

NEW FUTURE



**NEW STYLES IN SUCCESS
AND ALL INNOVATIONS**

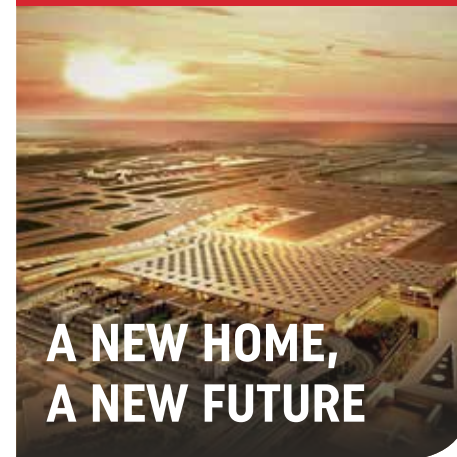
RELAX MORE

Freshen up and relax before your flight, taste some exceptional dishes, have a massage. More to discover in Istanbul Airport Turkish Airlines Lounge.



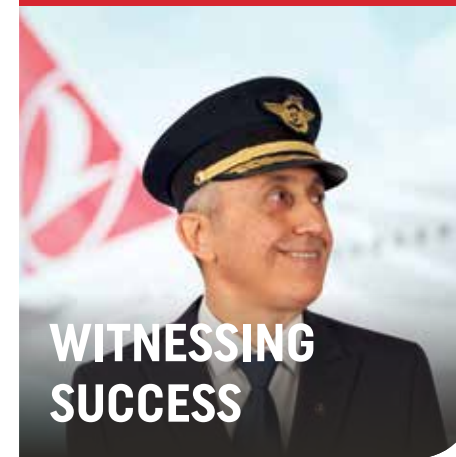
TURKISH AIRLINES

DISCOVERY 06



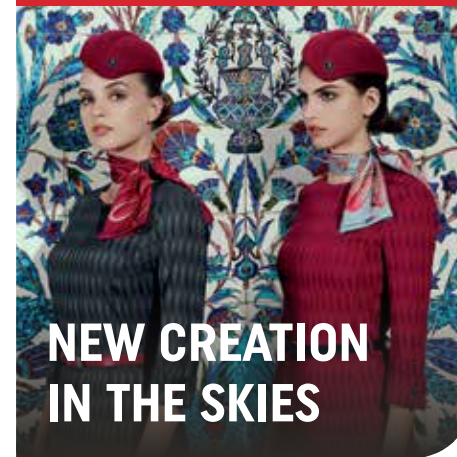
**A NEW HOME,
A NEW FUTURE**

INTERVIEW 12



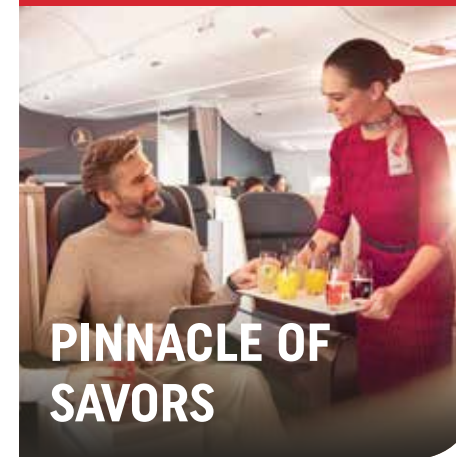
**WITNESSING
SUCCESS**

FASHION 44



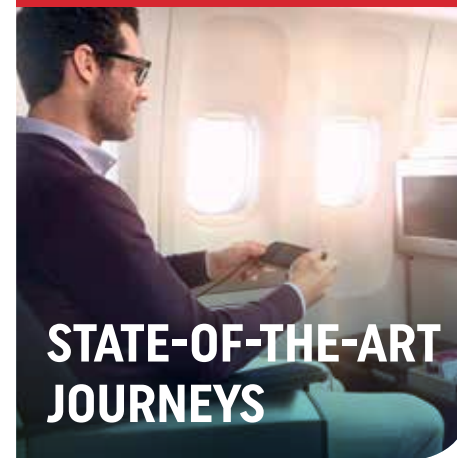
**NEW CREATION
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GOURMET 84



**PINNACLE OF
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**ZERO WASTE,
BEAUTIFUL FUTURE**

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M. İLKER AYÇI
Chairman of the Board and
the Executive Committee

JOURNEY TO THE FUTURE GOES ON FROM ISTANBUL AIRPORT

9.5% INCREASE IN PASSENGER NUMBERS

In 2018 we served 75.2 million passengers, up 9.5% year-on-year.



75.2
MILLION

NUMBER OF
PASSENGERS
IN 2018

DISTINGUISHED SHAREHOLDERS, CUSTOMERS, BUSINESS PARTNERS AND EMPLOYEES,

Turkish Airlines registered strong growth across all its business areas in 2018. The year was also marked by a historic development for our country, our Company and the global aviation industry. On October 29, 2018, Republic Day, the President H.E. Recep Tayyip Erdoğan inaugurated Istanbul Airport – a global hub that is the new home of our national flag carrier. With this state-of-the-art facility, we are building a bright vision for the future, taking Turkey and the Turkish aviation sector to a higher level thanks to its strong multiplier effect. As will be seen more clearly in the coming years, Turkey and Turkish Airlines are well-positioned to capitalize on trends such as the shift of the center of global economic activity from West to East, and the ascendance of Asia Pacific as the most prolific growth region for the world's aviation industry.

2018 was also a historical milestone for our democracy. Following the Presidential Elections, which realized the nation's will at the highest level, Turkey has remained attractive globally owing to its political

stability, ongoing growth and strong economic potential. During the year, our nation welcomed around 44 million tourists drawn to its unmatched natural beauty as well as rich historical and cultural heritage. Meanwhile, Turkish Airlines ranked among the fastest-growing companies in the aviation industry thanks to its continuously expanding flight network and the enviable market position as the Flag Carrier of Turkey, one of the world's top tourism hubs.

OUR EXPERIENCE IS OUR COMPETITIVE ADVANTAGE

Blending the deep experience of our 85-year old brand with the vibrant energy of the young, dynamic Turkish Airlines family, we are steadily moving forward to achieve our goals, which are as robust and ambitious as ever. As one of the most well-established brands in the industry, our sole objective remains the same since our inception: unite our passengers – our valued guests – with their loved ones while presenting them the beauty of our country and richness of our culture. To date, we have garnered numerous awards and stood out with our superior service quality. These achievements also provide critical support to our home airport on its journey to "becoming the best in the

world." At Turkish Airlines, we cherish the place we occupy in the hearts and minds of our passengers above any award or accolade that we may receive. The Turkish Airlines family, from all staff ranks across the organization, has played the biggest role in making us number one in the eyes of our passengers. On this occasion, I would like to once again extend my gratitude to my colleagues for their valuable contributions to our national flag carrier, and to our subsidiaries, stakeholders and enterprises that have helped our national civil aviation industry to move forward. The recent achievements of Turkish Airlines – a great, sixty-thousand-strong family together with its subsidiaries – bolster our determination to reach the very top of world aviation.

DOUBLE-DIGIT PAX AND CARGO GROWTH

Turkish Airlines undertook huge investments in infrastructure, fleet and employment in 2018, which yielded significant benefits and progress in every area.

In 2018, the total number of passengers increased 9.5% over the prior year to reach 75.2 million. Our total passenger load factor came in at 81.9%, up 2.8 points year-on-year. The international passenger load factor rose 3.0 points to 81.4%, while domestic passenger load factor increased 1.2 points to 85.3%. The 11.6% jump in the number of direct passengers clearly demonstrates Turkey's steep climb in the global tourism industry.

Our financial statements also reflect the strong results of a successful tourism season. In 2018, we registered a consolidated real operating profit of USD 1.19 billion – an all-time record for us – while posting a net profit of USD 753 million.

In addition, our EBITDAR hit an all-time high of USD 3 billion 349 million, while the EBITDAR margin stood at 26.1%.

Thanks to its flight network covering the highest number of countries and international destinations worldwide in addition to highly diversified revenue streams, Turkish Airlines boosted its revenues by 17.3% to USD 12 billion 855 million backed by rising demand - thus setting yet another record in 2018.

One of our sub-brands, Turkish Cargo, maintained strong growth in 2018 with a view toward becoming one of the world's top five cargo companies by 2023. Currently ranking in the global top eight and serving 124 countries,¹ Turkish Cargo expanded its total carried cargo by 25.8% over the prior year to reach 1.4 million tons. Meanwhile, cargo revenues jumped 25.1% year-on-year to USD 1.65 billion in 2018.

In parallel with worldwide growth of e-commerce over the last decade, the air cargo sector has experienced rapid expansion. In 2019, global e-commerce is expected to total USD 3.5 trillion². As the air cargo sector is a direct stakeholder of e-commerce, the share of business-to-consumer e-commerce in air cargo has gone up from 83% in 2016 to 90% in 2018.³

Despite intense global competition in aviation and ongoing uncertainties in our region, Turkish Airlines posted double-digit pax and cargo growth figures and high profits. We continue to rank among the most successful companies in the industry worldwide.

Turkish Airlines has one of the youngest and most modern fleets in the world. Our aircraft have an average age of 8.2 years. At year-end 2018, our fleet totaled 332 aircraft: 218 narrow-body, 92 wide-body and 22 freighters. Turkish Airlines figures among the global top 10 in terms of fleet size.⁴ We are set to climb even higher in the rankings as the Boeing 787-9 Dreamliner is scheduled to join the fleet in the summer of 2019. In addition, the first of a series of new generation wide-body Airbus A350-900 will follow suit in 2020.

Our unrivaled flight network – centered in Istanbul, our main hub – expanded further to cover 124 countries by the end of last year. Meanwhile, our flight destinations climbed to 310: 52 domestic and 258 international. Sierra Leone's capital Freetown; the Uzbek city of Samarkand; Russia's Krasnodar; Moroni, the capital of the Union of Comoros; Gambia's capital Banjul; and the capital of Zambia, Lusaka were the new destinations added to our flight network in 2018.

OUR BIGGEST ADVANTAGE: ISTANBUL AIRPORT

Turkish Airlines' growth will gain further momentum thanks to this world-class facility, whose first phase will serve 90 million passengers per year. Istanbul Airport will be able to accommodate 200 million passengers upon completion of all phases.



182
BILLION

AVAILABLE SEAT
KILOMETERS
IN 2018

¹ World Air Cargo Data (WACD)

² Official Airline Guide (OAG-Analytics)

³ IATA – "Air Passenger Market Analysis-December 2018"

⁴ IATA – World Air Transport Statistics (WATS) 2018 (Exclusive of cargo companies.)

In 2019, we plan to start flights to the cities of Marrakech in Morocco; Sharjah in the United Arab Emirates; Bali/Denpasar in Indonesia; Mexico City and Cancun in Mexico; Rovaniemi in Finland; Luxor in Egypt; Port Harcourt in Nigeria; Pointe-Noire in the Republic of the Congo; and Strasbourg in France.

Backed by the highly robust performance of the tourism industry, one of our driving engines, Turkish Airlines plans to further diversify the direct flight offerings from the country's tourism centers – such as Antalya, Izmir and Bodrum – to Europe and the Middle East in 2019. This effort is in line with the Direct Tourism Initiative we launched last year together with the Ministry of Culture and Tourism. In 2019, we also aim to expand the number of flights to export-oriented cities such as Kayseri, Gaziantep and Adana. In 2018, we continued to strongly connect Ankara to Europe, launching flights between Turkey's capital and major urban centers in Europe and the Middle East. In 2019, we plan to continue our efforts to this end.

According to International Civil Aviation Organization (ICAO) data, the number of scheduled passengers globally rose 6.1% year-on-year to 4.3 billion in 2018. In line with industry trends, the number of such passengers is projected to jump to 4.6 billion in 2019.

Aviation authorities forecast that over the next two decades, number of airline passengers will total 8.2 billion, with compound annual growth of 3.5%.⁵ The primary driver of this growth, which is expected to nearly double current number of airline passengers will be the Asia Pacific region, which accounts for an ever-increasing share of global economic activity. Turkish Airlines is already preparing for the future of civil aviation by combining the unique strategic value position of Istanbul with Turkey's unrivaled geographic position at the intersection of two continents. As the airline flying to more countries than any other, Turkish Airlines is gradually implementing its growth strategies with regard to its flight network, fleet and service quality in line with this perspective.

READY TO MAKE HISTORY WITH ISTANBUL AIRPORT

The first phase of Istanbul Airport was completed in a record-breaking time of just 42 months and inaugurated on October 29, 2018 by the President H.E. Recep Tayyip Erdoğan. Istanbul Airport places Istanbul – our home city that connects two continents – at the very center of the global aviation industry. As a result, Turkish Airlines and the Turkish aviation sector are aligned with the shifting economic axis of the world to provide both with maximum advantage. Developed with in-depth strategic insight and forward-looking vision, Istanbul Airport ensures the healthy, sustainable growth of Turkish Airlines in the coming decades. The cutting-edge facility also bolsters Istanbul's leading position in terms of tourism, logistics and commerce, on one of the most critical axes of world air transportation and trade in general. Istanbul Airport is the world's biggest greenfield airport built under a single roof. The strategically located facility provides access to 66 countries within five hours of flying time and heralds Istanbul's new position as a veritable superstar of world aviation.

For Turkish Airlines, Istanbul Airport represents the opportunity to add new destinations to our continuously growing flight network in line with our mission of building bridges between continents, peoples and cultures. The main differentiator setting Turkish Airlines apart from its rivals is our "Brand Experience," which incorporates unique values originating from our deep-rooted culture, such as our commitment to hospitality. With our new home at Istanbul Airport, our Brand Experience has been refreshed and enriched with innovations that more clearly showcase the importance we place on serving our passengers. From special passenger lounges to streamlined self-check-in areas, we have redesigned every point of contact between our brand and our passengers with a fresh touch. Turkish Airlines works tirelessly to deliver an ever more impressive experience that our passengers will enjoy with us. All these opportunities, advantages and more will help us raise the bar of service quality even higher and surpass ourselves. We warmly await our passengers at Istanbul Airport, which has a 90 million passenger

capacity in its first phase and will reach a total capacity of 200 million passengers when all phases are complete. Turkish Airlines has truly ushered in a new era with Istanbul Airport. We plan to move forward by taking bold, dynamic and resolute steps in this new era, heading toward more ambitious goals with renewed confidence. As a symbol of this new exciting period, Turkish Airlines has refreshed its cabin uniforms and the brand's visual identity – most discernible visual elements for our passengers. The elegant cabin uniforms demonstrate our commitment to reaching our goals by blending the experience from our deep-rooted history with chic design. This new look also prepares the cabin crews, our continuously smiling faces, for the new and exciting period of growth that lies ahead. The "Flow" detail in our new uniforms, designed by the renowned haute-couturier Ettore Bilotta, symbolizes the brand's award-winning, streamlined and impeccable service philosophy, while reflecting the vibrant energy of our country Turkey and our home Istanbul.

MAKING A DIFFERENCE WITH OUR COMMUNICATION CAMPAIGNS

As a global brand and Turkey's national flag carrier airline, Turkish Airlines provides support to social, cultural and sports activities in the countries that we serve. We forge ties between peoples and societies in order to actively promote our service philosophy across the world. Turkish Airlines is also committed to representing the heritage of civilization of our home country. We serve as de facto ambassadors of Turkey. These various social, cultural and sports activities rank among our top communication efforts to convey the influence and power of our brand to mass audiences. In 2018, one of the leading communication campaigns that we launched was "Five Senses," featuring the famed TV presenter and surgeon Mehmet Öz, also known as Dr. Oz. Under this campaign, Dr. Oz invited hundreds of millions of people to discover the world via Turkish Airlines. For the third time, our brand was present in the commercials aired during the Super Bowl, the championship game of American football and the most watched program in television history. This effort strongly boosted our brand recognition.

Global studies show that Turkish Airlines ranks second in terms of brand recognition among the world's most popular airlines. We continue our efforts in this arena to become the global "number one."

By supporting cultural and sports activities, Turkish Airlines fulfills the requirements of being a global brand, while also building bridges between peoples, by means of shared values and ideals. One of the sports activities that we sponsor is Turkish Airlines EuroLeague. This effort allows us to contribute to European basketball, take advantage of the unifying power of sports, and deliver the brand commitment of Turkish Airlines to the wider masses. In our sponsorship activities, we highlight Turkey's innumerable natural and cultural assets, thus contributing to our tourism sector as well. The Turkish Airlines Open has turned Antalya into one of the preeminent destinations of world golf tourism by welcoming the top names of this sport to our country. We also reach out to amateur golfers with the world's largest corporate amateur golf tournament: Turkish Airlines World Golf Cup. Our other sponsorships include the European Professional Club Rugby Championship and Chio Aachen Equestrian Tournament. Sponsorship participation at these events allows us to reach a key segment of potential passengers and further enhance the prestige of our brand.

TOWARDS HIGHER GOALS

Marked by our double-digit growth and the start of operations at Istanbul Airport, fiscal year 2018 was a crucial milestone for Turkish Airlines. Istanbul Airport, which became fully operational in 2019, is a strategic asset to Turkish Airlines with regard to our objectives for 2023 and beyond. We are aiming for 120 million passengers and a 500-aircraft fleet by the 100th anniversary of our Republic in 2023. To this end, Turkish Airlines will ramp up its journey to the summit of the aviation sector, as a great family of over 60,000, including our subsidiaries. I would like to extend my gratitude to our employees, business partners and shareholders for sharing our excitement about this new era of aviation we are entering, and their confidence in us. We hope to close fiscal year 2019 with even more ambitious achievements.

A GREAT FAMILY OF OVER 60 THOUSAND

With a large, 60-thousand-strong family including its subsidiaries, Turkish Airlines continues its journey to the very top of the aviation industry.

COME AND EXPLORE THE NEW HOME OF TURKISH AIRLINES

An immense expanse of 76.5 million m²...

Two monumental structures: The first terminal building of 1.4 million m² and the 95-meter high Air Traffic Control Tower, which received an International Architecture Award... The world's largest airport, located in Istanbul, and the new home of Turkish Airlines, where it will rise to the summit of the global aviation industry...

76.5
MILLION M²

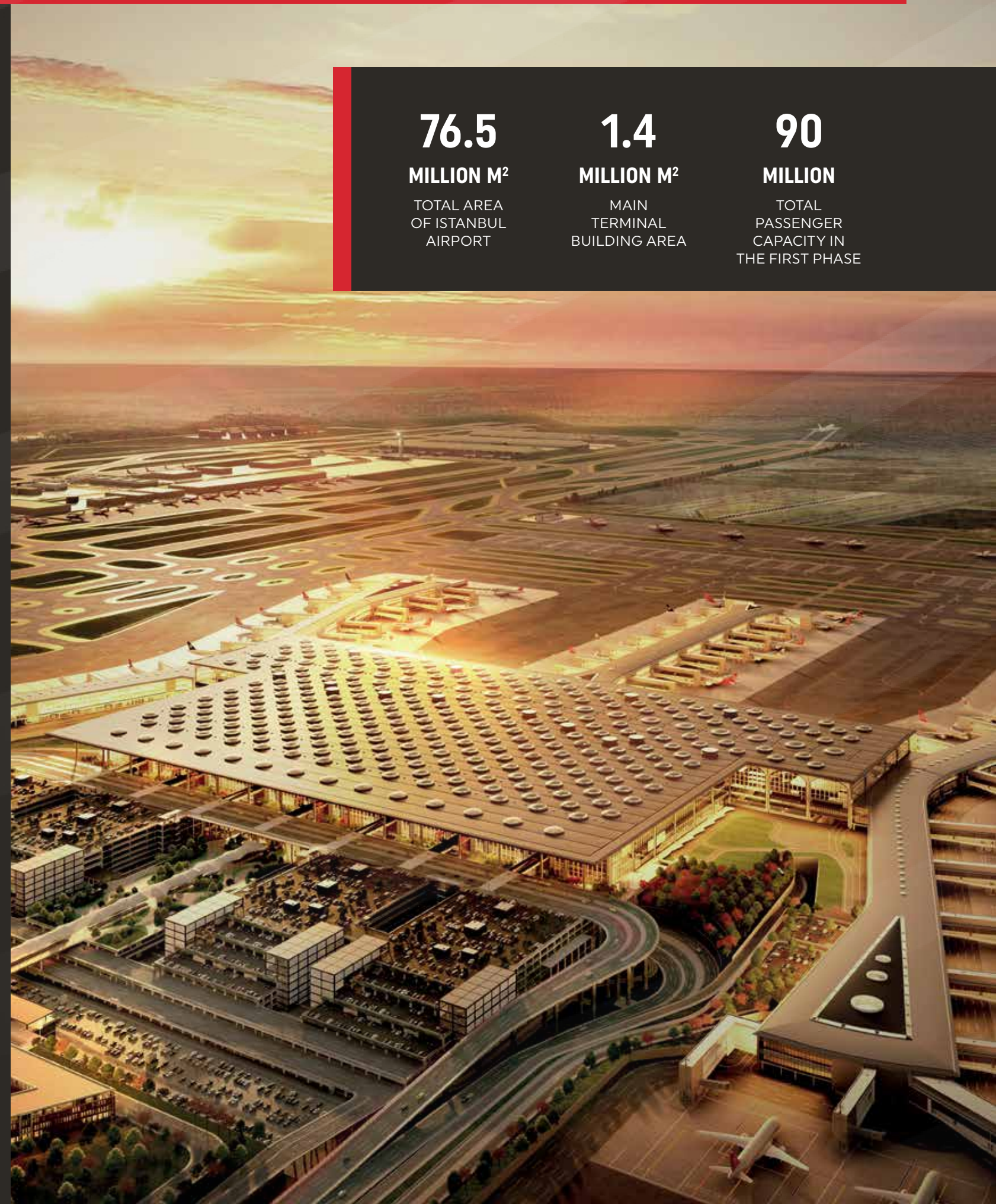
TOTAL AREA
OF ISTANBUL
AIRPORT

1.4
MILLION M²

MAIN
TERMINAL
BUILDING AREA

90
MILLION

TOTAL
PASSENGER
CAPACITY IN
THE FIRST PHASE



ISTANBUL AIRPORT'S MAIN TERMINAL BUILDING IS FOUR TIMES LARGER THAN ATATÜRK AIRPORT TERMINAL

You won't believe your eyes when you arrive here. The terminal building stretches two kilometers from end to end. We take you on a memorable journey from the airport entrance right up to the boarding gate...



The inauguration of Istanbul Airport will boost the number of passengers as well as cargo volume. The cargo capacity, which stands at 2.5 million tons in the first phase, will reach 5.5 million tons once all phases are complete. With its vast annual cargo capacity, the state-of-the-art facility will transform Istanbul into the world's largest cargo city.

