint ventures accounted under equity method which have functional currencies other than USD.

Distribution of Dividends

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly in accordance with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with their dividend policy or articles of associations. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on financial statements of the company.

Actuarial Differences on Defined Benefit Plans

As a result of the adoption of IAS 19 (2011), all actuarial differences are recognized immediately in other comprehensive income.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

27. SHAREHOLDERS' EQUITY (CONT'D)

Gains/Losses from Cash Flow Hedges

Hedge gain/losses against cash flow risk arise from the accounting of the changes in the fair values of effective derivative financial instruments designated against financial risks of future cash flows under equity. Total of deferred gain/loss arising from hedging against financial risk are accounted in profit or loss when the hedged item impacts profit or loss.

28. REVENUE

Breakdown of gross profit is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Passenger revenue		
Scheduled	8,541	9,310
Unscheduled	49	58
Total passenger revenue	8,590	9,368
Cargo revenue		
Carried by passenger aircraft	600	547
Carried by cargo aircraft	396	388
Total cargo revenue	996	935
Total passenger and cargo revenue	9,586	10,303
Technical revenue	168	188
Other revenue	38	31
Net sales	9,792	10,522
Cost of sales (-)	(8,656)	(8,420)
Gross profit	1,136	2,102

Breakdown of total passenger and cargo revenue by geography is as follows:

	1 January-31 December 2016	1 January-31 December 2015
- Europe	2,791	3,138
- Far East	2,148	2,337
- Middle East	1,154	1,333
- America	1,297	1,294
- Africa	914	842
Total international flights	8,304	8,944
Domestic flights	1,282	1,359
Total passenger and cargo revenue	9,586	10,303

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

29. COST OF SALES

Breakdown of the cost of sales is as follows:

	<u>1 January-31 December 2016</u>	<u>1 January-31 December 2015</u>
Fuel expenses	2,673	2,997
Personnel expenses	1,442	1,258
Depreciation expenses	1,081	860
Ground services expenses	645	619
Aircraft maintenance expenses	590	516
Passenger services and catering expenses	582	585
Air traffic control expenses	504	506
Airport expenses	448	410
Wet lease expenses	252	285
Operating lease expenses	244	211
Insurance expenses	48	30
Rents	35	30
Service expenses	33	33
Transportation expenses	27	29
Taxes and duties	13	13
Utility expenses	4	5
IT & communication expenses	2	3
Other expenses	33	30
	<u>8,656</u>	<u>8,420</u>

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

30. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

	<u>1 January-31 December 2016</u>	<u>1 January-31 December 2015</u>
Personnel expenses	142	123
Depreciation expenses	61	58
IT & communication expenses	36	30
Service expenses	30	20
Rents	12	10
Systems use and associateship expenses	8	6
Utility expenses	5	5
Consultancy expenses	4	3
Insurance expenses	2	2
Other general administrative expenses	15	15
	<u>315</u>	<u>272</u>

Breakdown of marketing and sales expenses is as follows:

	<u>1 January-31 December 2016</u>	<u>1 January-31 December 2015</u>
Commissions and incentives	321	346
Personnel expenses	281	259
Reservation systems expenses	219	215
Advertisement and promotion expenses	214	204
Taxes and duties	20	18
Rents	20	19
Service expenses	12	11
Consultancy expenses	9	8
IT & communication expenses	9	8
Depreciation expenses	6	6
Membership fees	6	5
Other marketing and sales expenses	54	49
	<u>1,171</u>	<u>1,148</u>

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

31. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Manufacturers' credits	76	68
Insurance, indemnities, penalties income	29	29
Provisions released	12	10
Non- interest income from banks	8	7
Turnover premium from suppliers	6	7
Rent income	3	3
Rediscount interest income	1	1
Delay interest income	-	2
Foreign exchange gains from operational activities, net	-	108
Other operating income	10	9
	<u>145</u>	<u>244</u>

Breakdown of other operating expenses is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Foreign exchange losses from operational activities, net	42	-
Provisions	23	18
Indemnity and penalty expenses	5	4
Other operating expenses	16	9
	<u>86</u>	<u>31</u>

32. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Income from investment incentives	80	64
Interest income from financial investment	53	8
Gain on sale of fixed assets	4	3
Income from insurance due to aircraft damages	-	23
Fair value gain on investment property (Note:15)	-	4
	<u>137</u>	<u>102</u>