In the near future, Turkey will rank among the top 10 countries globally in terms of the number of passengers. Set to give a huge boost to economic growth, Istanbul Airport is expected to deliver TL 73 billion in added value by 2025, which will represent 4.9% of Turkey's GDP.¹

¹ IGA, "Economic Impact Analysis of Istanbul's New Airport," June 2016

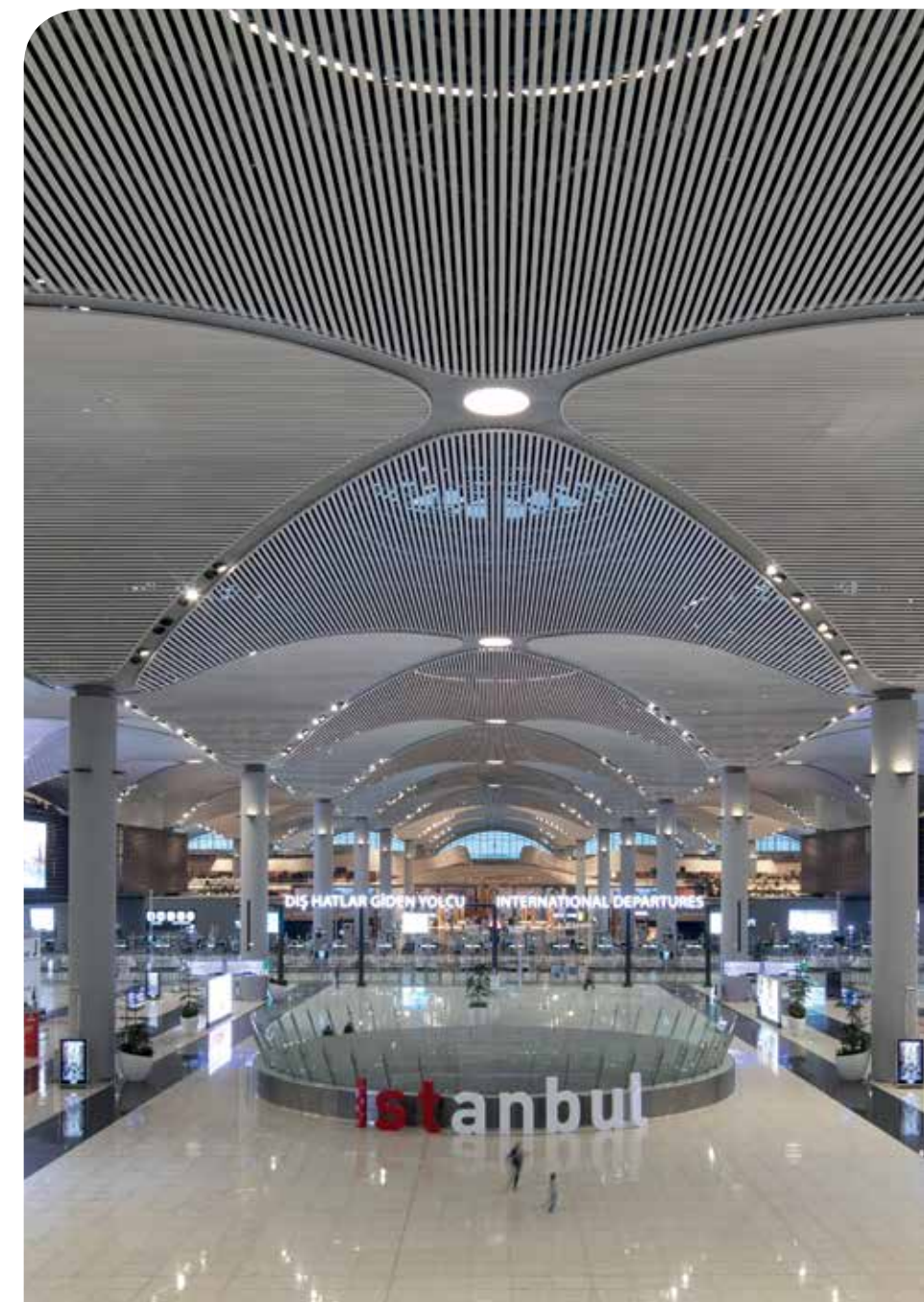


**5.5
MILLION
TONS**
CARGO
CAPACITY

With its soaring height and its vast interior space, this structure impresses you from the moment you enter. At Istanbul Airport, the transfer between terminal and aircraft will no longer be performed by bus. In the apron of the new airport facility, buses will have minimal use. Some 114 aircraft will be able to approach the terminal simultaneously. A total of 143 boarding bridges will serve aircraft at the airport. (Large aircraft such as the A380 require three boarding bridges for a single gate.) Passengers will always take the boarding bridge to reach their aircraft. As a result, landing-boarding times are reduced.

80% OF FLIGHTS IN ISTANBUL AIRPORT WILL BE CARRIED OUT BY TURKISH AIRLINES

After Turkish Airlines moves all its operations to Istanbul Airport, this mega facility will commence operating at full speed. Designed to inject fresh air into the industry, Istanbul Airport will move Turkish aviation forward in both quantitative and qualitative terms. Turkey is set to figure among the most important hubs of world commercial aviation. Turkish Airlines shoulders vast responsibilities for the smooth operationalization of Istanbul Airport, the mega transportation center which will become the driving engine of Turkey's aviation industry.



TURKISH AIRLINES AT A GLANCE

Turkish Airlines – flying to the most countries in the world and boasting the fourth largest flight network globally – has become the world's 11th largest airline with 332 aircraft as of end-2018.¹

¹ World Air Transport Statistics (WATS) 2018



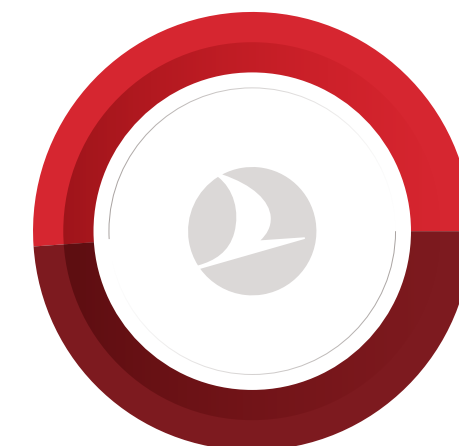
Established in 1933, the main business line of Turkish Airlines is domestic and international air transportation of passengers and cargo. Of the Incorporation shares, 50.88% are publicly traded, 49.12% are owned by Turkey Wealth Fund, and one C Class share is owned by Republic of Turkey Ministry of Treasury and Finance Privatization Administration. The paid-in capital of the Incorporation is TL 1.38 billion. The Incorporation owns five subsidiaries and 10 joint ventures, adding up to 15 in total.

As the airline flying to the most countries and international destinations in the world, Turkish Airlines flies to a total of 310 destinations as of end-2018, of which 52 domestic and 258 international. Turkish Airlines increased the number of aircraft in its fleet by 27.2% in the last 5 years to 332 by the end of 2018, of which 92 are wide-body aircraft, 218 are narrow-body aircraft and 22 are freighters.

In 2018, Turkish Airlines recorded 75.2 million passengers, up 9.5% over the previous year. Number of passengers on domestic flights rose 9.3% while those on international flights increased 9.7% year-on-year. The number of passenger aircraft landings increased 5.2% to 493,876 in 2018, while cargo and mail carried 1,412,423 tons with an increase of 25.8%.

TURKISH AIRLINES PARTNERSHIP STRUCTURE

Of the Incorporation shares, **50.88%** are publicly traded, **49.12%** are owned by Turkey Wealth Fund, and one C Class share is owned by Republic of Turkey Ministry of Treasury and Finance Privatization Administration.



Other (Publicly Traded) **50.88%** Turkey Wealth Fund **49.12%**

332 AIRCRAFT
The Turkish Airlines fleet includes 92 wide-body aircraft, 218 narrow-body aircraft and 22 freighters.

A VETERAN PILOT'S PERSPECTIVE ON TURKISH AIRLINES: YESTERDAY AND TODAY

Piloting is a profession where age and experience are the greatest assets. We interviewed Menderes Çakıcı, one of the most experienced captains of our fleet and a first-hand witness of the glorious past of Turkish Airlines, which celebrates its 85th anniversary this year. A member of the Turkish Airlines family for over 30 years, Captain Pilot Menderes Çakıcı summarized for us the Incorporation's past and present.



AN HONOR TO BE A PART OF 85 YEARS OF GLORY

"I've spent many years here. I see myself as a member of a huge family," says Menderes Çakıcı. Let's learn from Mr. Çakıcı:

How did you decide to become a pilot and join Turkish Airlines?

I was born in Selametli village in Gölbaşı, on the outskirts of Ankara. Directly across from our village, the Turkish armed forces operated a zone where special military troops engaged in training, jumped from aircraft flying above and landed below with parachutes. From my earliest days, I can remember a C-47 aircraft flying above Selametli. I really enjoyed watching it. I very much wanted to fly a C-47. Furthermore, just before I was born, a Turkish Aviation Agency aircraft had crashed on a hill near our village. Two pilots lost their lives in the crash. The families of those deceased pilots would occasionally visit the village to pay their respects. My parents adored them. When I learned about the incident, it really made an impression on me. For these reasons, I decided to become a pilot. First, I studied aeronautical engineering and then I became a member of the Turkish Airlines family.

Can you tell us about Turkish Airlines at the time when you joined?

I graduated with high honors from university. As a result, I received a job offer from the USA. Then one day, I saw a Turkish Airlines employment advert in the newspaper. I responded to that ad, submitted my application, passed the selection exams and joined this exceptional institution back in 1988. When I first started, Turkish Airlines had a fleet of about 30 aircraft. Our total passengers numbered less than four million. We could utilize the aircraft only 25% of the time, although they were designed to fly 24/7. The passenger load factor was rather low, around 60%. Since those humble beginnings, we have reached where we are today.

In your view, what were the major turning points along this journey?

There are various reasons why Turkish Airlines has become one of the world's top airlines. For example, Turkey's political authorities changed their mindset and made critical decisions opening the door to growth. The privatization process of 2006, the ensuing competitive environment and prudent decision-making by the management team also played a crucial role in the Incorporation's development. Subsequently, the acquisition of intercontinental aircraft sharpened our competitive edge. In another milestone, we joined Star Alliance, and thus came to serve ever larger numbers of passengers. We also ascended further when we established Flight Academy to train our own pilots and pursued a specialized human resources policy.

What are the competitive advantages of Turkish Airlines?

Where do we stand today? First of all, we have a modern and young fleet of aircraft. We also enjoy a real unity outside the formal organization. That is, we are a team. A real team. We have a strong emotional bond to one another. We truly embrace the Incorporation, as it bears Turkey's flag with

the crescent and star. Each Turkish Airlines employee works as if they are serving that flag, as if it were their very own company. We also have a strong sense of hospitality, which our rivals lack. Over the years, we have won numerous awards in recognition of our excellence in catering and hospitality. And although every company advertises, our ads are exceptional. All of a sudden, you might see a Turkish Airlines advert atop a world-famous edifice. Or on the back of a bus in a remote corner of the world, you may see the Turkish Airlines logo. Let's say you are in China, chatting with people in an ice cream parlor in some city, they will often acknowledge and show great respect when you mention Turkish Airlines. People around the world hold us in high regard. They say, "We are making a living here and we have come so far thanks to Turkish Airlines." This fact inspires immense pride in me.

Now you have a new home, Istanbul Airport...

Yes, we are moving to Istanbul Airport now. Of course our operational capacity will expand. We will gear up our growth drive. Due to the rising number of transit passengers, airport capacity, modernity and amenities have gained in importance. Queues and loss of time during transit are a disadvantage for passengers. Turkish Airlines will start a new chapter in its success story thanks to the new airport.

Finally, what does Turkish Airlines mean to you personally?

I have spent many years of my life here: my youth and mid-life. I truly consider myself as part of a vast family. Turkish Airlines is one of Turkey's biggest brands. It inspires pride in citizens living in Turkey and abroad. Everyone is proud of the brand. Turkish Airlines forms a bridge that connects Turkey to the world. As such, it is a source of pride for all of us. As a huge global brand, Turkish Airlines supports the nation in every aspect, brings millions of tourists to the country, and adds significant value to the economy. In brief, Turkish Airlines is a huge part of my family.



RELAX MORE

Freshen up and relax before your flight,
taste some exceptional dishes, have a massage.
More to discover in Istanbul Airport Turkish Airlines Lounge.



TURKISH AIRLINES

FINANCIAL ANALYSIS

In 2018, Turkish Airlines boosted passenger revenues by 16.1% while cargo revenues jumped 25.1%.



USD
12,855
MILLION
SALES REVENUE

THE YEAR OF NEW RECORDS

On the tourism side, the robust momentum of the prior year continued throughout 2018. As a result, Turkish Airlines broke a series of records in financial and operational terms in 2018. Thanks to relatively lower daily hotel room prices compared to other major hubs of tourism, such as Portugal, Greece and Italy, Turkey ranked highest in global tourism. In 2018, foreign tourist arrivals to Turkey broke a record and climbed to 40 million, up 22% over the previous year. On top of this rise on the direct passenger side, demand for domestic and international transfer also increased. Gulf carriers, which had registered double-digit capacity increases in prior years, grew at single-digit rates in 2018, which had a positive impact for Turkish Airlines in Asian and European markets. The combination of these effects brought around 9.5% rise in the total number of passengers for Turkish Airlines in 2018. Meanwhile, passenger load factor rates rose 2.8 points to 81.9%.

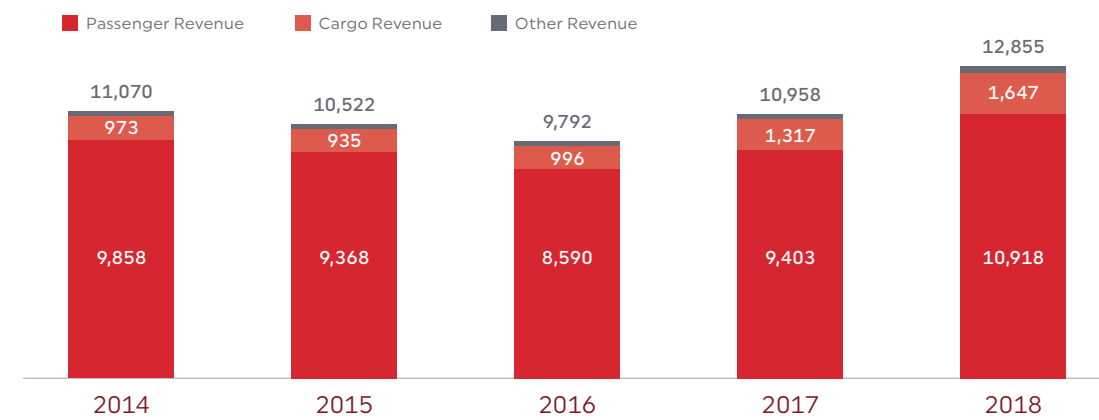
Fuel costs, the largest cost item for the aviation industry, headed higher in 2018 due to the 31% jump in average Brent oil prices. Rising demand from passengers boosted unit revenues; however, higher

fuel oil prices squeezed profit margins. Meanwhile, the Dollar Index, unlike the case in 2017, rose by nearly 7% in 2018, resulting in an appreciation of the US dollar vis-a-vis emerging country currencies. Nonetheless, due to the foreign currency-denominated revenue portfolio of Turkish Airlines and thanks to effective hedge management, Turkish Airlines was among the companies least affected by exchange rate volatility.

According to IATA, the global aviation industry saw passenger revenues rise 6% and cargo revenues jump around 15%. Over the same period, Turkish Airlines achieved a 16.1% increase in passenger revenues and a 25.1% rise in cargo revenues, outperforming the sector average. Total revenues climbed 17.3% over the prior year to reach an all-time high of USD 12.9 billion. Passenger revenues accounted for 85% of total revenue, while the share of cargo revenues increased to 13% in 2018.

On the cargo operational side, healthy growth continued with all-time highs recorded in this area as well. In 2018, cargo volume totaled 1.4 million tons, up 25.8%. Meanwhile, cargo revenues increased 25.1% to USD 1.6 billion.

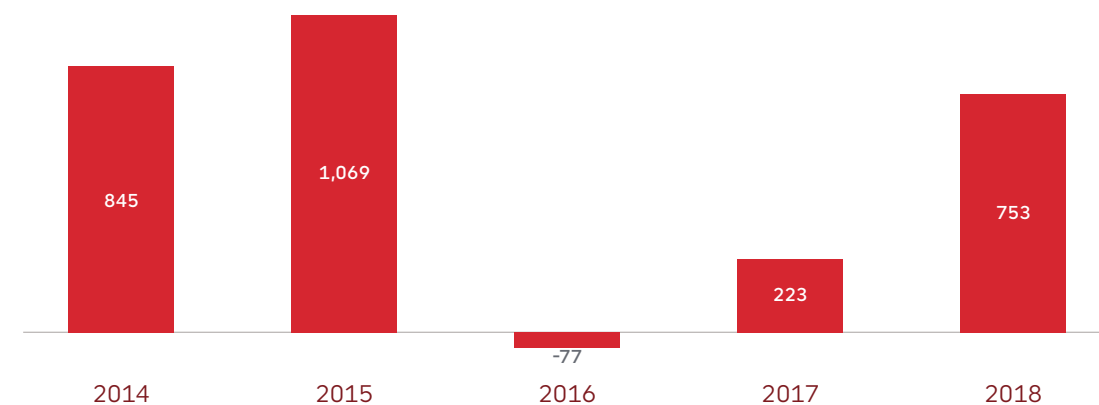
REVENUE DISTRIBUTION BY CATEGORY (USD MILLION)



SUPERIOR ACHIEVEMENTS COUPLED WITH SUSTAINABLE GROWTH

Boasting the most effective cost management in the industry, Turkish Airlines maintained this competitive advantage in 2018 despite the sharp rise in fuel costs. Due to ongoing discipline on the capacity side and favorable demand, Turkish Airlines boosted its real operating profit by 16.5% in 2018 to USD 1 billion 191 million – the highest level in its history. According to IATA, the average real operating profit margin of airlines sector-wide came in at 7% in 2018, while Turkish Airlines posted an above-average profitability rate of 9.3%.

NET PROFIT (USD MILLION)




USD
753
MILLION
NET PROFIT

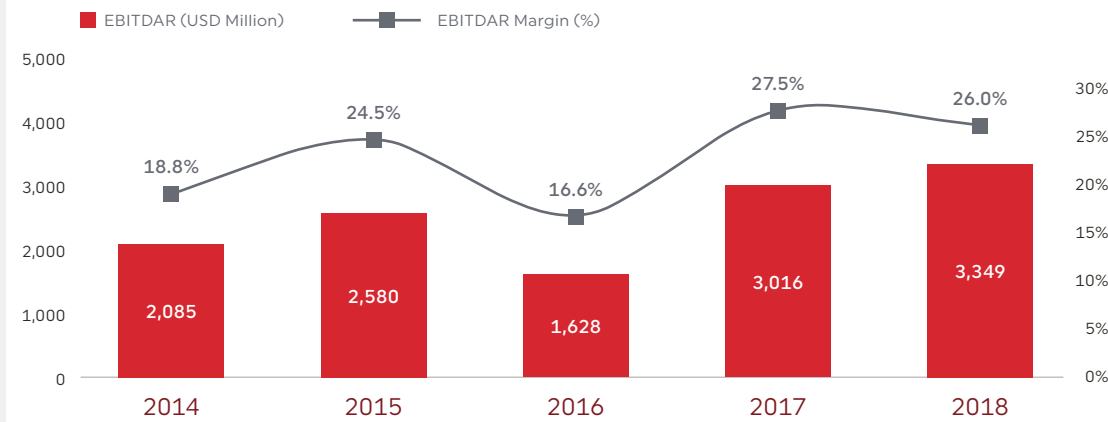


USD
3,349
MILLION
EBITDAR

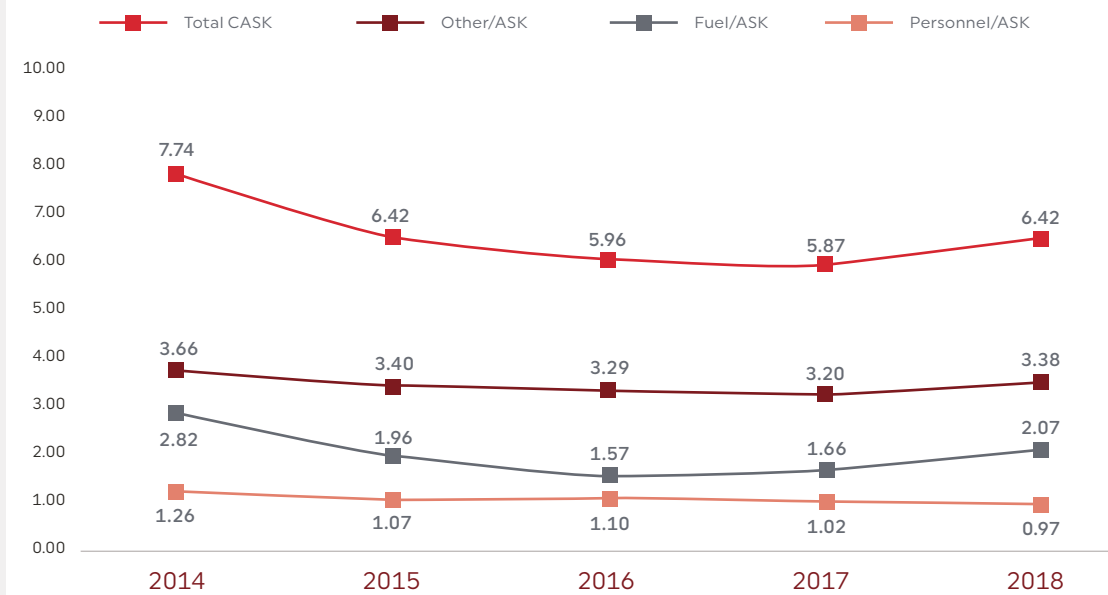
CASH GENERATION ABOVE THE SECTOR AVERAGE

Turkish Airlines measures its profitability and cash generation potential in terms of EBITDAR – a widely used performance measurement for the aviation industry. In 2018, Turkish Airlines increased its EBITDAR by 11% over 2017 to USD 3 billion 349 million. During the same period, EBITDAR margin came in at 26% due to increased costs in parallel with soaring fuel prices. In this area, Turkish Airlines posted the highest profitability figure of its history, bolstering its position as one of the most profitable airlines in the industry. These figures have once again confirmed that the Incorporation has a huge internal potential to finance its forward-looking investments.

2014-2018 AVERAGE EBITDAR MARGIN: 22.7%



UNIT COSTS (US DOLLAR - CENT "USc")



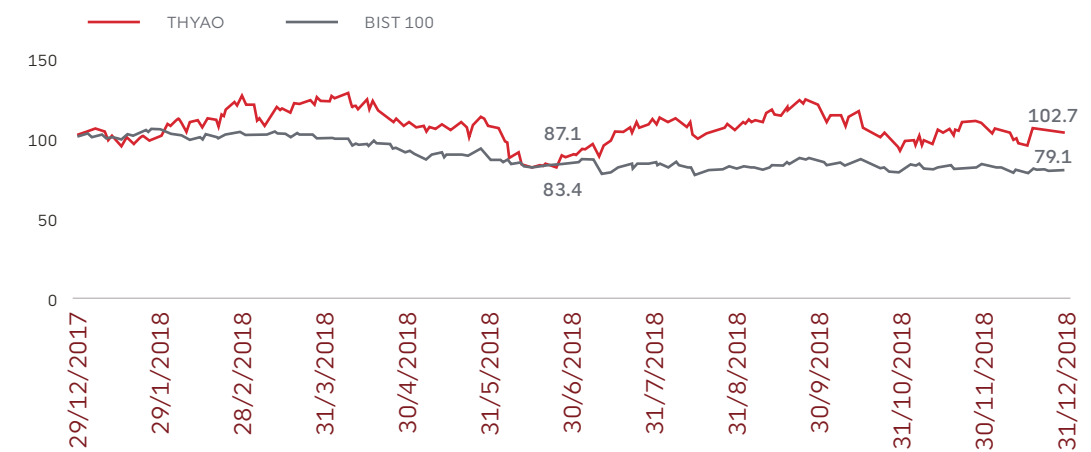
THE MOST TRADED SHARE

Since 1990, Turkish Airlines shares have traded on Borsa Istanbul under the ticker THYAO. The publicly traded percentage of the Incorporation has risen to 50.88% after the secondary public offerings in 2004 and 2006. Turkish Airlines regularly figures among the top Turkish shares of choice for investors. In 2018, Turkish Airlines registered the highest trading volume and became the second most traded share on Borsa Istanbul with a trading volume of TL 252 billion, thanks to its high liquidity and broad investor base. The Incorporation's trading volume climbed 47% year-on-year. Turkish Airlines share price rose 2.7% during 2018, even as the BIST 100 declined 21%. Despite the economic turmoil globally and in Turkey during the year, Turkish Airlines maintained its market capitalization at the 2017 level, reaching TL 22.2 billion by year-end.



26.0%
EBITDAR
MARGIN

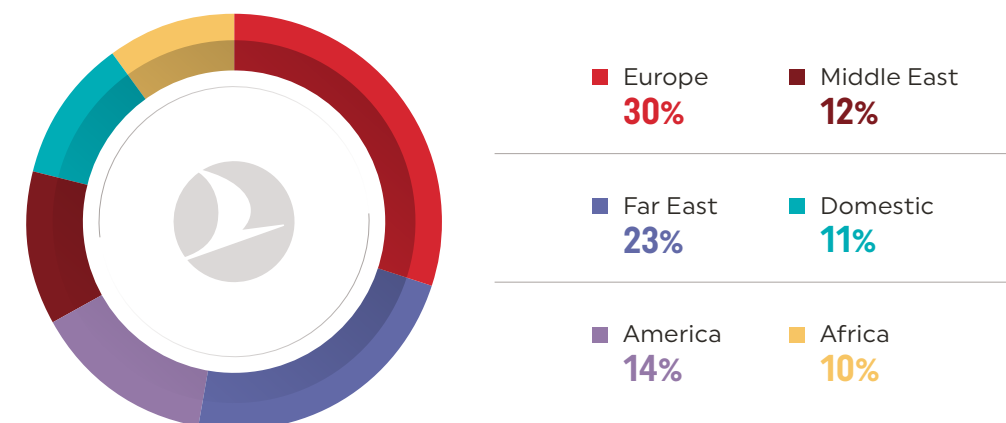
PERFORMANCE COMPARISON OF THYAO-BIST 100



WELL-BALANCED REVENUE PORTFOLIO

Turkish Airlines' vast flight network allows for diversified revenue flow, thus creating a natural hedge mechanism against regional risks. Europe accounts for the largest share in the regional distribution at 30%. The new flight destinations of Freetown, Samarkand, Krasnodar, Moroni, Banjul and Lusaka have further diversified our revenue portfolio. Meanwhile, Europe and America increased their share in revenues by 1 percentage point over last year.

REGIONAL DISTRIBUTION OF REVENUES*



* Passenger and Cargo Revenues

DEVELOPMENTS IN THE INDUSTRY AND EXPECTATIONS FOR 2019

In 2018, the civil aviation industry demonstrated a favorable performance and recorded net profit of USD 32.3 billion, thus posting a profit for the ninth consecutive year.



OVERVIEW OF THE AVIATION INDUSTRY

In 2018, despite many uncertainties across the world, the civil aviation industry demonstrated a favorable performance and recorded a net profit of USD 32.3 billion, thus posting a profit for the ninth consecutive year. The number of total scheduled passengers rose 6.1% to 4.3 billion, while passenger traffic increased at a rate (+6.5%) above the capacity increase (+6.1%).¹ As such, the passenger load factor grew for the sixth year in a row, reaching 81.9%.²

In 2019, the civil aviation industry is projected to post net profit of USD 35.5 billion. Profitability is expected to be negative in Africa, as was the case over the last four years. Other world regions are expected to record a profit, with North America registering the highest profitability rates.

The number of scheduled passengers is projected to rise 5.6% to 4.6 billion and passenger capacity to increase 5.8%. Passenger traffic is expected to expand 6.0%. Meanwhile, the passenger load factor is projected to reach 82.1% on the back of strong growth, posting an increase for the seventh year in a row in 2018.²

In 2018, the industry's unit fuel cost increased 13.5% due to rising petroleum prices, with total unit cost up 3.7% and non-fuel unit cost up 1%. As such, the share of fuel cost in total cost rose about 2 points to 23.5%.²

In 2019, the civil aviation industry's total unit cost is expected to rise 2.4% with non-fuel unit cost increasing 1.5%. Unit fuel cost is projected to rise a further 6.1% and account for 24.2% of total unit cost.²

Passenger unit revenue, which has declined for seven years in a row, continued its downtrend and decreased 0.9% in 2018, thus recording an aggregate contraction of 30% since 2012. In 2019, the seven-year downtrend in passenger unit revenues is projected to finally end with a 1.4% increase.

Turkey maintained its growth trend in 2018. The number of domestic passengers rose 3.0% to 56.4 million while the number of international passengers jumped a remarkable 16.4% to 97.2 million driven by robust tourism activity. In 2018, the total number of passengers in Turkey increased 8.6% to 153.6 million over the last year.³

¹ IATA - "Air Passenger Market Analysis-December 2018"

² IATA - "Economic Performance of the Year 2018"

³ DHMI - "Airplane, Passenger and Cargo Traffic Data for Turkey, 2002-2018" (Number of domestic passengers and domestic cargo volume have been calculated by dividing the figures by two.)

In 2018, the number of scheduled passengers rose 6.1% to 4.3 billion. In 2019, this figure is expected to increase a further 5.6% to 4.6 billion.


**8.6%
GROWTH**

THE RATE OF
GROWTH IN
TOTAL NUMBER
OF PASSENGERS
IN TURKEY
IN 2018


11.4%
GROWTH
 GROWTH IN
 TOTAL AIR
 CARGO TRAFFIC
 VOLUME IN
 TURKEY IN 2018



AIR CARGO OVERVIEW

CARGO WORLDWIDE

Global air cargo traffic increased 3.5% in 2018 and is expected to rise 3.7% in 2019.

Shifting world trade dynamics and customer habits have significantly changed the air cargo industry. The sector, which constitutes less than 1% of world trade volume, represents over 35% of world trade value, at USD 6 trillion.¹

The most important development for air cargo transport over the last 10 years is the rapid rise of e-commerce worldwide. The total sales value of the e-commerce market increased 20% per year between 2005-2017. This figure jumped 66% from Asia Pacific to Europe between 2013-2015. The global value of e-commerce sales is projected to total USD 3.5 trillion by 2019.²

In 2010, business to consumer e-commerce accounted for 16% of total air cargo transport. This figure reached 83% level in 2016 and 90% level in 2018 due to the expansion of online enterprises and internet use.³

According to IATA data, air cargo transport expanded 3.5%⁴ in 2018 and is projected to increase 3.7% 2019. Meanwhile, carried cargo volume is expected to increase 3.5% to 65.9 million tons with cargo unit revenue rising a further 2.0% in 2019 after jumping 10.0% in 2018.⁵

According to 2018 data from the General Directorate of State Airports Authority (DHMI), air cargo traffic increased 11.4% overall, with domestic traffic declining 6.4% in Turkey while international traffic rose 12.0%.

¹ IATA - "The Value of Air Cargo."

² IATA - "Air Cargo Serving E-commerce - September 2017."

³ IATA - "Annual Review 2018."

⁴ IATA - "Air Passenger Market Analysis - December 2018."

⁵ IATA - "Economic Performance of the Year 2018."

REGIONAL REVIEWS

EUROPE

The group airlines operating in Europe fared better than expected in 2018. However, certain airlines operating independently went bankrupt for failing to adapt to changing market dynamics and intense competition. The gap created by the withdrawal of failing airlines was filled by other European airlines, especially low-cost carrier (LCC)s that enjoy a strong market position.

The LCCs, which account for about 36% of the European market, reported 7-8% growth in 2018.¹ This figure, the lowest growth rate of the last five years, is expected to slip further to 5.5% in 2019.² The increasing share of LCCs in the region urges other airlines to adapt different strategies. The large-scale European group airlines continued to exit shrunken markets dominated by LCCs and transfer these flights to their sub brands in 2018. LCC capacity within total capacity of the three complex European airlines groups is expected to surpass 25% by 2019.³

Airline mergers and share acquisitions are another factor that shaped European aviation during 2018. These mergers and share sales, which are seen as an effective by individual European airlines facing a difficult market, are expected to continue in 2019.

Brexit, on the other hand, is a factor that will affect traffic within Europe. In the absence of an agreement, airlines on both sides will have to abide by certain additional regulations.

In 2018 in Europe, passenger traffic expanded 6.6%, surpassing the capacity increase of 5.8%. Net profit per passenger decreased 13% to USD 6.65 year-on-year. Total net profit of European airlines slipped from USD 8.2 billion in 2017 to USD 7.5 billion in 2018.^{4,5} While other world regions are expected to improve their profitability in 2019, total net profit in European aviation is projected to dip slightly in 2019. Intense competition and the impact of LCCs are the reasons for the anticipated decline. The total net profit of USD 7.4 billion is expected for 2019. In the region, passenger traffic is projected to increase 5.5% while capacity rises 6.1%.⁴



As a result, polarization is expected to become more evident in European aviation in 2019 with the distinction between strong and weak becoming more pronounced.



6.6%
GROWTH

TOTAL
 PASSENGER
 TRAFFIC
 GROWTH IN
 EUROPE REGION
 IN 2018

¹ Centre for Aviation (CAPA)

² anna.aero - "Low-cost airline capacity in Europe set for half a billion seats in 2018"

³ Official Airline Guide (OAG-Analytics)

⁴ IATA - "Economic Performance of the Year 2018"

⁵ IATA - "Air Passenger Market Analysis - December 2018"


2.4%
GROWTH
 TOTAL PASSENGER TRAFFIC GROWTH IN AFRICA REGION IN 2018



AFRICA

Negative factors such as political and economic instability, protectionist policies by governmental states and inefficient management of airline companies continue to affect African aviation adversely. When ongoing security and infrastructure problems are added to the aforementioned issues, Africa is expected to remain the weakest region for civil aviation in 2019, as has been the case over the previous four years.¹

In the Africa region, which accounts for nearly 3% of global air traffic, African carriers reported a net loss of USD 400 million in 2018; the region's carriers are expected to announce a net loss of USD 300 million in 2019. The projected net loss per passenger in 2019 is forecast to be to USD 3.51, down 16%. The region is expected to record a similar expansion in capacity and traffic, since a capacity increase of 4.9% is projected to be accompanied by traffic growth of 5%. As a result, Africa's outlook is expected to

brighten in 2019, in comparison to the 1.0% capacity increase and 2.4% traffic growth in 2018.^{1,2}

The region's airlines, which are unable to effectively tap into connection opportunities and economies of scale, grapple with persistent funding and cash flow problems. Middle East-based airlines are expected to invest African airlines that encounter such issues and fail to sustain investments at a healthy rate.

African aviation is expected to usher in a new era with the Single African Air Transport Market (SAATM) agreement signed by 27 countries across Africa at the beginning of 2018. This effort aims to liberalize civil aviation within Africa, increase connection quality, enhance its low rate policy, ensure sustainable development and boost aviation's contribution to economic growth.³

¹ IATA – "Economic Performance of the Year 2018."

² IATA – "Air Passenger Market Analysis – December 2018."

³ IATA (Africa) – "Update on the Single Africa Air Transport Market."

ASIA

The Asia Pacific region, home to more than half of the world population, is projected to record high growth in civil aviation due to a fast growing middle class population, expanding economy, rising aviation investments and increasing tourism.

Although Asia Pacific was the fastest growing region in 2018 with a 7.9% capacity increase and 8.6% traffic growth, its net profit of USD 9.6 billion and net profit per passenger of USD 6.01 remained behind North America figures.^{1,2}

Passenger traffic is growing robustly in the domestic markets of Asia Pacific, which includes nine of the world's 10 most intensive domestic routes.³ Traffic within Asia Pacific grew 6.1% in 2018. Meanwhile, traffic from Asia Pacific to Europe draws much attention in the international market.¹

The most important factor affecting air transport growth in the region is the rise of low-cost carriers. Due to increasing international tourism and an expanding middle class population, the number of LCCs and their passengers are on an uptrend. LCC capacities have increased significantly in South Korea, Japan, China, Taiwan, Hong Kong, Thailand and Malaysia in recent years. In addition, both European and Asian airlines carry out long-haul, low-cost flights.

Due to the increase in LCC operations, airline companies are setting up their own sub-companies, taking positions with long-term bilateral strategic partnerships and share transactions rather than alliances. These efforts aim to maintain or boost their market share in the face of toughening global competition.

Meanwhile, the possible global spillover of trade war between the USA and China pose a serious risk; however, the impact on the aviation industry is expected to be limited. The USA exempts air-transported consumer products from customs tariffs on imports. In addition, certain commentators suggest that China's rapid growth could lead to economic imbalances in the region and that the trade war with the US may have an impact on its economic growth.⁴

Another factor set to shape the Asia Pacific market is the EU-ASEAN "Open Skies" agreement. Thanks to this agreement, flights may originate from any EU country to any ASEAN country, and vice versa.

IATA estimates that Asia Pacific will be the fastest growing world region in 2019 with 7.1% capacity increase and 7.5% traffic growth. Total net profit of the airlines in the region is forecast to exceed USD 10 billion. Net profit per passenger is projected to rise to USD 6.15 in 2019, in contrast to the decline recorded in 2018.¹

¹ IATA – "Economic Performance of the Year 2018"

² IATA – "Air Passenger Market Analysis – December 2018"

³ AAPA – "Aviation Global Landscape Asia Pacific Perspective – August 2018"

⁴ IATA – "Trade Wars Note"


8.6%
GROWTH
 TOTAL PASSENGER TRAFFIC GROWTH IN ASIA REGION IN 2018





**4.0%
GROWTH**

TOTAL
PASSENGER
TRAFFIC
GROWTH IN
MIDDLE EAST
REGION IN 2018

MIDDLE EAST

Liberalization has been quite effective in expanding seat capacity and traffic in the Middle East region. However, recent restrictions have dampened international growth.

Low oil revenues, fiscal tightening and regional political instability are hindering expansion of the economy and aviation industry in the Middle East. Airspace bans applied in the Middle East also have a negative effect on air routes and lead to additional costs.

On the other hand, internal factors in the Middle East, such as the hajj and umrah, rise of the middle class, a large youth population, proliferation of low-cost carriers and expanding tourism drive regional traffic growth.

In 2018, the capacity of airlines in the region expanded 4.9% over the previous year, while traffic rose 4.0%, remaining below the capacity increase. In 2018, net profit per passenger in the region was USD 2.77, while total profit decreased 14.2% to USD 600 million.^{1,2}

In the Middle East, where the outlook for 2019 is quite upbeat, traffic growth is forecast to reach 5.5%, ahead of a 4.1% increase in capacity. In 2019, net profit per passenger is expected to rise 20% to USD 3.33, while regional net profit is projected to jump 33.3% to USD 800 million.¹

¹ IATA – "Economic Performance of the Year 2018"

² IATA – "Air Passenger Market Analysis – December 2018"



**5.0%
GROWTH**

TOTAL
PASSENGER
TRAFFIC
GROWTH IN
NORTH AMERICA
REGION IN 2018



NORTH AMERICA

North American airlines, which have outpaced the global industry, demonstrated a strong performance in 2018. The region's airlines recorded total net profit of USD 14.7 billion and net profit per passenger of USD 15.08, maintaining its industry leadership with these figures. During the year, North America posted a capacity increase of 4.7%, while traffic grew 5.0% and capacity optimization continued.^{1,2}

An analysis of aviation developments in 2018 reveals that fluctuating fuel prices have had an impact on airlines' fuel policy. Major US airline companies in particular are now more meticulous about fuel hedging in order to protect against this uncertainty.

Meanwhile, major US airlines claimed that Gulf carriers damaged international competition. Ensuing talks resulted in a revision of the "Open Skies" contracts. Post-Brexit, the United Kingdom did not want to lose its rights arising from the "Open Skies" agreement; as a result, the UK reached bilateral agreements with the USA and Canada.

North America's airlines are expected to demonstrate a strong financial performance once again in the coming year, driving the industry forward. In 2019, net profit per passenger is forecast to be USD 16.77 with total net profit of airlines projected at USD 16.6 billion. Meanwhile, capacity and traffic are seen to lose growth momentum in the region, as increases of 4.3% in capacity and 4.5% in traffic are forecast for 2019.¹

SOUTH AND CENTRAL AMERICA

The South and Central America region's major obstacles, the development and reinvigoration of regional aviation, take hold include the economic situation of the region's countries, the taxation policy in aviation, and the slow pace of decision-making and taking action.

Latin American airlines, especially LCCs, are focused on flights within the region. Approximately 36% of total capacity in Latin America belongs to LCCs.¹ Due to rising regional LCC traffic, foreign airline companies also undertake investments to capture share from this LCC market.

According to IATA, the region posted net profit of USD 500 million in 2017 and USD 400 million in 2018. In 2019, a stronger financial performance is expected to boost net profit to USD 700 million. Traffic expanded 6.2% and capacity rose 6.6% in 2018. In 2019, traffic and capacity growth rates are expected to slow, with 6% traffic growth and 5.9% capacity increase projected.^{2,3}



**6.2%
GROWTH**

TOTAL
PASSENGER
TRAFFIC GROWTH
IN SOUTH
AND CENTRAL
AMERICA IN 2018



¹ Official Airline Guide (OAG – Analytics)

² IATA – "Economic Performance of the Year 2018"

³ IATA – "Air Passenger Market Analysis – December 2018"



TO OUR SHAREHOLDERS - DEVELOPMENTS IN THE INDUSTRY AND EXPECTATIONS FOR 2019

NORTH AMERICA

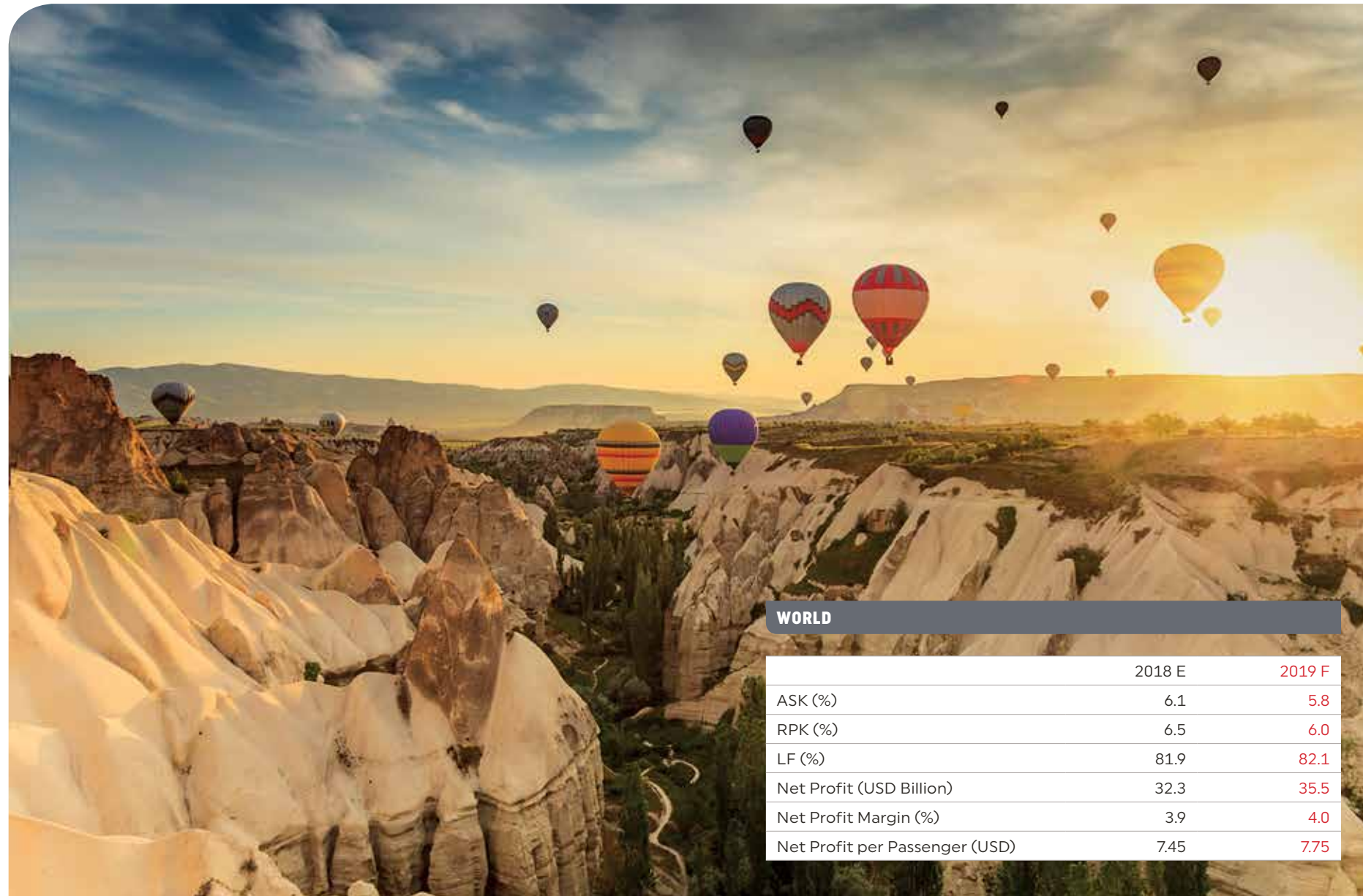
| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 4.9 | 4.3 |
| RPK (%) | 5.0 | 4.5 |
| Net Profit (USD billion) | 14.7 | 16.6 |
| Net Profit Margin (%) | 5.7 | 6.0 |
| Net Profit per Passenger (USD) | 15.08 | 16.77 |