Breakdown of expense from investment activities is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Loss on sale of fixed assets	20	1

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

33. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Foreign exchange gains from financial activities	175	513
Fair value gains on derivative financial instruments	89	-
Interest income	32	19
Rediscount interest income from repayments of aircrafts	4	-
	<u>300</u>	<u>532</u>

Breakdown of financial expenses is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Finance lease interest expenses	198	158
Aircraft financing expenses	21	15
Interest expenses on employee benefits	4	4
Fair value losses on derivative financial instruments	-	14
Rediscount interest expense from repayments of aircrafts	-	1
Other financial expenses	6	9
	<u>229</u>	<u>201</u>

34. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

	31 December 2016	31 December 2015
Prepaid taxes	23	12

Tax liability is as follows:

	31 December 2016	31 December 2015
Provisions for corporate tax	23	12
Prepaid taxes and funds	(21)	(2)
Tax liability	<u>2</u>	<u>10</u>

Tax expense is as follows:

	1 January-31 December 2016	1 January-31 December 2015
Current year tax expense	23	12
Deferred tax (income) / expense	(5)	326
Tax expense	<u>18</u>	<u>338</u>

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

34. TAX ASSETS AND LIABILITIES (CONT'D)

Tax effect related to other comprehensive income is as follows:

	1 January-31 December 2016			1 January-31 December 2015		
	Amount before tax	Tax expense	Amount after tax	Amount before tax	Tax expense	Amount after tax
Changes in foreign currency translation difference	(22)	-	(22)	(37)	-	(37)
Change in cash flow hedge reserve	434	(87)	347	(178)	36	(142)
Change in actuarial losses from retirement pay obligation	(4)	1	(3)	3	(1)	2
Other comprehensive (expense) /income	<u>408</u>	<u>(86)</u>	<u>322</u>	<u>(212)</u>	<u>35</u>	<u>(177)</u>

There is no taxation effect for the changes in foreign currency translation difference that is included in other comprehensive income.

Corporate Tax

The effective tax rate is 20%.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate tax rate is also 20%. Losses can be carried forward for offset against future taxable income for 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their corporate tax returns between 1-25 April following the close of the accounting year. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for dividend receiving companies who are Turkish residents and Turkish branches of foreign companies. Income withholding tax rate is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the corporate tax rate of 20% is used.

In Turkey, the companies cannot declare a consolidated tax return; therefore, subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and they are disclosed separately.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

34. TAX ASSETS AND LIABILITIES (CONT'D)

Deferred Tax (cont'd)

Breakdown of the deferred tax assets / (liabilities) is as follows:

	31 December 2016	31 December 2015
Fixed assets	(1,423)	(1,138)
Adjustments for passenger flight liabilities	(88)	(75)
Change in fair value of derivative instruments	(10)	94
Tax loss carried forward	409	47
Income and expense for future periods	48	47
Accruals for expenses	42	45
Miles accruals	36	46
Provisions for employee benefits	20	24
Provisions for unused vacation	1	10
Other	10	13
Deferred tax liabilities	<u>(955)</u>	<u>(887)</u>

The changes of deferred tax liability for interim periods 1 January – 31 December 2016 and 2015 are as follows:

	1 January-31 December 2016	1 January-31 December 2015
Opening balance at 1 January	887	655
Deferred tax (income) / expense	(5)	326
Tax expense / (income) from hedging reserves	85	(36)
Tax (income) / expense of actuarial losses on retirement pay obligation	(1)	1
Foreign currency translation difference	(11)	(59)
Deferred tax liability at the end of the year	<u>955</u>	<u>887</u>

Reconciliation with current tax charge for interim periods 1 January – 31 December 2016 and 2015 are as follows:

Reconciliation of effective tax charge:

	1 January-31 December 2016	1 January-31 December 2015
(Loss) / Profit from operations before tax	<u>(59)</u>	<u>1,407</u>
Domestic income / (expense) tax rate of 20%	12	(281)
Taxation effects on:		
- expense from investment certificates	16	13
- non-deductible expenses	(1)	-
- foreign currency translation difference	(55)	(92)
- investments accounted by using the equity method	9	16
- adjustment for prior year loss	1	6
Tax charge in statement of loss	<u>(18)</u>	<u>(338)</u>

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

35. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated financial statements of profit or loss and other comprehensive income is determined by dividing the net income by the weighted number of shares that have been outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus interest") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares are regarded as issued shares. Accordingly, the weighted average number of shares outstanding during the years has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and for each earlier year.