SOUTH AMERICA

| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 6.6 | 5.9 |
| RPK (%) | 6.2 | 6.0 |
| Net Profit (USD billion) | 0.4 | 0.7 |
| Net Profit Margin (%) | 1.1 | 1.6 |
| Net Profit per Passenger (USD) | 1.41 | 2.14 |

AFRICA

| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 1.0 | 4.9 |
| RPK (%) | 2.4 | 5.0 |
| Net Profit (USD billion) | -0.4 | -0.3 |
| Net Profit Margin (%) | -2.7 | -2.1 |
| Net Profit per Passenger (USD) | -4.18 | -3.51 |



WORLD

| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 6.1 | 5.8 |
| RPK (%) | 6.5 | 6.0 |
| LF (%) | 81.9 | 82.1 |
| Net Profit (USD Billion) | 32.3 | 35.5 |
| Net Profit Margin (%) | 3.9 | 4.0 |
| Net Profit per Passenger (USD) | 7.45 | 7.75 |

EUROPE

| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 5.8 | 6.1 |
| RPK (%) | 6.6 | 5.5 |
| Net Profit (USD Billion) | 7.5 | 7.4 |
| Net Profit Margin (%) | 3.7 | 3.4 |
| Net Profit per Passenger (USD) | 6.65 | 6.40 |

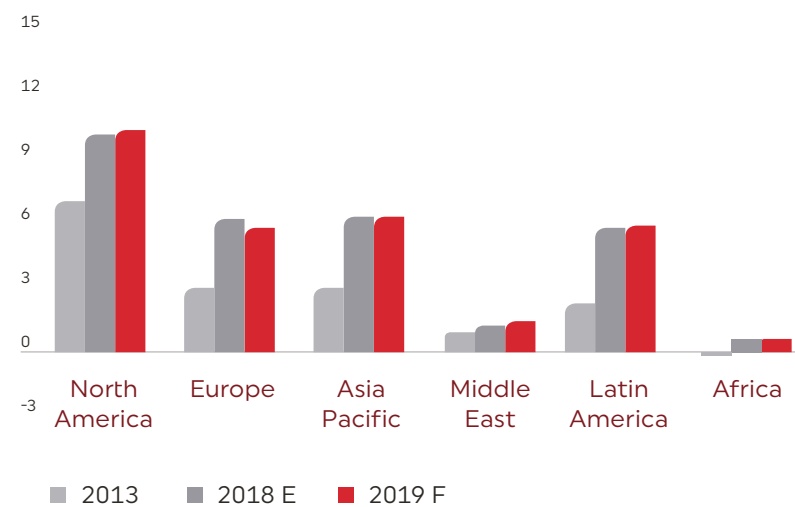
MIDDLE EAST

| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 4.9 | 4.1 |
| RPK (%) | 4.0 | 5.5 |
| Net Profit (USD Billion) | 0.6 | 0.8 |
| Net Profit Margin (%) | 1.1 | 1.2 |
| Net Profit per Passenger (USD) | 2.77 | 3.33 |

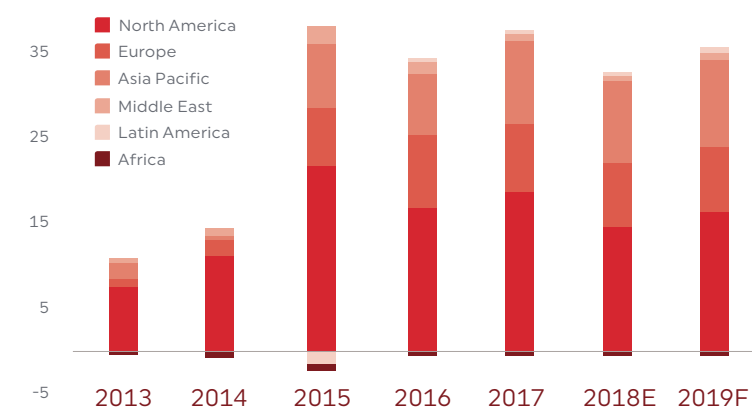
ASIA PACIFIC

| | 2018 E | 2019 F |
|--------------------------------|--------|--------|
| ASK (%) | 7.9 | 7.1 |
| RPK (%) | 8.6 | 7.5 |
| Net Profit (USD Billion) | 9.6 | 10.4 |
| Net Profit Margin (%) | 3.8 | 3.8 |
| Net Profit per Passenger (USD) | 6.01 | 6.15 |

OPERATIONAL PROFITABILITY



CHANGE IN NET PROFIT BY REGION (USD BILLION)



SOURCES

- IATA Air Passenger Market Analysis-December 2018
 - IATA Air Passenger Market Analysis-January 2019 (ASK and RPK figures for 2018)

BOARD OF DIRECTORS



MEHMET İLKER AYCI

Turkish Airlines Chairman of the Board and the Executive Committee

M. İlker Aycı was born in Istanbul in 1971 and graduated from Bilkent University, Department of Political Science and Public Administration in 1994. Mr. Aycı conducted research at Leeds University (U.K.) in the field of Political Science in 1995. He obtained his Master's degree from Marmara University in International Relations in 1997. Having begun his professional career in 1994, Mr. Aycı held a variety of positions at Kurtisan İlaçları A.Ş. and Universal Dış Ticaret A.Ş. Subsequently, he went on to İstanbul Metropolitan Municipality, where he served as Counselor to the then Mayor of İstanbul, H.E. Recep Tayyip Erdoğan, taking part in a number of development projects in Turkey's largest city.

Appointed as General Manager at Başak Sigorta in 2005, Mr. Aycı took over the helm of one of the largest insurance companies in Turkey, Güneş Sigorta, in 2006 after a successful privatization. Overseeing the company's growth in business and value, Mr. Aycı remained in this position until his appointment in 2011 as President of the Investment Support and Promotion Agency of Turkey (ISPAT). At the time, ISPAT was the only official body tasked with promoting Turkey's investment environment globally and providing assistance to international companies' investment projects in the country. Between 2013 and 2015, Mr. Aycı also assumed the position of Vice President, and then President of the World Association of Investment Promotion Agencies (WAIPA), the umbrella organization of over 170 investment promotion agencies from 130 countries around the globe.

Mr. Aycı currently serves on the Board of Directors and Audit Committees of various organizations such as the Turkish Football Federation, Service Exporters' Association of Turkey and Turkish Airlines Sports Club. He previously held positions in different capacities in a number of other organizations, including the Insurance Association of Turkey, the Turkish-Chinese Business Council under the Foreign Economic Relations Board, Vakıf Emeklilik A.Ş. and Güneş Sigorta Sports Club. Fluent in English and Russian, Mr. Aycı has been the Chairman of the Board and the Executive Committee at Turkish Airlines since 2015.



BİLAL EKŞİ

Chief Executive Officer and Deputy Chairman

Bilal Ekşi was born in Rize in 1968 and graduated from Yıldız Technical University, Department of Electronics and Communications Engineering in 1989.

Starting his career in 1989, Mr. Ekşi worked as an Electronics and Communications Engineer at Republic of Turkey State Railways. Subsequently, he was assigned to the position of Workshop Manager at İstanbul Ulaşım A.Ş., where he played an active role in realization of significant transport projects.

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

Mr. Ekşi served as Chief Production Officer at Turkish Technic from 2008 to 2009; General Manager of Cyprus Turkish Airlines as part of the reorganization of Cyprus Turkish Airlines in 2010; and 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 and 2011. Mr. Ekşi was appointed Director General of Civil Aviation in April 2011.

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

On October 21, 2016, Mr. Ekşi was appointed Chief Executive Officer and Deputy Chairman of the Board and Executive Committee of Turkish Airlines Inc.



İSMAİL CENK DİLBEROĞLU

Member of the Board and the Executive Committee

İsmail Cenk Dilberoğlu was born in İstanbul in 1975 and graduated from Marmara University, Faculty of Law. From 1999 to 2003, he worked as a lawyer in his own firm located in İstanbul, Cağaloğlu. Since 2003, he has provided legal consultancy to companies in commercial law, incorporation law, tax law, execution and bankruptcy law, within a partnership structure called Kollektif Hukuk Bürosu. In 1999, Mr. Dilberoğlu was appointed as a member of the Board of Trustees at Ensar Vakfı and acted as Vice Chairman until 2011. Since that time, he has served as Chairman of the Board of Trustees at Ensar Vakfı. Mr. Dilberoğlu is married with three children.



MİTHAT GÖRKEM AKSOY

Member of the Board

Mithat Görkem Aksoy was born in Antalya in 1977. He started his pilotage training in 1996 at Turkish Aeronautical Association. Graduating in 1998, Mr. Aksoy worked at Turkish Aeronautical Association until 2001. In 2001, he resigned from his position and transferred to private airlines. After working in various private airline companies, Mr. Aksoy started work at Turkish Airlines where he served in the G4, G550, B737 and Airbus A330/340 fleets. In 2016, he was appointed Senior Vice President, General Aviation VIP Aircraft Operations. In addition, Mr. Aksoy still serves as active commander pilot at Turkish Airlines.



PROF. DR. MECİT EŞ

Member of the Board

Prof. Dr. Mecit Eş was born in Samsun in 1953 and received his undergraduate degree from İstanbul University, School of Economics in 1974. After working in the public sector, he continued his academic career and received his Ph.D. in 1985. Dr. Mecit Eş became Associate Professor in 1990 and Professor in 1996. Having worked in the Faculty of Economics and Administrative Sciences at Dumlupınar University in the field of Public Finance between 1992 and 2012, Dr. Eş has since been Professor of the Academy of Commercial Sciences at İstanbul Commerce University. During his career, he has published many books and articles. Dr. Eş is a father of three children.



OGÜN ŞANLIER

Independent Member of the Board

Ogün Şanlıer was born in 1974 and graduated from Marmara University, Faculty of Economics and Administrative Sciences, Public Administration in French in 1999. He served as Export Specialist at Anadolu Isuzu Otomotiv San. Tic. A.Ş. between 1999 and 2001, and Regional Export Manager at Feniş Dış Ticaret A.Ş. from 2002 to 2007. Mr. Şanlıer also served in different executive positions in Metropolitan Municipality of Istanbul Department of Subsidiaries Halk Ekmek A.Ş. from 2007 until 2013. He is currently the Chairman of the Board at İstanbul Medya Akademisi A.Ş. Mr. Şanlıer speaks English, German and French and is married with two children.



ORHAN BİRDAL

Member of the Board

Mr. Birdal was born in Kemah, Erzincan in 1958 and completed his primary and high school education in Istanbul. In 1980, he graduated from Istanbul Academy of Economics and Commercial Sciences, College of Journalism and Public Relations. Mr. Birdal completed his graduate degree from the Social Sciences Institute of Marmara University in 1990.

In 1982, Mr. Birdal entered the aviation sector as Air Traffic Controller at Atatürk Airport, incorporated under the General Directorate of State Airports Authority (DHMI). Subsequently, he held various positions in the sector, including Air Traffic Controller and Airport Manager at Erzincan, Directorate of Nevşehir Kapadokya, Trabzon and Izmir Adnan Menderes Airports, and Senior Vice President of the Airport Operation Department at DHMI. After serving as Deputy Director and Member of the Board of Directors at DHMI in 2003, Mr. Birdal was General Manager and Chairman of the Board Directors at DHMI between 2007 and 2015. Following his tenure at DHMI, Mr. Birdal was appointed to the Undersecretariat of the Republic of Turkey Ministry of Transport, Maritime Affairs and Communications. By the end of 2015, he started to serve as Deputy Undersecretary responsible for Aviation and Railroads.

During his tenure as General Manager at DHMI, Mr. Birdal also served as Member of the Board of Directors and Audit Committee at Turkish Airlines from 2008 until 2012. In addition, he served as Vice President of the Turkish Civil Aviation Council at the Union of Chambers and Commodity Exchanges of Turkey (TOBB). Having worked as a senior manager in the aviation sector for many years, Mr. Birdal carried out many successful projects including IGA, the world's largest build-operate-transfer project. He also held high level positions in 17 different build-operate-transfer projects related to several airports in Turkey. Mr. Birdal actively participated in the commission of the Domestic Aircraft Project in Turkey. He also served as Chairman of the Aviation Sector and Moderator in the 10th and 11th Transportation Council. Mr. Birdal has received numerous prestigious awards including "Bureaucrat of the Year" and "Government Executive of the Year" from both domestic and international institutions.

Mr. Birdal speaks English and is married with four children.



MUZAFFER AKPINAR

Independent Member of the Board

Mr. Akpınar was born in 1962 and graduated from Saint-Michel French High School and Bosphorus University, Faculty of Administrative Sciences. He started his professional career in 1986 when he became the founding shareholder of Penta Textile. In 1993, Mr. Akpınar was appointed CEO at KVK Mobil Telefon Hizmetleri A.Ş. Subsequently, he served as CEO at MV Holding A.Ş. and played an active role in the founding of Fintur Holding BV. Between 2002 and 2006, Mr. Akpınar served as CEO at Turkcell. He remains an entrepreneur and investor in the fields of renewable energy, technology, chemicals and construction. Muzafer Akpınar is currently Chairman of the Board at KVK Teknoloji A.Ş., Dost Enerji A.Ş. and Portmobil A.Ş.; Vice Chairman of the Board at MV Holding A.Ş. and Kimya Teknik A.Ş.; and President of Muzafer Akpınar Foundation. Mr. Akpınar is married and has two children.



DR. FATMANUR ALTUN

Independent Member of the Board

Fatmanur ALTUN was born in Kocaeli in 1979 and received her Bachelor's degree in Sociology from Istanbul University. Between 2002 and 2003, she resided in the USA to conduct research in various fields. Mrs. Altun obtained a Master's degree in Sociology and Anthropology from Marmara University's Institute of Middle East and Islamic Countries Studies with her thesis titled the "Role of Discourse of Greater Middle East Project in Formation of Post 2000 Turkish Nationalism." Starting her doctoral studies in the same department in 2014, Ms. Altun earned her Ph.D. in 2018 with her dissertation titled the "Social Benefit Approach of Secular and Faith-Based Non-Governmental Organizations in Turkey: Case Studies of the Association for Supporting Contemporary Life and Turkish Youth and Education Service Foundation."

Working in the publishing sector as a translator and editor since 2000, Ms. Altun served as Department Editor at Anlayış Magazine from 2005 to 2010 and as Columnist for the news portal World Bulletin from 2006 to 2011. She also served as Executive Board member of AK Party's Istanbul Provincial Organization from 2009 to 2012 and Executive Board member at Istanbul Metropolitan Municipality's affiliate company Kültür A.Ş. (Culture Co.) from 2012 to 2016. Since 2015, Ms. Altun has worked at Marmara University. Currently an academic in the Sociology Department of Marmara University, Ms. Altun has numerous copyright and translation works to her credit. In addition to her seminars and conferences on different platforms, Ms. Altun is also a Columnist for Fikriyat Newspaper. Her articles appear regularly on various media.

Ms. Altun is the Chairman of the Executive Board of Turkish Youth and Education Service Foundation (TÜRGEV) as well as a member of the Executive Board of Women and Democracy (KADEM) Foundation. She is fluent in English and proficient in Arabic and Ottoman Turkish. Ms. Altun is married and has four children.

MISSION AND VISION



MISSION

To become the preferred leading European air carrier with a global network of coverage thanks to its strict compliance with flight safety, reliability, product line, service quality and competitiveness, whilst maintaining its identity as the flag carrier of the Republic of Turkey in the civil air transportation industry.

VISION

To become an air carrier with;

- a continued growth trend over industry average,
- zero major accidents/crashes,
- most envied service levels worldwide,
- unit costs equating with low cost carriers,
- sales and distribution costs below industry averages,
- loyal customers, who book and issue tickets and check in by themselves,
- a personnel constantly developing their qualifications with the awareness of the close relationship between the benefits for the company and the added value that they contribute,
- an entrepreneurship that creates business opportunities for fellow members in the Star Alliance and takes advantage of the business potential provided by them,
- a staff well adapted to modern governance principles by observing the best interests of not only shareholders but also stakeholders.

STRATEGIES AND STRATEGIC FOCUSES

With the added momentum brought about by our new home, we aim to reach 120 million passengers and operate one of the largest and most modern fleets with more than 500 aircraft in the world by 2023.



SUSTAINABLE GROWTH AND PROFITABILITY

Promising its passengers a larger world with the motto "Widen Your World," Turkish Airlines manages its flight network by accurately analyzing demand originating from different hubs. Turkish Airlines flew to a total of 303 different flight destinations in 120 countries as of end-2017. We boosted our flight map to 309 destinations in 124 countries by end-2018. An analysis of the overseas regional distribution reveals that Turkish Airlines serves 43 countries and 115 destinations in Europe, 37 countries and 55 destinations in Africa, eight countries and 17 destinations in North and South America, 22 countries and 37 destinations in the Far East, and 13 countries and 34 points in the Middle East.

The airline flying to the most countries and international destinations in the world, Turkish Airlines boasts the fourth largest flight network globally. Turkish Airlines also continues to offer the most connections (origin & destination pairs) to its passengers in Europe, Far East, Africa and the Middle East.

One of the most important advantages underlying Turkish Airlines' robust flight network and service quality is its young and robust fleet. Appealing to numerous markets with its high quality, the fleet has expanded to a total of 332 passenger and freighters as of end-2018. Turkish Airlines also has training aircraft in its fleet. Already boasting one of the youngest fleets in the world with an average age of 8.2 years, Turkish Airlines plans to acquire more aircraft in the coming years, thus reducing its average fleet age further.



As a result of ongoing and future additions to its fleet, Turkish Airlines aims to reach 120 million passengers and to operate one of the biggest and most modern fleets in the world with over 500 aircraft by 2023. With these ambitious goals, Turkish Airlines plans to meet the increasing passenger traffic and the evolving needs of customers, while prioritizing passenger comfort and safety. Turkish Airlines is committed to using cutting-edge technology that is not only economically efficient but also environmentally-friendly.

Aside from the innovations and investments planned for passenger transport, Turkish Airlines also places importance on air cargo transport. The Incorporation has expanded its cargo fleet to 22 aircraft with the addition of six new aircraft in 2018, thus continuing to grow in this segment.

With the inauguration in 2018 of Istanbul Airport, a critical asset for Turkish Airlines in achieving its strategic growth targets, the Incorporation will more effectively capitalize on Istanbul's geographic advantage and boost its passenger and cargo operations.



500+

TURKISH AIRLINES
TARGET OF TOTAL
AIRCRAFT FOR
2023

BUSINESS EXCELLENCE AND EFFICIENCY

Turkish Airlines meets all domestic and international standards and requirements at the highest level while conducting major efforts to achieve business excellence. Continuous improvement is conducted across the organization with a business model managed through processes. Meanwhile, implementation efficiency is enhanced by updating information and communication technology systems infrastructures.

Turkish Airlines strives to boost efficiency in all its business processes. With effective and efficient resource use, the Incorporation has advanced its efforts toward improving operational and commercial efficiency. Turkish Airlines continuously introduces new policies to increase employee productivity and commitment. Targeted efforts in the area of fuel efficiency reduce costs while mitigating greenhouse gas emissions.



BRAND RECOGNITION AND PREFERABILITY

Today, Turkish Airlines is among the most preferred airlines thanks to its large flight network and high quality services delivered to customers. The Incorporation enhances its brand recognition with memorable commercials featuring world-renowned celebrities and attractive flight promotions. With this approach, Turkish Airlines bolsters the loyalty of existing customers while also reaching out to its target passenger segment more conveniently.

Turkish Airlines uses contracted brand ambassadors in line with its regional and international brand strategies. In addition, Turkish Airlines strengthens its brand recognition via sponsorships extended to teams and athletes in different sports, and to national and international tournaments followed by the entire world.

Since 2016, Turkish Airlines has invested in ads aired during Super Bowl commercial breaks. It has also sponsored pre-game shows, reaching out to around 103 million households since 2018. As such, the Incorporation is the first ever airline and Turkish brand to undertake communication investments during the Super Bowl. In 2018, Turkish Airlines' ad titled "Five Senses" featuring Dr Öz was aired during Super Bowl commercial breaks.

Since 2010, the Incorporation has been the name sponsor of Turkish Airlines EuroLeague, which is broadcast by 132 different outlets in over 190 countries for 25 thousand hours per year. This effort has reached over 2 billion viewers in total. EuroLeague sponsorship makes a major contribution to Turkish Airlines' brand recognition and image, especially in Europe.

The "Turkish Airlines Open" golf tournament, one of the final three legs of the European Tour, is broadcast live by numerous outlets the world over. Taking place prior to "Race to Dubai" and holding a special place in the European Tour calendar with USD 7 million in awards, the tournament is name-sponsored by Turkish Airlines. The event takes place every November and reaches out to some 400 million viewers.

Besides these highly popular sporting events, Turkish Airlines sponsors numerous other events in equestrian sports, ice hockey, cycling and disabled sports in different regions across the world.

In 2018, Turkish Airlines was deemed worthy of awards in numerous fields, contributing to its brand recognition.

At the Apex Passenger Choice Awards, Turkish Airlines was named a "5-Star Global Airline." Global Traveler designated Turkish Airlines Corporate Club as the "Best Corporate Travel Program." The brand's on-board safety film featuring LEGO® received a Gold award in the theatrical category of the Clio Awards. This video film based on LEGO® characters became a top five most-watched ad globally, reaching a total of around 25 million views and nearly 75 thousand likes. Turkish Airlines' stylish cabin uniforms, a key element of brand visual identity, were designated "Best New Uniform" at TheDesignAir 2018 awards.

With the "Fly Good Feel Good" project launched in 2018, Turkish Airlines provides passengers with expert opinion and recommendations on nutrition, exercise, sleep and hygiene for healthy travel.

Turkish Airlines aims to boost its brand recognition, awareness and value further in the coming year with various projects and sponsorships already underway or planned.

customer expectations in the best manner. Understanding that meeting customer's expectations requires an accurate analysis of who the customer is, Turkish Airlines formulates its strategies in consideration of customer sensitivity toward price, time, and service quality. With the conviction that customer satisfaction must be ensured at every stage of service delivery, Turkish Airlines offers various alternatives prior to and during flight with its friendly employees to this end.