Earnings per share are calculated by dividing net profit by weighted average number of shares outstanding in the relevant period.

Number of total shares and calculation of earnings per share at 1 January – 31 December 2016 and 2015:

	1 January-31 December 2016	1 January-31 December 2015
Number of shares outstanding at 1 January (in full)	138,000,000,000	138,000,000,000
New bonus shares issued (in full)	-	-
Number of shares outstanding at 31 December (in full)	138,000,000,000	138,000,000,000
Weighted average number of shares outstanding during the year (in full)	138,000,000,000	138,000,000,000
Net (loss) / profit for the year	(77)	1,069
Basic (loss)/ profit per share (Full US Cents) (*)	(0.06)	0.77

(*) Basic and diluted (losses) / earnings per share are the same as there are no dilutive potential ordinary shares.

36. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2016 and 31 December 2015 are as follows:

Derivative financial assets

	31 December 2016	31 December 2015
Derivative instruments for fuel prices cash flow hedge	154	14
Cross currency rate swap agreements	38	77
Derivative instruments for interest rate cash flow hedge	5	9
	<u>197</u>	<u>100</u>

Derivative financial liabilities

	31 December 2016	31 December 2015
Derivative instruments for interest rate cash flow hedge	73	68
Cross currency rate swap agreements	49	15
Derivative instruments for fuel prices cash flow hedge	24	485
	<u>146</u>	<u>568</u>

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 8, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Board of Directors of the Group periodically reviews the capital structure. During these analyses, the Board assesses the risks associated with each class of capital along with cost of capital. Based on the review of the Board of Directors, the Group aims to balance its overall capital structure through the issue of new debt or the redemption of existing debt.

The overall strategy of the Group has not changed compared to 2015.

	31 December 2016	31 December 2015
Total debts	10,247	7,664
Less: Cash and cash equivalents and time deposits with maturity of more than three months	(1,815)	(962)
Net debt (A)	8,432	6,702
Total shareholders' equity (B)	5,087	4,842
Total capital stock (A+B)	13,519	11,544
Net debt/total capital stock ratio	0.62	0.58

(b) Financial Risk Factors

The risks of the Group, resulting from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management program generally seeks to minimize the potential negative effects of uncertainty in financial markets on financial performance of the Group. The Group uses a small portion of derivative financial instruments in order to safeguard itself from different financial risks.

Risk management is carried out in line with policies approved by the Board of Directors. According to risk policy, financial risk is identified and assessed. Working together with Group's operational units, relevant instruments are used to reduce the risk.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management

31 December 2016	Receivables					Derivative Instruments
	Trade receivables	Other receivables			Deposits in Banks ^(**)	
	Related Party	Third Party	Related Party	Third Party	Deposits in Banks ^(**)	
Maximum credit risk as of balance sheet date ^(*)	-	379	3	1,359	1,805	197
-The part of maximum credit risk under guarantee with collateral etc. ^(**)	-	18	-	-	-	-
A, Net book value of financial assets that are neither past due nor impaired	-	227	3	1,359	1,805	197
B, Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C, Net book value of financial assets that are past due but not impaired	-	152	-	-	-	-
-The part under guarantee with collateral etc,	-	6	-	-	-	-
D, Net book value of impaired assets	-	76	-	-	-	-
-Past due (gross carrying amount)	-	(76)	-	-	-	-
-Impairment(-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc,	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc,	-	-	-	-	-	-
E, Off-balance sheet items with credit risk	-	-	-	-	-	-

^(*) The guarantees that increase credit reliability are not included in the balance.

^(**) Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

^(***) Deposits in Banks consist of financial investments with maturity more than 3 months.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

31 December 2015	Receivables					Derivative Instruments
	Trade receivables	Other receivables			Deposits in Banks ^(**)	
	Related Party	Third Party	Related Party	Third Party	Deposits in Banks ^(**)	
Maximum credit risk as of balance sheet date ^(*)	-	361	3	2,440	954	100
-The part of maximum credit risk under guarantee with collateral etc. ^(**)	-	27	-	-	-	-
A, Net book value of financial assets that are neither past due nor impaired	-	244	3	2,440	954	100
B, Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	-	-	-	-	-	-
C, Net book value of financial assets that are past due but not impaired	-	117	-	-	-	-
-The part under guarantee with collateral etc,	-	12	-	-	-	-
D, Net book value of impaired assets	-	72	-	-	-	-
-Past due (gross carrying amount)	-	(72)	-	-	-	-
-Impairment(-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc,	-	-	-	-	-	-
-Not past due (gross carrying amount)	-	-	-	-	-	-
-Impairment (-)	-	-	-	-	-	-
-The part of net value under guarantee with collateral etc,	-	-	-	-	-	-
E, Off-balance sheet items with credit risk	-	-	-	-	-	-

^(*) The guarantees that increase credit reliability are not included in the balance.

^(**) Guarantees consist of the guarantees in cash & letters of guarantee obtained from the customers.

^(***) Deposits in Banks consist of financial investments with maturity more than 3 months.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The risk of a financial loss for the Group due to failing of one of the parties of the contract to meet its obligations is defined as credit risk.

The Group's credit risk is related to its receivables, cash and derivative financial assets. The balance shown in the consolidated balance sheet is the result of the net amount after deducting the doubtful receivables arisen from the Group management's forecasts based on previous experience and current economy conditions.

Since the customers are diversified, the Group's credit risk is dispersed and there is no material credit risk concentration.

The aging of past due receivables as of 31 December 2016 are as follows:

	Receivables					Total
	Trade Receivables	Other Receivables	Deposits in Banks	Derivative Instruments	Other	
31 December 2016						
Past due 1-30 days	53	-	-	-	-	53
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	121	-	-	-	-	121
Past due 1-5 years	19	-	-	-	-	19
Total past due receivables	228	-	-	-	-	228
The part under guarantee with collateral etc.	6	-	-	-	-	6

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

The aging of past due receivables as of 31 December 2015 are as follows:

	Receivables					Total
	Trade Receivables	Other Receivables	Deposits in Banks	Derivative Instruments	Other	
31 December 2015						
Past due 1-30 days	52	-	-	-	-	52
Past due 1-3 months	35	-	-	-	-	35
Past due 3-12 months	84	-	-	-	-	84
Past due 1-5 years	18	-	-	-	-	18
Total past due receivables	189	-	-	-	-	189
The part under guarantee with collateral etc.	12	-	-	-	-	12

As of balance sheet date, total amount of cash collateral and letter of guarantee received by Group for past due and not impaired receivable is 6 USD (31 December 2015: 12 USD).

As of the balance sheet date, the Group has no guarantee for past due receivables for which provisions were recognized.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.2) Impairment

Provisions for doubtful trade receivables consist of provisions for receivables in legal dispute and provisions calculated based on experiences on uncollectible receivables.

Changes in provisions for doubtful receivables for the years ended 31 December 2016 and 2015 are as follows:

	1 January-31 December 2016	1 January-31 December 2015
Opening Balance	72	67
Charge for the year	14	12
Collections during the year	(9)	(6)
Currency translation adjustment	(1)	(1)
Closing Balance	<u>76</u>	<u>72</u>

b.3) Liquidity risk management

The main responsibility for liquidity risk management rests with the Board of Directors. The Board designed an appropriate risk management policy for short, medium and long term funding and liquidity necessities of the Group management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below demonstrate the maturity distribution of nonderivative financial liabilities and are prepared based on the earliest date on which the Group can be required to pay. The interests that will be paid on the future liabilities are included in the related maturities.

Group manages liquidity risk by keeping under control estimated and actual cash flows and by maintaining adequate funds and borrowing reserves through matching the maturities of financial assets and liabilities.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.3) Liquidity risk management (cont'd)

Liquidity risk table:

31 December 2016

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	1,357	1,357	531	826	-	-
Finance lease obligations	8,764	9,649	264	925	3,491	4,969
Trade payables	616	618	618	-	-	-
Other financial liabilities	4	4	4	-	-	-
Total	10,741	11,628	1,417	1,751	3,491	4,969

31 December 2015

Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	250	250	250	-	-	-
Finance lease obligations	7,399	8,213	221	675	3,419	3,898
Trade payables	671	671	671	-	-	-
Other financial liabilities	15	15	15	-	-	-
Total	8,335	9,149	1,157	675	3,419	3,898

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.3) Liquidity risk management (cont'd)