Turkish Airlines strives to deliver passengers satisfying services at every phase of their flying experience. These efforts include time-saving check-in services delivered over its user-friendly internet site or easy-to-use kiosks located in airports; various services with different concepts delivered during flight; on-board entertainment options; personalized surprise celebrations on special occasions; extra services such as the sleeping kit offering home-like comfort; a selection of toys for children; and lounge services to make customers feel at home while waiting for connecting flights.

Turkish Airlines grows day by day with its ever-rising customer preferability rate. At the same time, Turkish Airlines effectively transforms existing opportunities in the industry into advantages by capitalizing on its strengths. Keeping close watch on developments in Turkey's geographic proximity to prepare for potential crises, Turkish Airlines also takes firm steps to consolidate its position among leading global airlines with added momentum from its new home – Istanbul Airport.

THE 5TH MOST WATCHED AD GLOBALLY

Turkish Airlines' LEGO® ad was the fifth most watched ad worldwide.

CUSTOMER FOCUS

In the past, leading companies used to focus more on products and generally ignore the expectations of customers to whom the products appealed. Today, however, successful companies grow by executing customer-focused rather than product-centered strategies.

Customer focus is of utmost importance in the aviation industry. Airlines assess state-of-the-art technologies and changing regulations in order to meet



2+
BILLION
TOTAL NUMBER OF EUROLEAGUE VIEWERS REACHED

ADDING VALUE TO EMPLOYEES

Turkish Airlines places top priority on ensuring that its employees work with motivation and satisfaction. To this end, the Incorporation offers staff members an optimal working environment, social benefits, and career opportunities. Turkish Airlines is aware that employees are key to its policy of delivering customers meticulous, attentive and smiling service at every stage. To ensure this objective is achieved, the Incorporation communicates with employees accordingly. In order to uphold employee satisfaction, Turkish Airlines provides surprise events, volunteer projects and a work environment that boosts motivation. A priority goal at the Incorporation is to constantly enhance the training level of employees. To this end, Turkish Airlines joins forces with domestic and overseas institutions to provide training programs and foreign language courses. These efforts contribute to employee career development while enhancing the Incorporation's brand recognition and image. As always, Turkish Airlines will continue to demonstrate its commitment to its workforce by contributing to their development and enhancing their productivity and engagement.

CORPORATE SOCIAL RESPONSIBILITY

As the airline flying to the most international destinations worldwide, Turkish Airlines is committed to building bridges between regions in need of humanitarian aid and providing resources to meet this need.

Turkey enjoys a strong leadership position in humanitarian aid globally. Similarly, Turkish Airlines reaches out to people in need the world over by conducting corporate social responsibility projects. The Incorporation also provides direct donations via its sensitive and self-sacrificing employees. With these efforts, Turkish Airlines continues to fulfill its responsibilities as Turkey's Flag Carrier.

As part of these social responsibility projects, support has been extended to various individuals in need – especially children – via various activities both at home and abroad.

In 2018, Turkish Airlines conducted a cataract treatment project in Somalia together with Jazira Hospital, National Eye Center and Benadir University Hospital. Thanks to this effort, 500 people underwent cataract surgery. In addition, Turkish Airlines performed complimentary shipping operations for assistance delivered by authorized institutions and organizations to various regions in need around the globe.

During the year, Turkish Airlines continued to print boarding passes in the Braille Alphabet for visually impaired passengers at specially designed check-in kiosks. To communicate better with hearing impaired passengers, Turkish Airlines delivers sign language training to its cabin crews. The number of cabin personnel fluent in sign language rose to 138 in 2018.

Turkish Airlines will continue providing special services for disabled passengers in 2019 and beyond. The Incorporation plans to create special waiting rooms for disabled passengers at their specially designated desks and boarding/check-in areas at Istanbul Airport. Hearing impaired passengers will be offered instant translation into sign language of various texts over the web site, mobile apps and other digital platforms with the "Instant Sign Language Translation System." Furthermore, in order to render its corporate web site accessible for all users, Turkish Airlines plans to introduce a special software to help hearing impaired passengers browse the website without assistance.



In 2018, Turkish Airlines continued to offer its young guests aged 3-12 a collection of movable and shapeshifting legos, made of natural materials, featuring various endangered animal species of the world. On every flight, children are offered play sets featuring different educational toys. This approach is designed to safeguard the health of youth who represent our future, raise awareness about animals with endangered habitats in light of information provided by WWF Turkey, while also providing children an entertaining flying experience.

As part of environmental protection efforts and the fight against climate, which tops the list of today's global issues, Turkish Airlines executes various initiatives to enhance fuel efficiency and reduce its carbon footprint. As a result of such targeted efforts in fuel efficiency, Turkish Airlines' flights are 20% more fuel efficient today compared to a decade earlier. Already operating one of the youngest fleets in the world considering its vast fleet size, Turkish Airlines plans to add new generation aircraft with high fuel efficiency by 2023. This effort will help the Incorporation maintain its leadership in terms of fleet age while further mitigating its carbon and noise emissions. When planning new investments in its business line and extending its fleet, Turkish Airlines always opts for eco-friendly technologies.

In 2017, Turkish Airlines joined the Green Airport/Green Company initiative which strives to systematically reduce the damage inflicted by companies with airport operations on the environment and human health. In 2018, Turkish Airlines sustained Green Company Certifications at Ankara Esenboğa Airport and Istanbul Atatürk Airport, and obtained Green Company Certification for Izmir Adnan Menderes Airport.

Across all its operations, Turkish Airlines works to secure the health and safety of its employees. The Incorporation aims to control the hazards that its workforce will be exposed to, and to prevent occupational accidents and disease via risk management. Turkish Airlines raises awareness among its employees on Occupational Health and Safety (OHS) and continuously enhances its OHS culture. The Incorporation provides the necessary infrastructure to ensure a healthy and safe working environment for employees, subcontractors and visitors alike.

INNOVATIVE LIFE

As a leader of the global air transport industry, Turkish Airlines places a high priority on innovation and innovative projects. In previous years, Turkish Airlines has modified its business processes and organization to give more importance to innovation. To this end, Turkish Airlines established the R&D Incentive System to nurture a culture of R&D and encourage its personnel to adopt an innovation perspective. Under this effort, academic studies and project funding and patent applications by employees started being rewarded as R&D suggestions.

As part of digital innovation studies, Turkish Airlines enhances its internal business processes and conducts projects to boost passenger satisfaction. Turkish Airlines conducts these efforts with in-house resources, while also encouraging the use of external resources. This was the case in the Travel Hackathon project, whose second edition was held in 2018, and similar activities.

To relay their thoughts and opinions to management, each employee can make suggestions to the Idea Management System. Innovative ideas are then rewarded according to an assessment. As of end-2018, some 17 thousand staff suggestions were entered into the system over the last two years. These suggestions led to significant improvements in customer satisfaction, operational efficiency, quality development and cost reduction.

FLIGHTS THAT ARE 20% MORE FUEL EFFICIENT

Turkish Airlines has increased its fuel efficiency by 20% compared to 10 years ago.

17
THOUSAND

NUMBER OF SUGGESTIONS UPLOADED TO THE IDEA MANAGEMENT SYSTEM OVER THE LAST TWO YEARS



BRILLE ALPHABET

Boarding passes are printed in the Braille Alphabet for visually impaired passengers.

NO FLIGHT HAS EVER BEEN SO FASHIONABLE

Fashion and styles change not only on the catwalk, but also in our aircraft aisles. The new uniform design, one of Turkish Airlines' major steps towards change and renewal, leaves our stylish mark on the sky. Let's take a closer look at this special uniform and the ideas behind its innovative design.



AN EXCLUSIVE COLLECTION BY ITALIAN FASHION DESIGNER ETTORE BILOTTA

Celebrating 85 years of success, Turkish Airlines combines elegance with functionality in its new uniform designs. Passengers will see the new uniforms after the transition to Istanbul Airport.



Ettore Bilotta
Fashion Designer



M. İlker Aycı
Chairman of the Board and
the Executive Committee

I DREW INSPIRATION FROM ISTANBUL

"When I started to work on my designs for Turkish Airlines, Istanbul was the first thing to spring to my mind and give me inspiration. This city has been home to the arts and civilization over many centuries. Istanbul harbors an unrivaled richness that can be considered as the common heritage of numerous cultures. I have a special interest in Turkish glazed tiles and calligraphy, which inspired me especially in designing the scarves and neckties."

IMMENSE EXCITEMENT

"At Turkish Airlines, we are immensely excited to cooperate with prominent, highly successful names who combine practical details and elegant designs with skill. Our new uniforms, which uphold the traditional elements of Turkish design and culture, are as flawless and professional as our brand. As we have always promised, we will deliver our traditional values in the most modern way to all our guests who will travel with us upon the inauguration of our new home – Istanbul Airport."

Italian fashion designer Ettore Bilotta has designed the new uniforms inspired by various classical details in Turkish culture. The "Flow" pattern featured in the clothing and accessories of the collection specially designed for Turkish Airlines was formed through a combination of the classical curves widely used in glassware and ceramics produced by artisans, as well as the art of calligraphy. The "Flow" design was also inspired by the currents in the Bosphorus, thus symbolizing the dynamic energy of Istanbul, which lies at the intersection of East and West.

The red of the Turkish flag and anthracite blue are the dominant colors of the new cabin uniforms, consisting of hats, gloves, garments, bags and various accessories. Another important detail of the initiative was the unification of the cabin, flight crew, ground services and flying chef uniforms under a single design to deliver a holistic brand experience.

The forward-looking collection has undergone intensive tests during long-haul flights cutting across the world's various climate zones. The collection photo shoot was performed by world-renowned British photographer Miles Aldridge in well-known locales across Istanbul.

During the photo shoot for the collection, Miles Aldridge leveraged his talent in merging "sentiments and stories" through a meticulous approach, using different streets of the city to form an aesthetic selection of brilliant and diverse snapshots of the uniforms. Sitting astride two continents and steeped in history and culture, Istanbul provided a magnificent backdrop for the new Turkish Airlines uniforms.



SUBSIDIARIES AND AFFILIATES

Thanks to subsidiaries and affiliates, Turkish Airlines provides flexibility, quality and efficiency across its operations, while reducing costs.

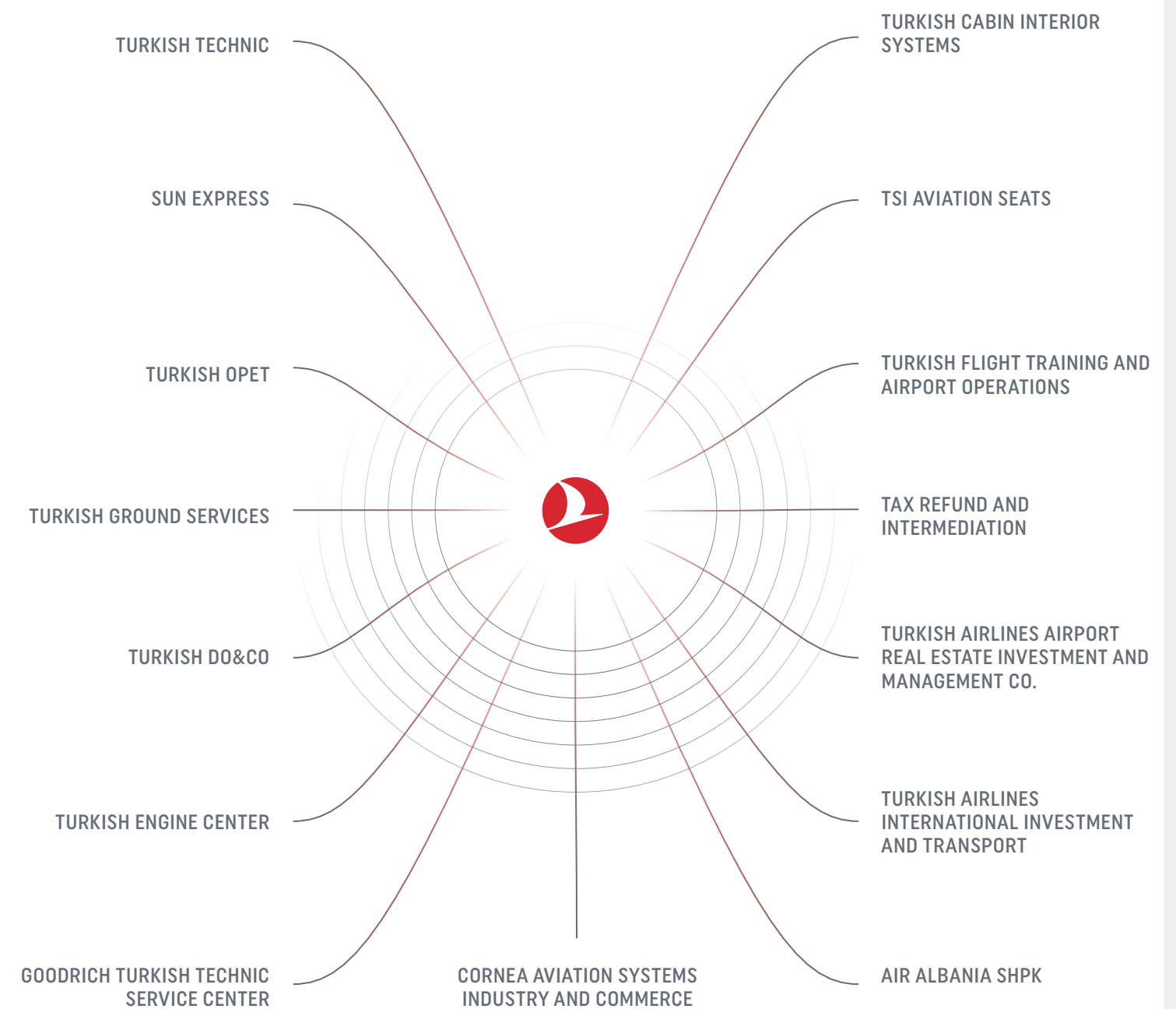
Turkish Airlines bolsters its global brand identity to become a leader in the world aviation sector with its top-caliber, experienced staff and Group companies. Turkish Airlines has a total of 15 subsidiaries and affiliates: five subsidiaries and 10 joint ventures. Thanks to subsidiaries and affiliates, Turkish Airlines provides flexibility, quality and efficiency across its operations, while reducing costs. With this approach, Turkish Airlines boosts its competitive edge and efficiency in the aviation industry.

While underpinning the development of aviation and the Turkish aircraft industry, Turkish Airlines' companies also served other clients in the sector. As a result, the Incorporation is a profit center that significantly contributes to consolidated profit and shareholder value creation.

Turkish Airlines and its Group companies will continue to be a major source of employment for the nation, as a vast family comprising more than 60 thousand employees as of year-end 2018.



Turkish Airlines sustains a strong performance with its subsidiaries and affiliates.

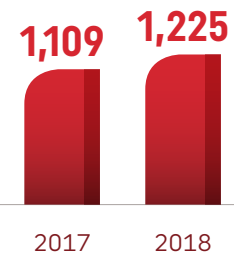


TURKISH AIRLINES GROUP - SUBSIDIARIES AND AFFILIATES



TURKISH TECHNIC

REVENUE USD MILLION



Turkish Technic delivers maintenance, repair and technical support services to more than 100 domestic and foreign airline companies, especially Turkish Airlines. Established in 2006 as a 100%-owned subsidiary of Turkish Airlines, Turkish Technic merged with Turkish Airlines HABOM A.Ş. in June 2015. With nearly 8,500 employees and various affiliate companies, Turkish Technic aims to become an important technical maintenance hub in aviation. To this end, Turkish Technic offers maintenance and repair services, while delivering the full range of technical and infrastructure support for the aviation industry.

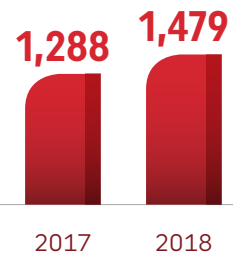
8,467

NUMBER OF EMPLOYEES



SUN EXPRESS

REVENUE USD MILLION



Market leader of charter flights between Germany and Turkey, Sun Express was established in 1989 as a 50%-50% partnership between Turkish Airlines and Lufthansa. Sun Express conducted its first flight in 1990. After operating for many years in the charter market, Sun Express initiated Antalya-Frankfurt flights in 2001, thus becoming Turkey's first private airline to organize scheduled flights abroad. Together with Sun Express Germany established in Frankfurt in 2011, Sun Express operates a fleet of 65 aircraft and employs a 4,000 strong workforce as of year-end 2018. As of end-2018, Sun Express Turkey's 17 aircraft conduct AnadoluJet operations.

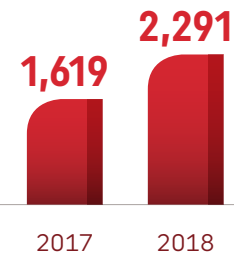
4,164

NUMBER OF EMPLOYEES



TURKISH OPET

REVENUE USD MILLION



Turkish OPET provides jet fuel storage and refueling services in domestic airports, primarily at Istanbul Atatürk Airport. It was established in 2009 as a 50%-50% joint venture between Turkish Airlines and OPET Petrolcülük A.Ş. Turkish OPET commenced operations on July 1, 2010 and now boasts the largest integrated jet fuel facility in Turkey. Turkish OPET can deliver refueling service to customers at all airports across Turkey. In 2018, Turkish OPET maintained its market leadership position with 3.9 million m³ of jet fuel sales.

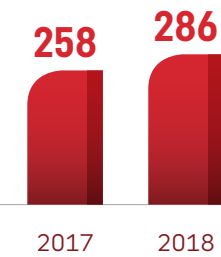
452

NUMBER OF EMPLOYEES



TURKISH GROUND SERVICES

REVENUE USD MILLION



Turkish Ground Services (TGS) delivers ground handling services at eight airports across Turkey, particularly Istanbul Atatürk Airport. Established in 2009 as a 50%-50% partnership between Turkish Airlines and Havaş Havaalanları Yer Hizmetleri A.Ş., TGS has operated since 2010. Turkish Ground Services provides services to a number of domestic and international air carriers, particularly Turkish Airlines and Sun Express, at Istanbul Atatürk, Istanbul Sabiha Gökçen, Ankara Esenboğa, Izmir Adnan Menderes, Antalya, Adana, Bodrum and Dalaman airports. In 2018, TGS served 718 thousand flights at world-class standards with more than 14 thousand employees.

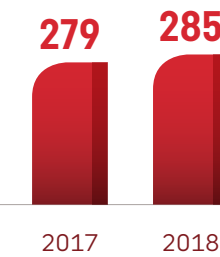
14,079

NUMBER OF EMPLOYEES



TURKISH DO&CO

REVENUE USD MILLION



Turkish DO & CO delivers catering services to over 60 domestic and international air carriers, particularly Turkish Airlines. Established in 2006 as a 50%-50% partnership between Turkish Airlines and DO & CO AG based in Austria, Turkish DO & CO is headquartered at Istanbul Atatürk Airport. Turkish DO & CO provides catering services with kitchens located at nine locations across Turkey, offering nearly 240,000 dishes carefully prepared by its chefs each day. Turkish DO & CO has significantly improved the quality of catering services offered on-board by Turkish Airlines, bringing many international awards to the Incorporation.

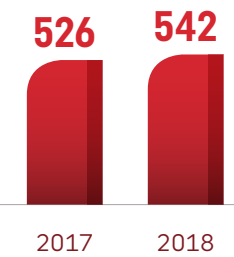
5,592

NUMBER OF EMPLOYEES



TURKISH ENGINE CENTER

REVENUE USD MILLION



Turkish Engine Center delivers engine maintenance, repair and overhaul services to customers located in Turkey and neighboring regions. It was founded in 2008 as a 49%-51% partnership between Turkish Airlines and Pratt & Whitney, a subsidiary of United Technologies. Established over a 25 thousand m² area at Istanbul Sabiha Gökçen Airport, Turkish Engine Center's advanced technology, eco-friendly facility has the capability to provide maintenance to around 200 aircraft engines per year at full capacity.

387

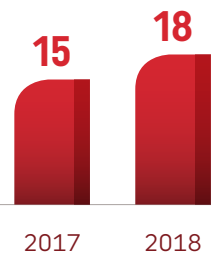
NUMBER OF EMPLOYEES

TURKISH AIRLINES GROUP - SUBSIDIARIES AND AFFILIATES



GOODRICH TURKISH TECHNIC SERVICE CENTER

REVENUE USD MILLION



Goodrich Turkish Technic Service delivers high quality maintenance and repair service for aircraft engine nacelle and reverse thrust systems at HABOM facilities. It was established in 2010 as a 40%-60% partnership between Turkish Airlines and TSA Rina Holdings B.V., an affiliate of Goodrich. Goodrich Turkish Technic Service Center aims to become an important player in the sector by providing high quality services at world class standards to domestic and international customers, particularly Turkish Airlines.

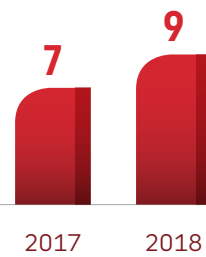
47

NUMBER OF EMPLOYEES



TURKISH CABIN INTERIOR SYSTEMS

REVENUE USD MILLION



Turkish Cabin Interior Systems (TCI) primarily meets the needs of Turkish Airlines with the aircraft cabin interior systems that it manufactures. TCI was established in 2011; Turkish Airlines owns a 30% stake, Turkish Technic holds a 20% stake, and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ - TAI) owns a 50% stake. Turkish Cabin Interior Systems conducts the design, production, logistic support, modification and marketing of aircraft cabin interior products and components. TCI started to receive international orders due to its inclusion in the worldwide "Approved Supplier Company" list for Boeing 737 aircraft.

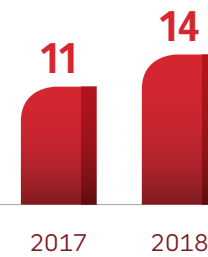
195

NUMBER OF EMPLOYEES



TSI AVIATION SEATS

REVENUE USD MILLION



TSI Aviation Seats is engaged in aircraft seat design, manufacturing, spare parts manufacturing and retrofitting, marketing and sales activities. It was established in 2011; Turkish Airlines owns a 45% stake, Turkish Technic holds a 5% stake, and Assan Hanil Group owns a 50% stake. TSI Aviation Seats became operational at end-2013. Established in collaboration with Assan Hanil Group, Turkey's leading manufacturer of vehicle seats, TSI Aviation Seats installed the first set of seats manufactured for Turkish Airlines at the beginning of 2014. TSI Aviation Seats aims to design and manufacture aircraft seats, produce, modify and sell spare parts for many airlines in the future.