31 December 2016						
Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows, net	51	52	(1)	51	2	-

31 December 2015						
Due date on the contract	Book value	Total cash outflow according to the contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial (liabilities) / assets, net						
Derivative cash inflows/outflows, net	(468)	(466)	(113)	(261)	(97)	5
Total	(468)	(466)	(113)	(261)	(97)	5

b.4) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Group are evaluated using sensitivity analysis. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

b.4.1) Foreign currency risk management

Foreign currency risk management

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

Transactions in foreign currencies expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities as monetary and non-monetary items are below:

	31 December 16					
	USD Equivalent	TL	EUR	JPY	CHF	Other
1.Trade Receivables	355	95	79	1	6	174
2a.Monetary Financial Assets	946	389	501	5	3	48
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	259	97	63	5	5	89
4.Current Assets (1+2+3)	1,560	581	643	11	14	311
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	62	5	48	-	-	9
8.Non Current Assets (5+6+7)	62	5	48	-	-	9
9.Total Assets (4+8)	1,622	586	691	11	14	320
10.Trade Payables	394	254	105	1	2	32
11.Financial Liabilities	655	4	436	196	19	-
12a.Other Liabilities, Monetary	768	592	143	33	-	-
12b.Other Liabilities, Non Monetary	61	61	-	-	-	-
13.Current Liabilities (10+11+12)	1,878	911	684	230	21	32
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	6,272	-	3,866	2,215	191	-
16a.Other Liabilities, Monetary	9	1	4	-	2	2
16b.Other Liabilities, Non Monetary	113	113	-	-	-	-
17.Non Current Liabilities (14+15+16)	6,394	114	3,870	2,215	193	2
18.Total Liabilities (13+17)	8,272	1,025	4,554	2,445	214	34
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(6,650)	(439)	(3,863)	(2,434)	(200)	286
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(6,797)	(367)	(3,974)	(2,439)	(205)	188
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

	31 December 15					
	USD Equivalent	TL	EUR	JPY	CHF	Other
1.Trade Receivables	327	40	111	4	9	163
2a.Monetary Financial Assets	994	185	760	1	1	47
2b.Non Monetary Financial Assets	-	-	-	-	-	-
3.Other	376	222	62	4	5	83
4.Current Assets (1+2+3)	1,697	447	933	9	15	293
5.Trade Receivables	-	-	-	-	-	-
6a.Monetary Financial Assets	-	-	-	-	-	-
6b.Non Monetary Financial Assets	-	-	-	-	-	-
7.Other	60	4	49	-	-	7
8.Non Current Assets (5+6+7)	60	4	49	-	-	7
9.Total Assets (4+8)	1,757	451	982	9	15	300
10.Trade Payables	417	220	136	1	2	58
11.Financial Liabilities	531	15	305	191	20	-
12a.Other Liabilities, Monetary	515	407	82	25	1	-
12b.Other Liabilities, Non Monetary	67	67	-	-	-	-
13.Current Liabilities (10+11+12)	1,530	709	523	217	23	58
14.Trade Payables	-	-	-	-	-	-
15.Financial Liabilities	4,916	-	2,367	2,333	216	-
16a.Other Liabilities, Monetary	7	-	5	-	-	2
16b.Other Liabilities, Non Monetary	119	119	-	-	-	-
17.Non Current Liabilities (14+15+16)	5,042	119	2,372	2,333	216	2
18.Total Liabilities (13+17)	6,572	828	2,895	2,550	239	60
19.Net asset / liability position of off-balance sheet derivatives (19a-19b)	-	-	-	-	-	-
19a.Off-balance sheet foreign currency derivative assets	-	-	-	-	-	-
19b.Off-balance sheet foreigncurrency derivative liabilities	-	-	-	-	-	-
20.Net foreign currency asset/(liability) position (9-18+19)	(4,815)	(377)	(1,913)	(2,541)	(224)	240
21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a)	(5,065)	(417)	(2,024)	(2,545)	(229)	150
22.Fair value of foreign currency hedged financial assets	-	-	-	-	-	-
23.Hedged foreign currency assets	-	-	-	-	-	-
24.Hedged foreign currency liabilities	-	-	-	-	-	-

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity

The Group is exposed to foreign exchange risk primarily from EURO, JPY, CHF and TL. The following table details the Group's sensitivity to a 10% increase and decrease in EURO, JPY, CHF and TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss with a same effect on equity.

	31 December 2016 Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(44)	44
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(44)	44
4- Euro net asset / liability	(386)	386
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(386)	386
7- JPY net asset / liability	(243)	243
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	(243)	243
10- CHF net asset / liability	(20)	20
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	(20)	20
13- Other foreign currency net asset / liability	29	(29)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	29	(29)
TOTAL (3+6+9+12+15)	(664)	664

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity (cont'd)

	31 December 2015 Profit / (Loss)	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1- TL net asset / liability	(38)	38
2- Part hedged from TL risk (-)	-	-
3- TL net effect (1+2)	(38)	38
4- Euro net asset / liability	(191)	191
5- Part hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(191)	191
7- JPY net asset / liability	(254)	254
8- Part hedged from JPY risk (-)	-	-
9- JPY net effect (7+8)	(254)	254
10- CHF net asset / liability	(22)	22
11- Part hedged from CHF risk (-)	-	-
12- CHF net effect (10+11)	(22)	22
13- Other foreign currency net asset / liability	24	(24)
14- Part hedged other foreign currency risk (-)	-	-
15- Other foreign currency net effect (13+14)	24	(24)
TOTAL (3 +6+9+12+15)	(481)	481

b.4.2) Interest rate risk management

The Group has been borrowing at both fixed and variable interest rates. Considering the interest conditions of the current borrowings, the majority of the borrowings are at variable interest rates. In addition to this; under the condition that the cost of financing of aircraft purchases are reasonable, the Group has been trying to increase the amount of the fixed interest rate borrowings in order to create a partial balance between the fixed and variable interest rate borrowings. Due to the fact that the variable interest rates of the Group are dependent on Libor and Euribor, exposure to local interest rate is low.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.2) Interest rate risk management (cont'd)

Interest Rate Position Table

	31 December 2016	31 December 2015
Instruments with fixed interest rate		
Financial Liabilities	3,822	3,361
Financial Instruments with Variable Interest Rate		
Financial Liabilities	4,942	4,038
Interest Swap Agreements Not Subject to Hedge Accounting (Net)	(17)	(22)
Interest Swap Agreements Subject to Hedge Accounting (Net)	(50)	(37)

As indicated in Note 38, the Group fixed the interest rate for 3,397 USD of floating-interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2016.

Interest rate sensitivity

The following sensitivity analysis are done considering the interest rate exposure in the reporting date and possible changes on this rate and are fixed during all reporting period. Group management checks out possible effects that may arise when Libor and Euribor rates, which are the basis for variable interest rates, fluctuate 0.5% and reports the effects to the top management.

Assuming that there is a 0.5% increase in Libor and Euribor interest rates and all other variables are kept constant:

Current loss before tax of the Group for the year will increase by USD 32 (For the year ended 31 December 2015 profit before tax will decrease by 20 USD). In contrast, if Libor and Euribor interest rate decrease by 0.5%, loss before tax will decrease by the same amounts.

Moreover, as a result of the interest rate swap contracts against cash flow risks, in the event of a 0.5% increase in the Libor and Euribor interest rates, the shareholders' equity of the Group will increase by 49 USD, excluding the deferred tax effect. (For the year ended 31 December 2015 the shareholders' equity of the Group will increase by 48 USD, excluding the deferred tax effect.) In the event of a 0.5% decrease in the Libor and Euribor interest rates, the shareholders' equity of the Group will decrease by the same amounts, excluding the deferred tax effect.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

37. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Risk Factors (cont'd)

b.4) Market risk management (cont'd)

b.4.3) Fuel prices sensitivity

As explained in Note 38, Group has entered into forward fuel purchase contracts in order to hedge cash flow risks arising from fuel purchases. Due to forward fuel purchase contracts subject to hedge accounting, as a result of a 10% increase in fuel prices, the shareholders' equity of the Group will increase by 263 USD, excluding the deferred tax effect. (For the year ended 31 December 2015, the shareholders' equity of the Group will increase by 88 USD excluding deferred tax effect.)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by 1 USD, excluding the deferred tax effect. (For the year ended 31 December 2015, the shareholders' equity of the Group will decrease by 98 USD, excluding deferred tax effect.)

38. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

Fair values of financial assets and liabilities are determined as follows:

- » Under standard maturities and conditions, fair values of financial assets and liabilities traded in an active market are determined using quoted market prices.
- » Fair values of derivative instruments:
 - » Fixed-paid/floating received interest swap contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.
 - » Forward fuel purchase contracts and fuel collar contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward fuel prices (from observable forward fuel prices at the end of the reporting period) and contract fuel prices, discounted at a rate that reflects the credit risk of various counterparties.
 - » Forward currency contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
 - » Cross-currency swap contracts: Fair value hierarchy is level 2. Valuation is performed by using discounted cash flow technique. Future cash flows are estimated based on forward interest rates and forward exchange rates (from observable yield curves and forward exchange rates at the end of the reporting period) and contract interest rates and forward exchange rates, discounted at a rate that reflects the credit risk of various counterparties.

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

38. FINANCIAL INSTRUMENTS (CONT'D)

Fair Values of Financial Instruments (cont'd)

31 December 2016 Balance Sheet	Loans and Receivables	Derivative instruments accounted for hedge accounting	Derivative instruments at fair value through profit/(loss)	Investments available for sale at cost value	Financial liabilities at amortized cost	Book Value	Note
Financial Assets							
Cash and cash equivalents	1,466	-	-	-	-	1,466	5
Financial investments and derivative financial instruments	349	160	37	1	-	547	6 and 36
Trade receivables	379	-	-	-	-	379	10
Other receivables	1,362	-	-	-	-	1,362	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	1,479	1,479	7
Finance lease obligations	-	-	-	-	8,764	8,764	7
Other financial liabilities and derivative financial instruments	-	99	47	-	4	150	8 and 36
Trade payables	-	-	-	-	616	616	9 and 10
31 December 2015 Balance Sheet							
Financial Assets							
Cash and cash equivalents	900	-	-	-	-	900	5
Financial investments and derivative financial instruments	62	70	30	1	-	163	6 and 36
Trade receivables	361	-	-	-	-	361	10
Other receivables	2,443	-	-	-	-	2,443	9 and 12
Financial liabilities							
Bank borrowings	-	-	-	-	250	250	7
Finance lease obligations	-	-	-	-	7,399	7,399	7
Other financial liabilities and derivative financial instruments	-	532	36	-	15	583	8 and 36
Trade payables	-	-	-	-	671	671	9 and 10

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

38. FINANCIAL INSTRUMENTS (CONT'D)

Fair Values of Financial Instruments (cont'd)

Fair values of financial assets and liabilities are determined as follows:

- » Level 1: Quoted (unadjusted) prices in active markets for identical assets and obligations.
- » Level 2: Variables obtained directly (via prices) or indirectly (by deriving from prices) which are observable for similar assets and liabilities other than quoted prices mentioned in Level 1.
- » Level 3: Variables which are not related to observable market variable for assets and liabilities (unobservable variables).

Financial assets and liabilities, measured at their fair values are classified as below:

Financial assets	31 December 2016	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Derivative instruments at fair value through profit or loss	37	-	37	-
Derivative instruments accounted for hedge accounting	160	-	160	-
Toplam	197	-	197	-
Financial liabilities				
Derivative instruments at fair value through profit or loss	47	-	47	-
Derivative instruments accounted for hedge accounting	99	-	99	-
Total	146	-	146	-

TÜRK HAVA YOLLARI

ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

38. FINANCIAL INSTRUMENTS (CONT'D)

Fair Values of Financial Instruments (cont'd)

Financial assets	31 December 2015	Fair value level as of the reporting date		
		Level 1 USD	Level 2 USD	Level 3 USD
Derivative instruments at fair value through profit or loss	30	-	30	-
Derivative instruments accounted for hedge accounting	70	-	70	-
Total	100	-	100	-
Finansal yükümlülükler				
Derivative instruments at fair value through profit or loss	36	-	36	-
Derivative instruments accounted for hedge accounting	532	-	532	-
Total	568	-	568	-

Derivative Instruments and Hedging Transactions

In order to hedge important operations and cash flows in the future against financial risks, Group entered into interest rate swap contracts to convert some of the fixed-rate finance lease liabilities to floating rate and cross-currency swap contracts to convert Euro-denominated finance lease liabilities to US Dollars. The changes in the fair values of those derivative instruments are directly accounted in the income statement for the period.