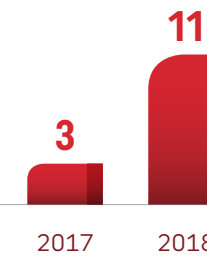
108

NUMBER OF EMPLOYEES



TURKISH FLIGHT TRAINING AND AIRPORT OPERATIONS

REVENUE USD MILLION



Turkish Flight Training and Airport Operations was established in 2012 as a 100%-owned subsidiary of Turkish Airlines to operate Aydın Çıldır Airport, provide aviation training, organize sports and training flights, and conduct passenger transport services with aircraft types suitable to runway length. Having completed important investments such as runway, taxi way and hangar at Aydın Çıldır Airport, Turkish Flight Training and Airport Operations began delivering flight training services for Turkish Airlines. In the coming period, Turkish Flight Training and Airport Operations will play a crucial role in filling the pilot deficit of Turkish Airlines and the aviation industry.

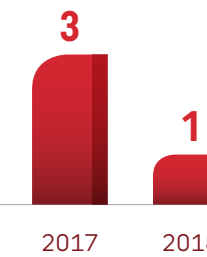
69

NUMBER OF EMPLOYEES



TAX REFUND AND INTERMEDIATION

REVENUE USD MILLION



Tax Refund and Intermediation provides intermediation services for the return of VAT paid for goods bought in Turkey before travelling abroad. It was established in September 2014; Turkish Airlines holds a 30% stake, VK Holding A.Ş. owns a 25% stake and Maslak Oto A.Ş. holds a 45% stake. Tax Refund and Intermediation intermediates in the return of VAT paid by non-Turkish resident passengers for goods that they purchase in Turkey to take abroad with them, prior to their international flights.

22

NUMBER OF EMPLOYEES



TURKISH AIRLINES AIRPORT REAL ESTATE INVESTMENT AND MANAGEMENT CO.

Turkish Airlines Airport Real Estate Investment and Management Co. was established in November 2017 as a 100%-owned subsidiary of Turkish Airlines to engage in airport management and investments.

TURKISH AIRLINES GROUP - SUBSIDIARIES AND AFFILIATES



TURKISH AIRLINES INTERNATIONAL INVESTMENT AND TRANSPORT

Turkish Airlines International Investment and Transport was founded in September 2018 as a 100%-owned subsidiary of Turkish Airlines in order to invest in the aviation ecosystem, especially overseas cargo transport. It plans to initiate investment activities in 2019.



AIR ALBANIA SHPK

Air Albania SHPK was established in 2018; Turkish Airlines owns a 49% stake, MDN Investment holds a 41% stake Albccontrol owns a 10% stake. It has a total of two aircraft, one of which is wet lease. Air Albania SHPK will operate from its base in Tirana. In the first phase, Air Albania SHPK will commence flights to Istanbul, Rome, Milan, Bologna and London in 2019.



CORNEA AVIATION SYSTEMS INDUSTRY AND COMMERCE

Cornea Aviation Systems Industry and Commerce was registered on October 11, 2018 to operate in the area of in-flight entertainment systems and internet connectivity. Turkish Technic owns an 80% stake, while Havelsan holds a 20% stake. The General Manager will be appointed in January 2019; subsequently, Cornea Aviation Systems Industry and Commerce will start business operations.

38

NUMBER OF EMPLOYEES

SUBSIDIARIES AND AFFILIATES IN 2018

| | | December 2018 | Shareholding Structure | Business Line |
|----|--|---------------|---|--|
| | | Personnel | | |
| 1 | Güneş Ekspres Aviation (Consolidated) | 4,164 | THY 50% - Lufthansa 50% | Passenger and Cargo Transport |
| 2 | Air Albania SHPK | 38 | THY 49% - MDN Investment 41% - Albccontrol 10% | Passenger and Cargo Transport |
| 3 | Turkish Airlines International Investment and Transport | - | Turkish Airlines 100% | Cargo and Courier Transport |
| | Passenger and Cargo Transport Total | 4,202 | | |
| 4 | Turkish Technic | 8,467 | Turkish Airlines 100% | Aircraft Maintenance - MRO |
| 5 | Turkish Engine Center | 387 | P&W 51% - Turkish Technic 49% | Engine Maintenance - MRO |
| 6 | Goodrich Turkish Technic Service Center | 47 | Goodrich 60% - Turkish Technic 40% | Reverse Thrust and Engine Nacelle - MRO |
| | Maintenance, Repair and Overhaul (MRO) Group Total | 8,901 | | |
| 7 | Turkish Cabin Interior Systems | 195 | Turkish Airlines 30% - Turkish Technic 20% - TAI 50% | Manufacturing and Marketing Cabin Interior Accessories |
| 8 | TSI Aviation Seats | 108 | Turkish Airlines 45% - Turkish Technic 5% - Assan Hanil 50% | Manufacturing and Marketing Aircraft Seats |
| 9 | Cornea Aviation Systems Industry and Commerce | - | Turkish Technic 80% - Havelsan 20% | In-flight Entertainment Systems |
| | Cabin Interior Manufacturing Group Total | 303 | | |
| 10 | Turkish OPET (Consolidated) | 452 | Turkish Airlines 50% - Opet 50% | Aviation Fuel Trade |
| 11 | Turkish DO & CO | 5,592 | Turkish Airlines 50% - DO & CO 50% | Catering |
| 12 | Turkish Ground Services | 14,079 | Turkish Airlines 50% - Havaş 50% | Aviation Ground Services |
| 13 | Turkish Flight Training and Airport Operations | 69 | Turkish Airlines 100% | Airport Operations and Aviation Training |
| | Support Services Group Total | 20,192 | | |
| 14 | Tax Refund and Intermediation | 22 | Turkish Airlines 30% - Maslak Oto 45% - VK Holding 25% | Tax Refund Intermediation |
| 15 | Turkish Airlines Airport Real Estate Investment and Management Co. | - | Turkish Airlines 100% | Airport Investment and Management |
| | Other Group Total | 22 | | |
| | Subsidiaries Total | 33,620 | | |

TURKISH TECHNIC AND SUBSIDIARIES

TURKISH TECHNIC

Turkish Technic provides maintenance and repair services to commercial airlines and business jet operators with its facilities totaling 576 thousand m² and nine hangars located at Istanbul Airport, Atatürk Airport, Sabiha Gökçen Airport, Esenboğa Airport and Aydın Çıldır Airport.

Authorized by EASA, FAA and Directorate General of Civil Aviation (SHGM) to provide maintenance services, Turkish Technic serves Turkish Airlines, its most important client, as well as over 100 airline companies in Europe, Asia, Middle East and North Africa.

Turkish Technic offers line maintenance, base maintenance and component maintenance services for Boeing 737NG series, Boeing 737MAX series, Boeing 747, Boeing 767, Boeing 777, Airbus A320 series, A320NEO series, Airbus A330, Airbus A340, Gulfstream G-IV/G-V/ G550, Bombardier Challenger 850, Cessna 172 and Diamond DA42 aircraft types. In 2019, Turkish Technic will also become capable of delivering component maintenance to Boeing 787 and Airbus A350 aircraft. Turkish Technic performs all the maintenance and repair services required for the auxiliary power units, landing gear, flight electronics components, hydraulic-pneumatic-mechanic components, brake systems, wheels and wheel rims, of such aircraft. Spread across three continents, over 700 aircraft are a part of Turkish Technic's component service pool.

Always committed to delivering the highest customer satisfaction, Turkish Technic maintains its pioneering approach in this key area with its ISO 10002 Customer Complaints Management System certifications. Adopting a highly sensitive perspective toward the environment and employee health, Turkish Technic certifies its OHSE practices with ISO 14001 Environment and OHSAS 18001 Occupational Health and Safety Management System certifications. Turkish Technic also demonstrates its adherence to security requirements, which is of utmost importance today, with ISO 27001 certification.

Turkish Technic plays a crucial role in the regional economy and aviation industry with over 8 thousand staff and its continuously expanding capacity and business volume. In 2017, Turkish Technic received its first ever national authority certificates for Albania, Georgia, Lebanon and Oman, while renewing its certifications for FAA, Kuwait, Jordan, Korea, Pakistan, Cayman, Guernsey, Bahrain, Singapore, Saudi Arabia, India, Iraq, Kyrgyzstan, Bermuda, Egypt, UAE, Tunisia, Morocco and Libya. Furthermore, Turkish Technic's civil aviation authorization includes UAE, Qatar and Saudi Arabia, as well as Sabiha Gökçen Airport line stations, Trabzon and Hatay. During the year, Turkish Technic offered line maintenance service to B787 and A350 type aircraft, which will join the Turkish Airlines fleet, at Atatürk Airport.

FACILITIES COVERING 576 THOUSAND M²

Turkish Technic delivers maintenance and repair services in facilities totaling 576 thousand m².

Technical Training

Turkish Technic's training units provide the following theoretical and/or practical training programs to Turkish Airlines as well as various international and domestic airlines:

- Practical, task and on-the-job training for all aircraft types falling under SHY-145 and EASA-145 authorization, and maintenance training for all parts featured in the workshop capability list;
- Initial training and certification programs, preparatory training programs, license module exams and category transition exams falling under the SHY-147 and EASA-147 initial training and certification programs, Category A1, B1.1 and B2 licenses;
- Type, type difference and promotion trainings of aircraft types and their engines falling under the scope of SHY-147 and EASA-147 type training authorizations.

During 2018, Turkish Technic conducted the entirety of mandatory trainings to all its staff as well as subcontractor personnel pursuant to national and international regulatory requirements. In addition, Turkish Technic delivered practical, task and on-the-job training for all aircraft types falling under SHY-145 and EASA Part-145 authorization, and maintenance training for all parts featured in the workshop capability list.

Turkish Technic is the one and only EASA- and DGCA-authorized maintenance training institution for initial training authorization falling under EASA Part-147 and SHY-147. In 2018, under the scope of these authorizations, Turkish Technic accepted student applications to the Category B1.1 Initial Training Program originating externally and initiated revenue-generating activities.

Speeding up the licensing of its own personnel, Turkish Technic organized initial training license module exams and category transition exams with a high level of participation. This effort made a significant contribution toward meeting the need for licensed technicians both internally and the country in general. With the training activities falling under the scope of EASA Part-147 and SHY-147 authorization, Turkish Technic met the course requirements of fleet aircraft maintenance personnel and generated additional revenue by marketing these training programs.

Some of the type practice training takes place in the actual maintenance environment and some on the maintenance simulators which were put into use in 2018. As such, the simulator was utilized to facilitate specialization on troubleshooting, system tests and document use in aircraft, and the practical trainings were thus rendered more efficient and productive.

Training activities conducted in 2018 included:

| Training Group | Training | Number of Participants |
|--|--------------|------------------------|
| Part-145 Trainings (Class and Workshop) | 4,485 | 49,109 |
| Part-145 Trainings (Online) | | 59,259 |
| Part-147 Initial Training Course (Category B1.1) | 1 | 21 |
| Part-147 B1/B2 Module Trainings | 18 | 1,139 |
| Part-147 Type Trainings | 235 | 2,128 |
| Total | 4,739 | 111,656 |
| Part-147 License Module Exams | - | 4,321 |

49,109 PARTICIPANTS

A total of 49,109 persons participated in Part-145 Training.



235

NUMBER OF PART-147 TYPE TRAININGS





WIRELESS IN-FLIGHT ENTERTAINMENT SYSTEMS IN 44 AIRCRAFT

Cornea won the tender for Turkish Airlines' wireless in-flight entertainment system and started to deliver services on 44 narrow-body aircraft.

CORNEA AVIATION SYSTEMS INDUSTRY AND COMMERCE

Enhancing its know-how and expertise in in-flight entertainment systems (IFE), Turkish Technic ramped up its collaboration with Havelsan A.Ş. in this key area and set up the company Cornea Aviation Systems Industry and Commerce in October 2018. Cornea Aviation aims to figure among the world's top IFE providers and capture a share of the global IFE market. The first short-term goal is to become an "offerable supplier." This will be achieved by becoming an Airbus- and Boeing-approved supplier and joining the catalogue list alongside other global IFE providers.

Cornea Aviation has initiated efforts for the 33 A321 NEOs that will soon join the Turkish Airlines fleet, and continues its cooperation with Airbus.

Cornea Aerospace will take over the following IFE systems, which have been developed jointly by Turkish Technic and Havelsan. The objective is to raise the bar ever higher and occupy an important position in this competitive market environment.

Tablet-Based In-Flight Entertainment System

The first Tablet-Based In-Flight Entertainment System (TBIFE) developed in Turkey was manufactured with 100% Turkish engineering under the collaboration agreement reached between Turkish Technic and Havelsan in 2012.

Installation of the Tablet-Based In-Flight Entertainment System began in July 2016. From that date onwards, the TBIFE has been used

to offer Business Class passengers media content such as movies, music, maps and e-magazines in narrow-body aircraft without an IFE system operated by Turkish Airlines.

Seat-Back In-Flight Entertainment System

Cornea Aviation works to improve the seat-back in-flight entertainment systems utilized intensively on long-haul flights. A deal was reached with Turkish Airlines regarding 33 new generation narrow-body aircraft. Cornea Aviation continues to work with Airbus as well to become offerable (line-fit) for IFE systems.

Wireless In-Flight Entertainment System

Cornea Aviation won the tender for wireless in-flight entertainment systems for 44 Turkish Airlines aircraft. It received EASA STC certifications from Turkish Technic Design Organization for the Boeing 737-800 and Airbus 320 FAM types covered by the tender. Cornea Aviation started to deliver services on 44 narrow-body aircraft. In January 2019, Cornea Aviation plans to perform integration work on two more aircraft. As a result, the number of aircraft in the fleet with a domestic wireless IFE system will increase to 46.

Connectivity

Recognizing the rising importance of internet service on air transport today, Turkish Technic collaborates with Inmarsat, one of the biggest players in the connectivity market. A Memorandum of Understanding (MOU) was reached between the two parties in April 2018. Under this cooperation, in December 2018, Cornea Aviation won a Turkish Airlines tender covering 104 narrow body aircraft. This was a major achievement that will allow Cornea Aviation to use domestic products on 104 aircraft.

TURKISH ENGINE CENTER

Turkish Engine Center (TEC), established in partnership with Pratt & Whitney, recorded a very productive year. TEC delivered 130 engines in 2018 –an all-time high in total annual deliveries. Forty-two of these 130 engines are owned by "3rd Party" customers. Since 2010, TEC has completed and delivered to its customers a total of 774 engines over the last nine years.

Based on its 2017 export figures, Turkish Engine Center has become the third largest exporter in Turkey in the defense and aerospace industry. As a result, TEC received an award from Turkish Exporters' Assembly in 2018.

GOODRICH TURKISH TECHNIC SERVICE CENTER

Established jointly with UTC Aerospace Systems (whose name changed to Collins Aerospace after Rockwell Collins was acquired by United Technologies Corp. in November 2018), Goodrich Turkish Technic Service Center boosted its revenues by 19% over the prior year and reached a third party ratio of 25%.

TURKISH CABIN INTERIOR SYSTEMS

Turkish Cabin Interior Systems (TCI) is another Turkish Airlines affiliate, established at the Sabiha Gökçen facilities in partnership with TAI. TCI is the first company to manufacture a Turkish galley. Turkish Cabin Interior Systems was designated "Global Offerable" in new generation Boeing 737 type aircraft, one of the two aircraft types most widely used in the world. TCI also became one of the four manufacturers listed in the Boeing 737 catalogue.

In 2017, Turkish Cabin Interior Systems expanded its customer portfolio and bolstered its international brand recognition by receiving orders for 155 galleys from Spice Jet, 10 galleys from Azerbaijan Airlines and 79 galleys from Jet Airways for B737MAX. In 2018, TCI continued to sign international contracts. TCI initiated a global partnership with STELIA, a 100%-owned subsidiary of Airbus that has 25% of the world Business Class aircraft seat market. Under the partnership, Business Class cabinets for Turkish Airlines' 30xB787 and 30xA350 aircraft orders will be manufactured. Turkish Cabin Interior Systems also reached agreements with STELIA to become a supplier in other

international projects, including Vistara and Singapore Airlines. Having reached an agreement with Airbus to become a catalogue supplier for the design and manufacture of bar units of A350 aircraft for all international customers, TCI also received B737 galley contracts for 35 aircraft from Donghai Airlines and for an additional 75 aircraft from Jet Airways.

TSI AVIATION SEATS

Established in partnership with Assan Hanil Group, TSI Aviation Seats is Turkey's one and only aircraft seat manufacturer. It collaborates with domestic suppliers in production and uses 80% domestic products.

In 2018, TSI Aviation Seats manufactured "Epianka" model seats for Airbus' A321 NEO ACF aircraft, which is the first aircraft of the Cabin Flex series that can expand single class passenger capacity up to 240 in its A321neo series, as well as for Boeing's B737MAX aircraft. Authorized controls and quality tests revealed zero error in the first deliveries – a highly successful performance. Upon completion of an investment in November, TSI Aviation Seats transferred its production facilities at Sabiha Gökçen Airport to an area roughly four-times larger, increasing its overall annual production capacity by 2.5 times. TSI Aviation Seats received approval from the Republic of Turkey Ministry of Economy under the Global Supply Chain Competence Initiative. This effort aims to enhance the intermediate product manufacturing and export capacities of companies that manufacture in Turkey and which are positioned to become suppliers to global brands. Furthermore, TSI Aviation Seats produces seats for the two A320 type aircraft of the Turkish aviation company Freebird. TSI Aviation Seats' trademark application in the US yielded a positive result and the brand was registered in the US.

In 2018, TSI Aviation Seats boosted its revenues by 22% over the prior year.



22%

TSI AVIATION SEATS REVENUE INCREASE

19% REVENUE INCREASE

Goodrich Turkish Technical Service Center boosted its revenue by 19% in 2018.



TRAFFIC RESULTS

The number of landings, which was 483,312 in January-December 2017, increased 5.7% to 511,064 in the same period of 2018; while the number of destinations rose from 303 to 310.

The total number of passengers went up from 68.6 million in 2017 to 75.2 million in 2018, in a 9.5% increase. The increase in the number of passengers is 9.7% in domestic flights and 9.3% in international flights.

Revenue Passenger Kilometers (RPK) rose from 136.9 billion in January-December 2017 to 149.2 billion in the same period of 2018, up 8.9%. RPK increased 9.1% in domestic flights and 8.9% in international flights.

The number of transfer passengers between international flights went up 7.8%, while passenger load factor rose 2.8 points.

Total Available Seat Kilometers (ASK) went up from 173.1 billion in January-December 2017 to 182 billion in the same period of 2018, displaying a 5.2% increase. ASK rose to 7.5% in domestic flights and 4.8% in international flights.

The number of landings, which was 483,312 in January-December 2017, increased 5.7% to 511,064 in the same period of 2018; while the number of destinations rose from 303 to 310.

Cargo and Mail jumped 25.8%, from 1,122,697 tons in January-December 2017 to 1,412,423 tons in the same period of 2018.



TURKISH AIRLINES GROUP - TRAFFIC RESULTS

INCREASE IN TOTAL PASSENGER LOAD FACTOR

Turkish Airlines' passenger load factor reached 81.9%.

INTERNATIONAL PASSENGER LOAD FACTOR ON THE RISE

Turkish Airlines' passenger load factor on international flights reached 81.4%.

DOMESTIC PASSENGER LOAD FACTOR

Turkish Airlines' passenger load factor on domestic flights reached 85.3%.



52

NUMBER OF TURKISH AIRLINES DOMESTIC DESTINATIONS

TOTAL TRAFFIC FIGURES

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|---------|---------|-----------|-----------|
| Revenue Passenger (000) | 54,675 | 61,248 | 62,759 | 68,617 | 75,168 |
| Available Seat Kilometers (million) | 135,330 | 153,209 | 170,092 | 173,073 | 182,031 |
| Revenue Passenger Kilometers (million) | 106,787 | 119,372 | 126,815 | 136,947 | 149,169 |
| Passenger Load Factor (%) | 78.9 | 77.9 | 74.6 | 79.1 | 81.9 |
| Destinations | 264 | 287 | 298 | 303 | 310 |
| Number of Landings | 422,521 | 462,767 | 475,303 | 483,312 | 511,064 |
| Distance Flown Kilometers (000) | 704,354 | 777,161 | 825,561 | 826,048 | 866,630 |
| Cargo + Mail (tons) | 667,743 | 720,440 | 887,164 | 1,122,697 | 1,412,423 |
| Excess Luggage (tons) | 7,925 | 7,601 | 6,677 | 6,904 | 7,717 |

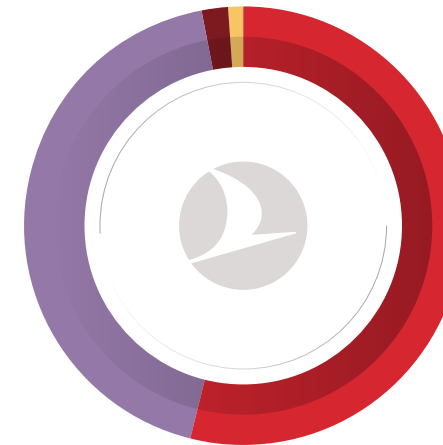
INTERNATIONAL

| International Traffic Figures | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|---------|---------|-----------|-----------|
| Revenue Passenger (000) | 31,967 | 34,944 | 35,457 | 38,487 | 42,224 |
| Available Seat Kilometers (million) | 117,773 | 133,594 | 149,328 | 150,712 | 157,994 |
| Revenue Passenger Kilometers (million) | 92,539 | 103,001 | 109,768 | 118,148 | 128,660 |
| Passenger Load Factor (%) | 78.6 | 77.1 | 73.5 | 78.4 | 81.4 |
| Destinations | 219 | 236 | 247 | 252 | 258 |
| Number of Landings | 250,214 | 271,267 | 279,781 | 275,691 | 290,634 |
| Distance Flown Kilometers (000) | 599,420 | 660,328 | 705,668 | 698,488 | 730,047 |
| Cargo + Mail (tons) | 616,124 | 668,189 | 832,126 | 1,052,026 | 1,333,325 |
| Excess Luggage (tons) | 4,986 | 4,772 | 3,943 | 4,107 | 4,489 |