The floating-rate financial liabilities of the Group are explained in Note 37 b.4.2. Beginning from September 2009, in order to keep interest costs at an affordable level, considering long-term finance lease liabilities; Group entered into fixed-paid/floating-received interest rate swap contracts to fix interest rates of finance lease liabilities of which maturities are after the second half of 2010 which account for approximately 69% of floating rate USD, JPY and Euro denominated liabilities. Effective part of change in the fair values of those derivative instruments for cash flows risks of floating-rate finance lease liabilities are recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

In 2010, in order to control risk arising from fluctuations in price of fuel, which is approximately 37% of cost of sales, the Group began hedging transactions for approximately 20% of annual jet fuel consumption. For this purpose, the Group made forward fuel purchase contracts settled on a cash basis. In accordance with the Company's BOD resolution issued on 21 January 2011, hedging rate which was 20% of the monthly consumption would then increase to 50% in 12 months by 2.5% gradual increase every month. In addition, the Company started to use zero cost 4 way collars in 2011 instead of forward fuel purchase contracts to hedge cash flow risk of fuel prices.

The effective portion of fair value of fuel hedge contracts for cash flow hedge is recognized in other comprehensive income and presented in cash flow hedge reserve under the shareholders' equity, in accordance with hedge accounting.

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

38. FINANCIAL INSTRUMENTS (CONT'D)

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2016 and 2015 are as follows:

Derivative Instruments Stated in Assets and Liabilities**31 December 2016**

	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	-	(50)	(50)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	59	(10)	49
Collar contracts for hedging against cash flow risk of fuel prices	94	(14)	80
Forward currency contracts for hedging purposes	7	(25)	(18)
Fair values of derivative instruments for hedging purposes	160	(99)	61
Cross-currency swap contracts not subject to hedge accounting	16	-	16
Interest rate swap contracts not subject to hedge accounting	6	(23)	(17)
Forward currency contracts not for hedging purposes	15	(24)	(9)
Fair values of derivative instruments not for hedging purposes	37	(47)	(10)
Total	197	(146)	51

31 December 2015

	Positive fair value	Negative fair value	Total
Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate	1	(38)	(37)
Forward fuel purchase contracts for hedging against cash flow risk of fuel prices	12	(213)	(201)
Collar contracts for hedging against cash flow risk of fuel prices	2	(272)	(270)
Forward currency contracts for hedging purposes	55	(9)	46
Fair values of derivative instruments for hedging purposes	70	(532)	(462)
Cross-currency swap contracts not subject to hedge accounting	17	-	17
Interest rate swap contracts not subject to hedge accounting	8	(30)	(22)
Forward currency contracts not for hedging purposes	5	(6)	(1)
Fair values of derivative instruments not for hedging purposes	30	(36)	(6)
Total	100	(568)	(468)

TÜRK HAVA YOLLARI**ANONİM ORTAKLIĞI VE BAĞLI ORTAKLIĞI AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statement

For the Year Ended 31 December 2016

(All amounts are expressed in Million US Dollars (USD) unless otherwise stated.)

38. FINANCIAL INSTRUMENTS (CONT'D)**Derivative Instruments and Hedging Transactions (cont'd)**

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2016 and 2015 are as follows (cont'd):

	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
Derivative Instruments Stated in the Equity				
31 December 2016				
Fair values of derivative instruments for hedging purposes	129	(50)	(14)	65
The amount of financial expenses inside hedge funds	-	1	-	1
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	(44)	-	-	(44)
Inefficient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues	-	-	3	3
Total	85	(49)	(11)	25
Deferred tax	(17)	10	2	(5)
Hedge reserve as of 31 December 2016	68	(39)	(9)	20

	Hedging against fuel risk	Hedging against interest risk	Hedging against currency risk	Total
31 December 2015				
Fair values of derivative instruments for hedging purposes	(471)	(37)	46	(462)
The amount of financial expenses inside hedge funds	-	-	-	-
Inefficient part in the risk elimination of fair value of hedging gains of fuel hedging derivative instrument to financial revenues	60	-	-	60
Foreign currency translation differences	-	-	(6)	(6)
Total	(411)	(37)	40	(408)
Deferred tax	82	7	(8)	81
Hedge reserve as of 31 December 2015	(329)	(30)	32	(327)

39. EVENTS AFTER THE BALANCE SHEET DATE

49.12% share of the Group owned by Republic of Turkey Prime Ministry Privatisation Administration has been transferred to Sovereign Wealth Fund of Turkey as of February 3rd, 2017. Sovereign Wealth Fund of Turkey, whose capital fully belongs to the Republic of Turkey, Prime Ministry Privatisation Administration, is a state owned entity being affiliated to the Republic of Turkey Prime Ministry. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

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