DOMESTIC

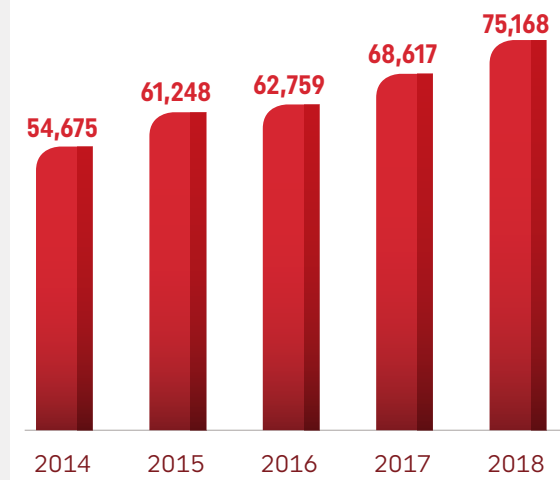
| Domestic Traffic Figures | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|---------|---------|---------|---------|
| Revenue Passenger (000) | 22,708 | 26,304 | 27,301 | 30,130 | 32,944 |
| Available Seat Kilometers (million) | 17,557 | 19,615 | 20,764 | 22,361 | 24,037 |
| Revenue Passenger Kilometers (million) | 14,248 | 16,370 | 17,046 | 18,798 | 20,510 |
| Passenger Load Factor (%) | 81.2 | 83.5 | 82.1 | 84.1 | 85.3 |
| Destinations | 45 | 51 | 51 | 51 | 52 |
| Number of Landings | 172,307 | 191,500 | 195,522 | 207,621 | 220,430 |
| Distance Flown Kilometers (000) | 104,934 | 116,833 | 119,893 | 127,560 | 136,583 |
| Cargo+Mail (tons) | 51,619 | 52,251 | 55,038 | 70,671 | 79,098 |
| Excess Luggage (tons) | 2,939 | 2,828 | 2,734 | 2,797 | 3,227 |

DISTRIBUTION OF TOTAL PASSENGER IN 2018



| | Percentage | Number of Passengers |
|---------------|------------|----------------------|
| International | 54.0% | 40,555,752 |
| Domestic | 43.4% | 32,646,599 |
| Charter | 1.9% | 1,437,565 |
| Hajj-Umrah | 0.7% | 527,891 |
| Total | | 75,167,807 |

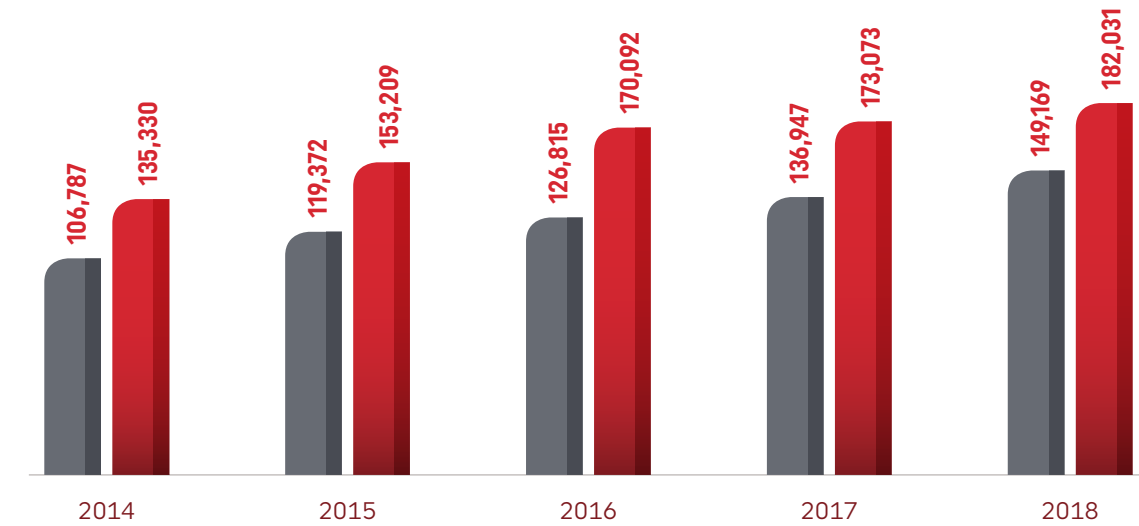
REVENUE PASSENGER (THOUSAND)



75.2 MILLION

NUMBER OF TURKISH AIRLINES REVENUE PASSENGERS IN 2018

EVOLUTION IN ASK AND RPK (MILLION)



■ Available Seat Kilometers (ASK) (million)
■ Revenue Passenger Kilometers (RPK) (million)

SIGNIFICANT INCREASE IN RPK

In 2018, Turkish Airlines' RPK increased to over 149 billion.

FLEET

Committed to expanding and rejuvenating its fleet, Turkish Airlines moves forward with confidence every day towards its goal of operating the youngest and most modern fleet in Europe.



Established in 1933 as a fleet of five aircraft, Turkish Airlines has expanded and rejuvenated its fleet, especially with breakthroughs in the 2000s. Consisting of 65 aircraft at the beginning of 2004, Turkish Airlines' fleet has registered more than 410% growth as of 2018. Turkish Airlines flies to most countries and controls the fourth largest flight network in the world. As of end-2018, Turkish Airlines is the 11th largest airline in the world with 332 aircraft.¹

Turkish Airlines conducts ongoing cost analyses to keep pace with evolving passenger traffic and changing customer demands. The Incorporation prioritizes passenger comfort and safety, and acquires state-of-the-art, eco-friendly aircraft which save energy in order to further strengthen its brand.

FLEET AGE: 8.2

Committed to expanding and rejuvenating its fleet, Turkish Airlines moves forward with confidence continuously towards its goal of having the youngest and most modern fleet in Europe. As of end-2018, the average fleet age of Turkish Airlines stands at 8.2 years.

In line with its long-term fleet projections, Turkish Airlines delivered in previous years 20 B777-300ER aircraft and 20 A330-300 aircraft which were ordered in 2012. In 2018, Turkish Airlines placed firm orders for 25 Airbus A350-900 and optional orders for five, along with firm orders for 25 Boeing 787-9 and optional orders for five, which will be delivered between 2019 and 2023. Once these aircraft join the fleet, Turkish Airlines will inaugurate new lines and expand the frequency of existing ones, stepping up its growth in long-haul flights.

Aside from these wide-body aircraft, Turkish Airlines delivered 25 A321 narrow-body aircraft as part of its order of 117 Airbus narrow-body aircraft, placed in 2013. Of the remaining 92 new-generation narrow-body A321 NEO aircraft, two were delivered in 2018; the remaining will be received by year-end 2023.

In addition, under an order of 95 Boeing narrow-body aircraft placed in 2013, 20 B737-800 aircraft were delivered in previous years. Seven of the remaining 75 new generation B737 MAX aircraft were delivered in 2018. Delivery of these aircraft is planned to be completed by 2022.

Deliveries of four A330-200F aircraft, ordered in 2014, and two additional B777F freighters deliveries were completed in previous years. In line with the goal of expanding its cargo operations, Turkish Airlines delivered in 2018 the three B777F aircraft ordered in 2017. The lease contracts of three B747-400F aircraft leased in 2017 were also extended. In addition, Turkish Airlines ordered three B777F freighters, scheduled to be delivered in 2019-2020.

At the end of each year, Turkish Airlines updates its fleet projections under its strategy of seizing emerging market opportunities, performing risk management, embracing sustainability, conducting dynamic capacity planning, expanding the size and intensity of the flight network.

15% FUEL SAVINGS

Turkish Airlines ordered 92 new generation A321 NEO and 75 new generation B737MAX aircraft in 2013. These aircraft started to join the fleet in 2018, yielding 15% in fuel savings compared to their counterparts. According to plans, all these aircraft will join the fleet by 2023, resulting in a significant decrease in fuel consumption per seat in the narrow-body aircraft fleet by 2023.

Besides narrow-body aircraft, Turkish Airlines ordered new generation wide-body aircraft in 2018 for delivery by end-2025. Fuel consumption per seat of the new generation wide-body aircraft is expected to be 13% lower than the existing wide-body aircraft. As such, new aircraft that will join the wide-body fleet will also boost fuel efficiency.

THE WORLD'S 11TH LARGEST AIRLINE

Turkish Airlines is the 11th largest airline in the world with its fleet of 332 aircraft.



15%

FUEL SAVINGS
REALIZED
BY NEW
GENERATION
NARROW-BODY
AIRCRAFT
COMPARED TO
COUNTERPARTS



¹ WATS 2018.

TURKISH AIRLINES GROUP - FLEET

**NARROW-BODY
(218 AIRCRAFT)**

**WIDE-BODY
(92 AIRCRAFT)**

**CARGO
(22 AIRCRAFT)**

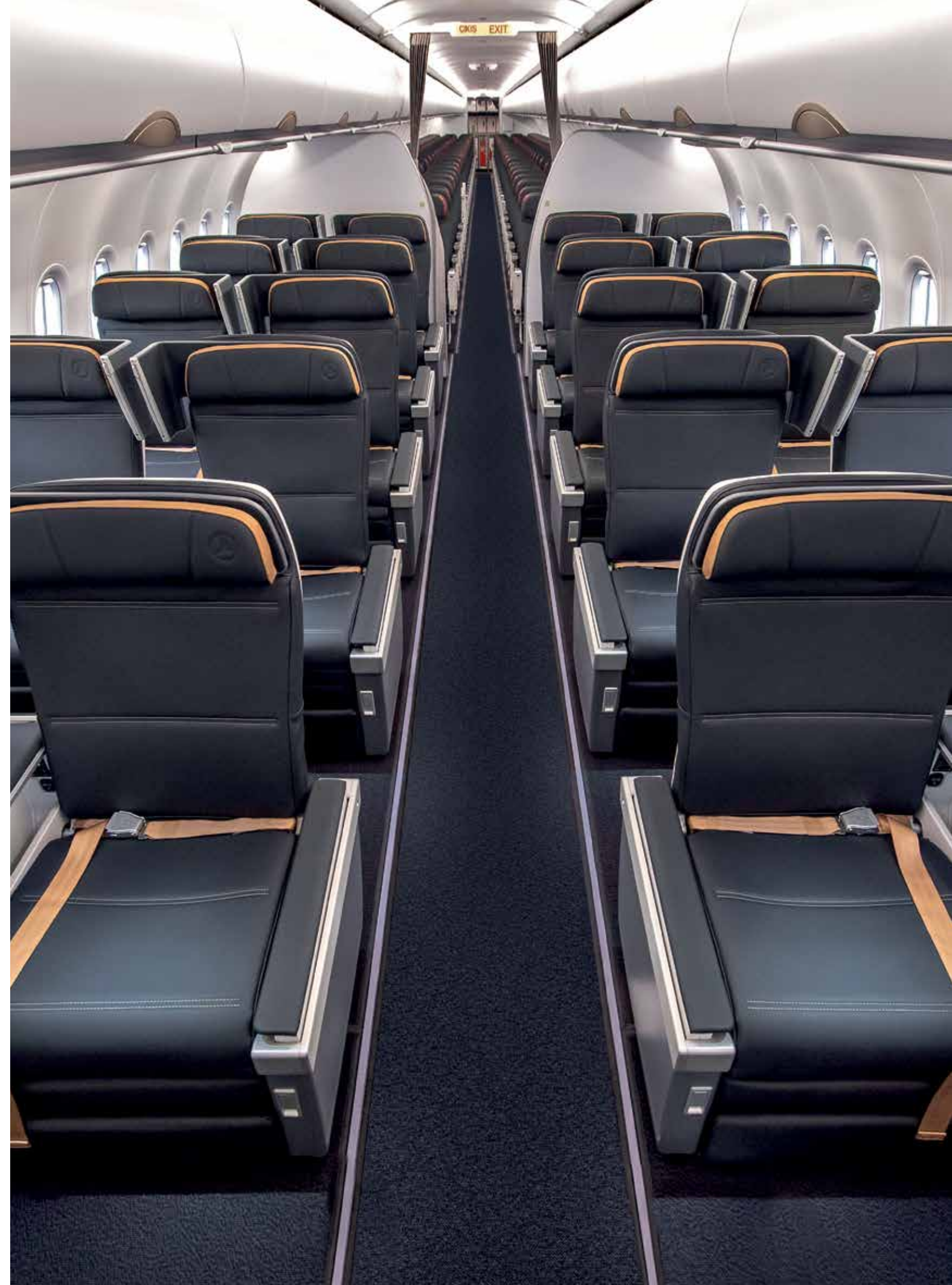


332

TOTAL NUMBER OF AIRCRAFT

8.2

AVERAGE FLEET AGE



FLIGHT NETWORK



NORTH AMERICA

| | |
|--------------------------------|------|
| Change in ASK | 2.9% |
| Change in RPK | 9.3% |
| Change in Number of Passengers | 9.1% |

11

FLIGHT DESTINATIONS

CENTRAL AND SOUTH AMERICA

| | |
|--------------------------------|-------|
| Change in ASK | 6.7% |
| Change in RPK | 10.5% |
| Change in Number of Passengers | 6.5% |

6

FLIGHT DESTINATIONS

EUROPE

| | |
|--------------------------------|-------|
| Change in ASK | 8.3% |
| Change in RPK | 11.7% |
| Change in Number of Passengers | 12.3% |

115

FLIGHT DESTINATIONS

AFRICA

| | |
|--------------------------------|-------|
| Change in ASK | 4.5% |
| Change in RPK | 12.7% |
| Change in Number of Passengers | 13.7% |

55

FLIGHT DESTINATIONS

MIDDLE EAST

| | |
|--------------------------------|------|
| Change in ASK | 5.2% |
| Change in RPK | 7.4% |
| Change in Number of Passengers | 7.5% |

34

FLIGHT DESTINATIONS

FAR EAST

| | |
|--------------------------------|------|
| Change in ASK | 4.4% |
| Change in RPK | 7.8% |
| Change in Number of Passengers | 8.2% |

37

FLIGHT DESTINATIONS

CARGO

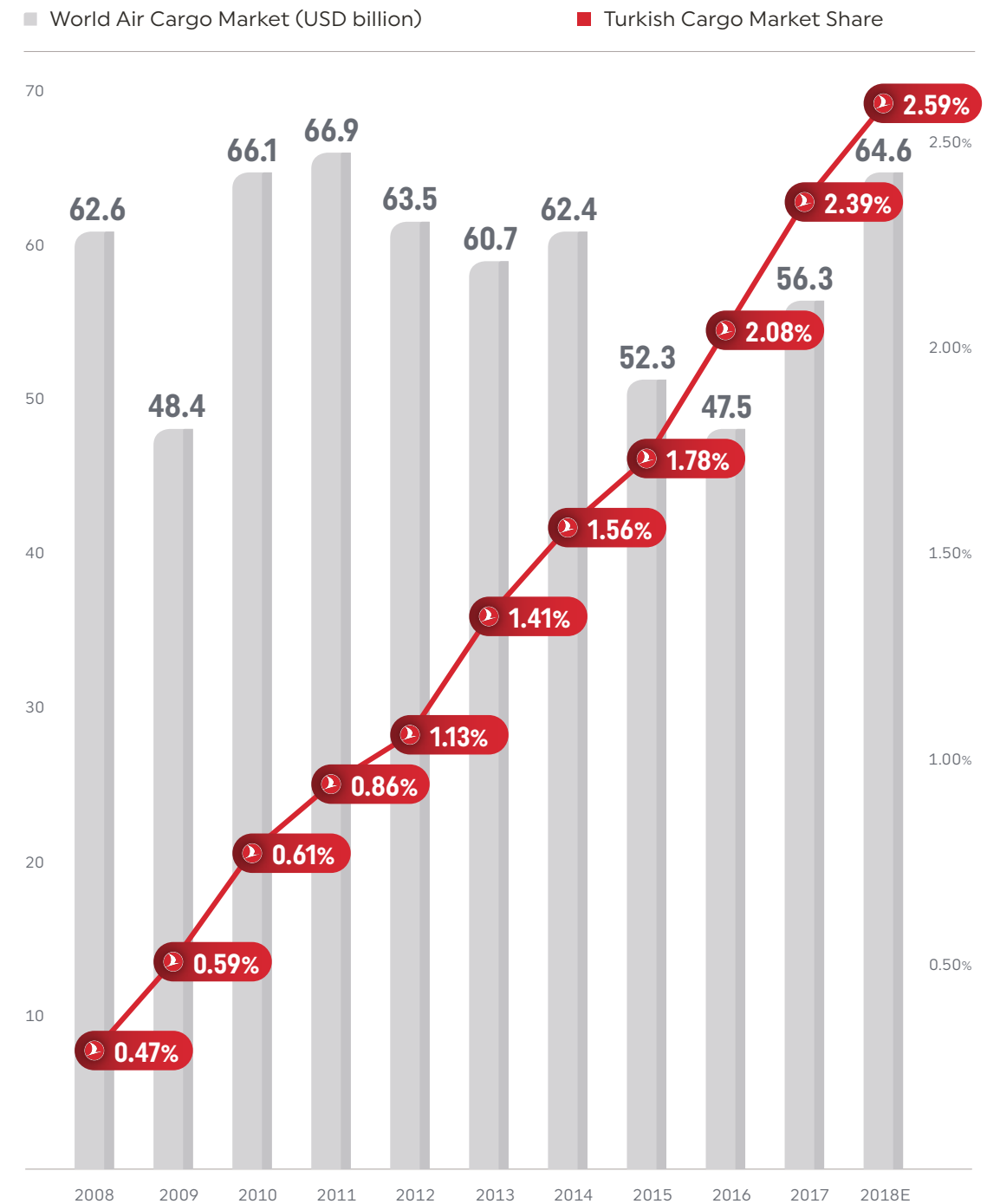
In 2018, Turkish Cargo, Turkish Airlines' air cargo brand, boosted its cargo revenues to USD 1.65 billion, up 25.1%.



Cargo revenues climbed from USD 1.34 billion in 2017 to USD 1.65 billion in 2018, a 25.1% jump that exceeded the annual budget target. Similarly, carried cargo rose to 1.41 million tons in 2018, up 25.8% over the 2017 figure of 1.13 million tons.

2018 was a strong year for the air cargo sector. In 2018, freight tonne kilometers (FTK) increased 4.1% and cargo unit revenues rose 10% sector-wide. Global air cargo revenues jumped from USD 56.3 billion in 2017 to USD 64.6 billion in 2018.

WORLD AIR CARGO MARKET AND TURKISH AIRLINES MARKET SHARE



Source: IATA Industry Economic Performance & Turkish Airlines Financial Reports

SIGNIFICANT INCREASE IN CARRIED CARGO VOLUME

In 2018, the volume of cargo transported by Turkish Airlines increased to 1.41 million tons.

25.8%
INCREASE IN CARRIED CARGO



CONTINUING TREND IN AFTK

In 2018, the Available Freight Tonne Kilometers generated by freighters increased 44.3%.

Turkish Cargo increased its share of the world air cargo market from 0.4% to 2.5% over the last 10 years. A further increase is targeted for 2019.

Turkish Cargo expanded its cargo fleet to achieve its targets in addition to undertaking other capital investments in 2018. As of year-end 2017, Turkish Cargo operated 16 freighters; the fleet expanded to 22 freighters as of year-end 2018. As a result of the expanded fleet, the Available Freight Tonne Kilometers (AFTK) jumped 44.3% in 2018. The contribution of freighters to total revenues climbed from USD 604 million in 2017 to USD 854 million in 2018, up 41.4%.

With the increase in freighters, the cargo flight network continued to widen, expanding from 73 destinations in 2017 to 85 destinations in 2018. The new destinations added to the cargo flight network in 2018 included: Muscat, Stansted, Ho-Chi Minh City (Saigon), Bangalore, Sao Paulo (VCP), Mexico City, Bogota, Taipei, Miami, Curacao, Liege, Navoi, Vilnius and Brussels. During the year, additional flights were realized to some destinations, including: Guangzhou, Nairobi, Dakar, Algiers, Casablanca, Johannesburg, Khartoum, Tunisia, Bishkek, Hanoi, Shanghai, Paris, Madrid, Maastricht, Bahrain, Bombay, Colombo, Dubai, Chennai and Riyadh. In 2019, Turkish Cargo plans to continue expanding the cargo fleet in tandem with the Turkish Airlines passenger fleet, depending on the market conditions.

2018 marked a major milestone year for cargo facilities thanks to the inauguration of Istanbul Airport – one of the largest mega projects in the world. The new airport will play a major role in helping Turkish Cargo

achieve its 2023 targets. Turkish Cargo's satellite facility, which is scheduled to be commissioned in 2019, has been completed; as such, additional cargo capacity of some 700 thousand tonne was created to serve passenger aircraft. Developments in special cargo products and cargoes customized for customer needs will contribute to the maximization of operational quality and customer satisfaction. Once the mega facilities, whose construction began in 2018 and is currently underway, comes into operation in 2020, total capacity will rise to 2 million tons. Upon completion of the second phase, total capacity will expand to 4 million tons in 2023. On the centenary of the Republic of Turkey, Turkish Cargo will enjoy the advantages of one of the world's top air cargo terminals. The new mega facility will greatly help Turkish Cargo meet its operational infrastructure needs to become one of the top five cargo carriers worldwide.

In 2018, Turkish Cargo launched numerous projects and initiatives toward the goals of capitalizing on technological capabilities, seizing development opportunities for the future, and becoming the leader of the air cargo transport sector. To these ends, Turkish Cargo recorded significant progress in the areas of operational quality, process development, continuous improvement and performance management.

2018 was a productive year in terms of operational developments and recruitment of top-caliber human resources. Turkish Cargo has made a huge investment in human resources in line with its 2023 vision, by establishing new specialized units and recruiting new personnel to be trained.

WE CARRY YOUR CARGO QUICKLY AND SECURELY ALL OVER THE WORLD.

As Turkish Cargo, we safely transport e-commerce shipments to more than 120 countries and more than 300 destinations around the world.



TURKISH CARGO

turkishcargo.com

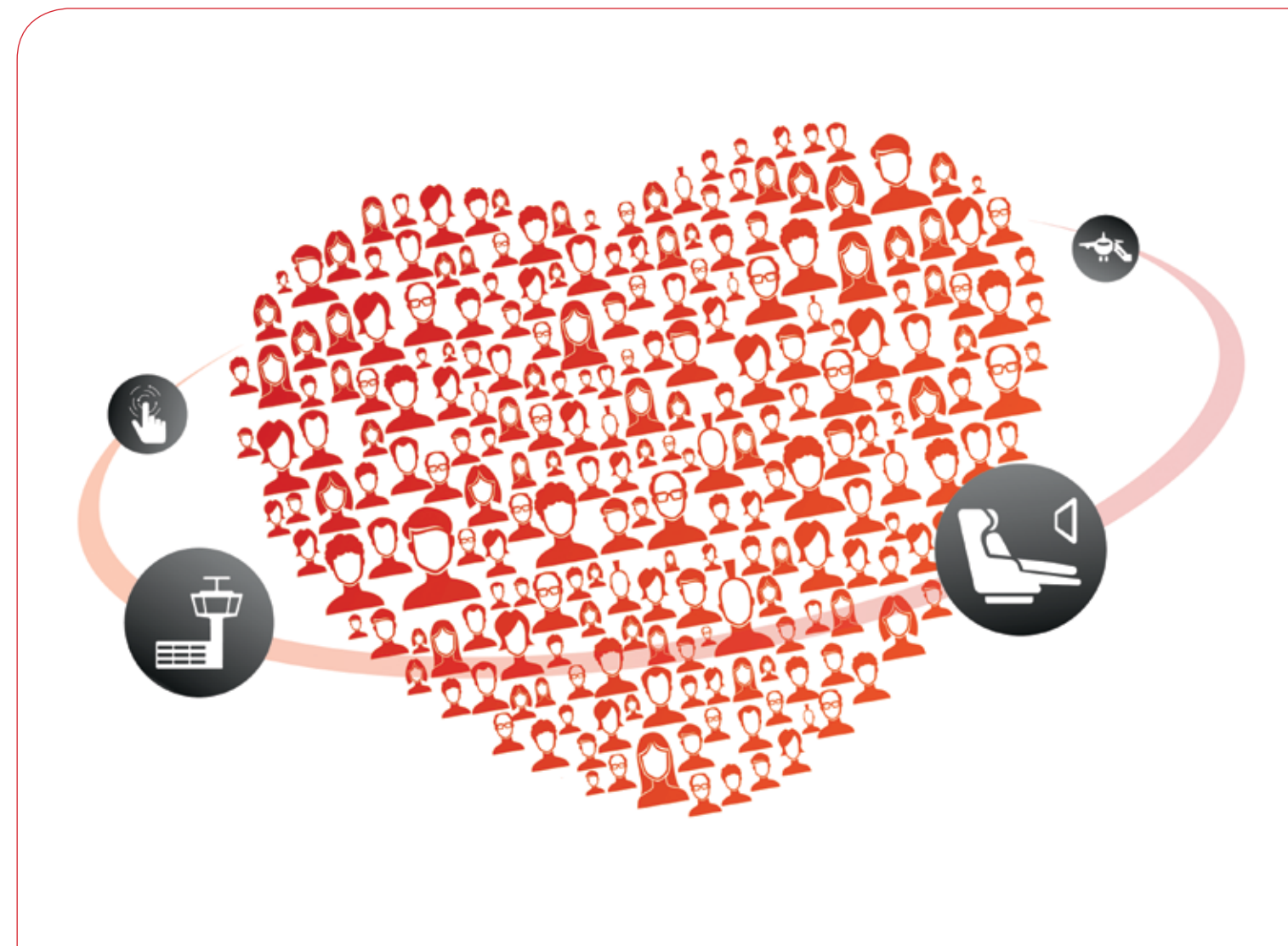


USD 854 MILLION

CONTRIBUTION OF THE FREIGHTERS TO TOTAL REVENUE

CUSTOMER EXPERIENCE

Turkish Airlines conducts customer satisfaction surveys at all stages of traveling – including pre-, during and post-flight – in order to proactively deliver process improvements and new experience concepts.



CUSTOMER EXPERIENCE PANEL

Designed to guide customer satisfaction-oriented studies, Customer Experience Panel is a digital platform that provides real-time monitoring of market research and operations data on satisfaction and performance measurements. The platform is located at customer touch points. Customer Experience Panel tracks indicators at all customer service points via a single panel and presents data in a leaner manner by making use of visual elements.

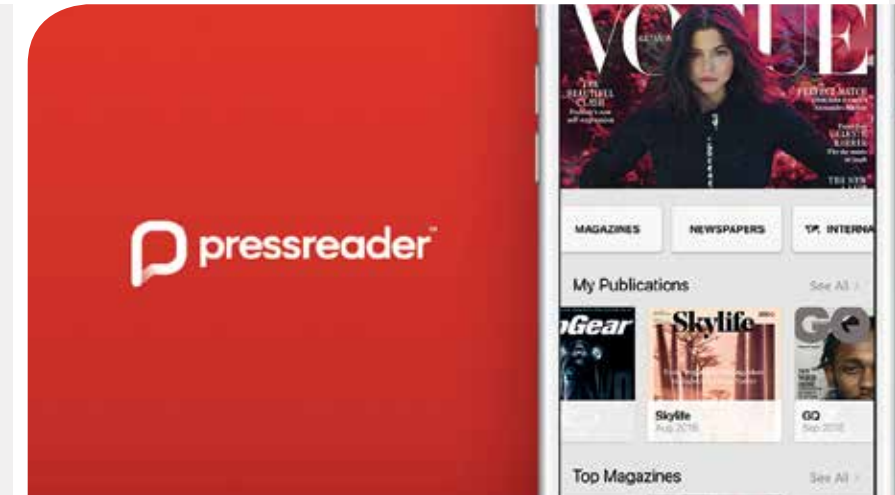


FEEDBANK

In addition to numerical data obtained from quantitative research, Turkish Airlines launched the Feedbank platform. This innovation is designed to have the customer's voice heard across the organization by classifying open-ended passenger comments and reporting these according to their emotional character. Feedbank uses the machine learning method via artificial intelligence technology. The application analyzes all feedback from customer satisfaction surveys on the basis of their flight and demographic information distribution. As a result, Feedbank helps enhance the services delivered at customer touch points.

EXCLUSIVE DRIVE

Turkish Airlines aims to extend the comfortable experience delivered to Business Class passengers on-board towards ground services. To this end, it offers an exclusive transfer service for the destinations in the USA and Canada featuring premium segment vehicles and chauffeurs to help them travel to and from the airport.



PRESS READER

The Press Reader application gives passengers digital access to over 7 thousand newspapers and magazines, in over 60 languages. Turkish Airlines passengers are directed to the application one day before their flight via e-mail and the website. As a result, passengers may benefit from the application free-of-charge for 48 hours in addition to flying time. Passengers may make unlimited use of the application during their time spent in exclusive passenger lounges. Turkish Airlines personnel may also access the application without any limitations.

ISTANBUL BOSPHORUS EXPERIENCE

Designed for Business Class passengers, the Istanbul Bosphorus Experience service welcomes those passengers who have connection times of seven hours or more between their flights. The service brings passengers to a private yacht via VIP designated vehicles, offers them a one-hour guided Bosphorus tour and a meal at the exclusive Çırağan Kempinski, before transporting them back to the airport for their next flight.



ISTANBUL AIRPORT EXPERIENCE DESIGN INITIATIVE

Turkish Airlines' Experience Design effort takes passenger experience at its new home Istanbul Airport to a whole new level. This initiative has redesigned product and service processes, personal attitudes and physical spaces through a brand new, customer-oriented perspective.

With a view toward providing stress-free, comfortable and personalized services, Turkish Airlines designed 18 different customer touch points at 40 locations – from terminal entrance to check-in, boarding gate to baggage claim. As such, Business Class, Economy Class and Miles&Smiles Elite and Elite Plus cardholder passengers are offered services that exceed their expectations at every service point.



EXPERIENCE DESIGN PROJECT

Turkish Airlines designed 18 different customer touch points at 40 locations in Istanbul Airport.

STOPOVER ACCOMMODATION SERVICE

With the Stopover Accommodation Service, Turkish Airlines offers transfer passengers with long connection times complimentary accommodation of one night in Istanbul for Economy Class and two nights for Business Class. The service was launched to enhance transfer passenger satisfaction and to sharpen the competitive edge in the global market of the Turkish Airlines brand. The scope of Stopover Accommodation Service is expanded continuously.

TICKET DISCOUNTS FOR DISABLED PASSENGERS

To facilitate the air transportation of passengers with a disability level of 40% and above, Turkish Airlines now extends a 20% discount on tickets for all domestic flights and 25% discount for all international flights (except tickets with special offers). Eligible passengers may become a member of the Miles&Smiles passenger program and receive discounts on ticket purchases at the Turkish Airlines web site. In addition, disabled passengers may request to receive special accessibility services.

SIGN LANGUAGE WEB TRANSLATION FOR HEARING IMPAIRED PASSENGERS

In the frequently asked questions (FAQ) section and patient and disabled passengers section of its web site, Turkish Airlines has added special sign language videos for hearing impaired passengers. Thanks to the database based on machine learning methodology, Turkish Airlines plans to translate other pages into sign language as well.

DINE ON DEMAND

With the Dine On Demand service, Business Class passengers on intercontinental night-time flights may enjoy food and beverage offerings whenever they wish. Passengers can now choose their own time to rest in their fully-reclining seats, select from a large variety of in-flight entertainment options, and enjoy a selection from the award-winning catering service at their preference.



TURKISH AIRLINES GROUP - CUSTOMER EXPERIENCE

NEW GENERATION NARROW-BODY BUSINESS CLASS SEATS

In the A321 Neo, B737-8 and B737-9 aircraft, which started to join the Turkish Airlines fleet in 2018, Business Class passengers are provided with a range of advantages such as a new generation narrow-body Business Class seat, adjustable privacy panel, in-flight entertainment system with 13-inch seat-back monitor, touch-operated remote control, movable armrest for disabled passengers, power sockets and chargers, large storage space, and a dining table that opens and folds with a single click. The new generation narrow-body Business Class seats have already yielded a 7% increase in customer satisfaction from the first month launched.

NEW AURORA BUSINESS CLASS SEAT

The Business Class seats in the new generation wide-body B787 and A350 aircraft introduce numerous innovations.



Redesigned by Priestman Goode, the London-based world-renowned design studio for Turkish Airlines, the Business Class seats offer passengers many functional features that improve travel comfort. These include direct aisle access, enhanced privacy and large storage space. The cabin environment, which delivers a smooth and hassle-free passenger experience in line with the "Flow" philosophy, is in perfect harmony with the smart seat design and patterns.

To take passenger experience to the next level, this concept will be supported with the "Cappadocia Sunrise" lighting scenario, which will be projected on the ceiling and side walls via the state-of-the-art lighting of new generation aircraft.

NEW GENERATION ECONOMY CLASS SEATS

The new Economy Class seats, which will be used in the Boeing 787 and Airbus 350 wide-body aircraft that will join the Turkish Airlines fleet for the first time, were developed with domestic resources in cooperation with TSI, a subsidiary of Turkish Airlines. To enhance customer satisfaction, new features were introduced in the seat development process. These include special pockets for personal items like wallets and smart phones, ergonomic headrests and cushions, and wide seat-back screens.

The "Turquoise Waves" lighting scenario will be projected on the ceiling and side walls to support the new seating concept and to create a unique atmosphere in the Economy Class cabin.

AURORA SEATS

Business Class seats in the new generation wide-body B787 and A350 aircraft introduce numerous innovations.



CONTINUING AIRWORTHINESS MANAGEMENT

Turkish Airlines is the first Turkish incorporation to receive Continuing Airworthiness Management Organization (CAMO) authorization.



Turkish Airlines conducts continuing airworthiness management activities in line with the Continuing Airworthiness Management Organization (CAMO) authorization with Directorate General of Civil Aviation (DGCA) certification that it has received for over 330 aircraft – including passenger, VIP and training aircraft – pursuant to the terms set forth in SHY-M. Turkish Airlines outsources the maintenance, repair, overhaul and tests listed in the Air Operator Certificates (AOC) for the aircraft and their engines, components and other equipment. This approach ensures that aircraft and its equipment, function in an airworthy manner in both Turkey and overseas and conform to continuing airworthiness standards.

Turkish Airlines undertakes continuing airworthiness management responsibility of all commercial aircraft under Air Operator Certificate for commercial fleet (SHY-6A Fleet, Airbus A320 CEO and NEO series, Airbus A330, Airbus A340, Boeing 737NG and MAX series, and Boeing 777) and the VIP and training aircraft under Air Operator Certificate for general aviation (SHY-6B Fleet, Cessna 172S, Diamond DA40 and Diamond DA42, Bombardier Challenger 850, Gulfstream GV and G550, A318CJ, A319CJ, A330CJ, A340CJ and B747BBJ). Turkish Airlines has obtained a DGCA-approved Continuing Airworthiness Management Organization Approval Certificate for both fleet types. Turkish Airlines is the first Turkish incorporation to obtain airworthiness review authorization in Turkey for the commercial aircraft in its fleet.

As part of these authorizations, Turkish Airlines primarily ensures that its aircraft comply with airworthiness requirements and safety provisions at any time during their operational lifespan. In addition, Turkish Airlines delivers the following technical services:

- Aircraft selection, from feasibility studies at time of purchase or leasing decision for aircraft right up to its exit from the fleet,
- Determination of aircraft configurations,
- Determination of BFE systems,
- Engine selection,
- Control of aircraft manufacturing processes and aircraft delivery,
- Execution (signing) of necessary maintenance agreements,
- Ensuring airworthiness of the aircraft during Turkish Airlines operations,
- Technical modifications,
- Installation of in-flight entertainment systems to the aircraft,
- Return of aircraft at the end of the leasing period.

Turkish Airlines also monitors the procured maintenance services for compliance with agreements, standards and rules, and fully performs the continuing airworthiness services in line with existing goals.

The Turkish Airlines fleet has attained the highest airworthiness, safety and operability standards as a result of the strong synergy it has forged among the highly experienced Technical Directorate of Continuing Airworthiness Management team; its pioneering subsidiary Turkish Technic; national and international manufacturers; and firms from which it receives maintenance and/or engineering services.

Turkish Airlines views its top priority targets as safety, customer satisfaction and productivity. The technical standards of the existing aircraft or new aircraft to be acquired to the fleet are determined in line with these targets.

DGCA CERTIFICATION

Turkish Airlines conducts continuing airworthiness management activities in line with the Continuing Airworthiness Management Organization (CAMO) authorization with DGCA certification that it has received for over 330 aircraft, pursuant to the terms set forth in SHY-M.

GOURMET

UNEXPECTED GOURMET DELIGHTS HIGH IN THE SKY

In addition to key elements such as trust and comfort, one of the most important factors in selecting an airline for frequent travelers is undoubtedly the catering service.

Now, we are in the kitchen of Turkish Airlines which serves superb delights worthy of luxury restaurants high in sky...



DOES A FLIGHT HAVE AN AFTERTASTE?

It does, if you fly with Turkish Airlines! Turkish Airlines is delectable from the land to the sea, with the flavorful delights it offers both onboard and also at Lounge Istanbul...



TURKISH AIRLINES IS A STANDOUT WITH ITS FLYING CHEFS

In parallel with the increase in destinations and flights, the number of Flying Chefs assigned to Turkish Airlines international flights expanded to 559. Turkish DO & CO employs 105 female and 454 male Flying Chef staff. Flying Chefs prepare and serve food to Business Class passengers, and inform them about the various dishes served. Flying Chefs first came on-board in 2010, starting with the intercontinental flights of Turkish Airlines. Playing a huge role in demonstrating Turkish hospitality across the world, Turkish Airlines launched this innovative practice on the New York line. Flying Chefs now serve passengers in the cabins and thus have the chance to observe service quality and passenger demands first-hand.

Flying Chefs inform passengers about the menu concept for the Business Class cabin and provide professional support to the cabin crew during meal preparation. Over time, the Flying Chef staff also started to work on various short-haul international flights. Since 2013, Flying Chef services have been featured on a number of short-haul international flight destinations, independent of aircraft type.

Perhaps the most pleasing aspect of travel is exploring completely new savors pre-flight, during transfer, on-board or post-flight... Many who travel with Turkish Airlines will tell you, "If Turkish Airlines were a restaurant, it would definitely be my first choice for a meal." What sets Turkish Airlines apart from the rest is that the food appeals not only to your palate but to your eyes as well.

NEW AIRPORT, RENEWED PARTNERSHIP, NEW SAVORS

Turkish Airlines ranks high globally with its impeccable catering service, offering appetizing snacks and main courses from Turkish and world cuisines. It integrates classical Turkish food as well as delights from diverse cultures.

As a result of the new agreement reached, Turkish Airlines will continue to work with DO & CO for catering services it will procure at its new home Istanbul Airport and other Turkish airports. This cooperation, which serves as a model to the industry globally, has garnered many awards, helping Turkish cuisine reach out to the world through yet another channel.

With the transition to Istanbul Airport, even more delightful savors will soar to the skies. Specialties from Turkey as well as offerings from world cuisine will take a more prominent place in Turkish Airlines' menus. In line with evolving lifestyles today, new concepts such as healthy nutrition will also be offered to passengers.



CATERING

As the flag carrier airline of our country, Turkish Airlines delivers the best catering service in the industry while continuing to launch innovations that set new trends and delight its passengers.



Turkish Airlines Lounge Istanbul is recognized across the world for its meticulous attention to detail, opening the doors of exclusive comfort to passengers. In 2018, as in the prior year, Turkish Airlines Lounge Istanbul received the "Best Business Class Special Passenger Lounge" first prize in the global rankings. This year, as in the previous three years, Turkish Airlines won the "Best Business Class Special Passenger Lounge Catering" award for its diverse and rich offerings to passengers in this exclusive lounge. Regional dishes served on certain days of the week were especially appreciated by the guests of Turkish Airlines Lounge Istanbul.

In 2018, nearly 96,720,000 meals were served.

DINE ON DEMAND

Turkish Airlines offers Business Class passengers on intercontinental flights the option to request their meals whenever they wish. This exclusive service concept, implemented by only few airlines across the world, gives passengers the opportunity to receive a more customized service. The service, available on all Turkish Airlines intercontinental night flights to/from Istanbul, allows passengers to decide when they will rest and when they will dine, thus enjoying a more flexible flight experience.


"AS YOU WISH" SERVICE APP

Deemed worthy of numerous awards for its on-board catering service, Turkish Airlines has gone the extra mile in service quality by allowing Business Class passengers to choose their dishes prior to the flight.

Turkish Airlines Business Class passengers travelling on the below mentioned intercontinental routes from Istanbul may visit the web site and/or mobile app, view the ingredients and visuals of the main courses, and make their dining choices. Passengers may make their selection anytime between one week to 48 hours before the date of their flight.



This service is available on Turkish Airlines flights to Atlanta, Bangkok, Beijing, Bogota, Boston, Cape Town, Chicago, Guangzhou, Hanoi, Havana, Ho Chi Minh City, Hong Kong, Houston, Jakarta, Johannesburg, Kuala Lumpur, Los Angeles, Manila, Miami, Montreal, New York, Phuket, Port Louis, San Francisco, Sao Paulo, Saul, Shanghai, Singapore, Taipei, Tokyo, Toronto, Washington DC, Caracas, Panama City, Madagascar, Durban, Maputo and Buenos Aires, from Istanbul.


96.7
MILLION
ROUND
NUMBER OF
MEALS SERVED



HEALTHY SNACK OPTIONS

Dried apples, strawberries and persimmons are some of the healthy snacks offered to passengers.

FLY GOOD FEEL GOOD

In 2018, Turkish Airlines drew much attention with its "Fly Good Feel Good" initiative. To deliver an exemplary flying experience, "Fly Good Feel Good" combines under a single umbrella all that needs to be done before, during and after a flight for an all-round comfortable trip.

"Fly Good Feel Good" aims to breathe new life into the flying experience with a laser focus on customer satisfaction. To more effectively address passenger needs, Turkish Airlines implemented this effort which guides passengers on all issues that may have a positive effect on the traveling experience – from pre-flight preparation to cabin exercises, sleep to yoga and meditation. The on-board herbal tea service concept was also renewed under this initiative.

"Fly Good Feel Good" covers a wide range of issues, including: informative videos accessible via the in-flight entertainment system; flying with infants and children; on-board nutrition; air travel during pregnancy; prevention of nose and ear congestion during flight; and reducing the effects of a possible "jetlag" after the flight.

In addition, ER BC Movie Bar offers passengers healthy snack options such as dried strawberries, dried apples and dried persimmons.

EXPLORE WORLD CULINARY DELIGHTS WITH TURKISH AIRLINES

With passenger satisfaction as its top priority, Turkish Airlines does not limit its catering concept to menus blending Turkish and Western cuisines. Turkish Airlines offers passengers local culinary delights from across the globe.

As the flag carrier of our country, Turkish Airlines delivers the best catering service in the industry while continuing to launch innovations that set new trends and delight its passengers. To this end, passenger and cabin feedback sent via in-flight entertainment systems and other channels (e.g. social media, passenger letters, and the like) are assessed, and the catering service is continuously renewed. Based on requests by passengers, priority is given to various local cuisines of the world.

Turkish Airlines also renders special days unforgettable for its guests with unique products and services. Passengers are presented with cake if they are on-board on New Year's Eve, chocolate with cards on Valentine's Day, chocolate on the Chinese New Year, specially designed "Moon Cake" during the Chinese autumn festival, chocolate on religious holidays. Young passengers are given chocolate on April 23rd – Children's Day.

During Ramadan 2018, meals were served to passengers in specially designed boxes. Hazelnuts or peanuts were offered to passengers in packaging by WE'R, a Turkish Airlines brand.

For the Banjul, Freetown, Moroni, Krasnodar, Lusaka and Samarkand routes opened in 2018, Turkish Airlines created menu cards in keeping with the specific tastes and cultural features of those locales.

In 2019, Turkish Airlines will continue to assess the expectations of its guests and relentlessly improve its catering service quality and concepts. These efforts are designed to maintain passenger satisfaction at the highest level.

COMFORT PRODUCTS

In 2018, Turkish Airlines continued to refine, innovate and refresh its service and product range to boost passenger satisfaction further. In addition to the existing Cerutti, Chopard and Furla branded travel kits designed in collaboration with leading names of the cosmetics world and global design brands, Turkish Airlines also launched Molton Brown and Christian Lacroix branded travel kits in March 2018.

On intercontinental flights, Business Class passengers were offered Denon branded headphones for a more comfortable on-board experience. Meanwhile, Economy Class passengers were presented with highly ergonomic headphones with superb sound quality. In all the other international flights, Business Class passengers received Philips-branded headphones.

In line with its environmental sensitivities, Turkish Airlines uses biodegradable plastic bags compatible with the "TS EN 13432 Requirements for Packaging Recoverable through Composting and Biodegradation" standard, for its headphones and blankets.

During the year, Turkish Airlines continued to offer a baby set, which was designed to meet the needs of passengers with babies on long-haul flights. To protect the health of children, who represent our future, Turkish Airlines distributed wooden toys prepared from forest products with "Forest Stewardship Council (FSC)" certification to

young passengers. Toys designed with the "Play Natural" concept, featuring figures of endangered animal species are distributed along with brochures based on information provided by WWF Turkey. This effort is aimed to raise environmental awareness among our youth.

Turkish Airlines understands that reaching certain quality standards in its supply chain and auditing the suppliers for compliance with these standards is crucial to create a positive brand image among the general public as well as passengers. To this end, Turkish Airlines conducts on-site inspections at its suppliers via an expert and independent firm – SGS Supervise: Monitoring, Surveillance and Control Services – on the basis of its corporate standards, policies and procedures. With this approach, Turkish Airlines aims to obtain a general overview of its supply chain, reduce risks of problems and malfunctioning, and intervene at an early stage.

In 2018, Turkish Airlines provided its passengers with a total of 1,645,000 Business Class amenity kits; 11,738,000 Economy Class relax kits; 181,500 Umrah kits; 100,000 Hajj kits; 202,000 children's kits; 2,244,300 toys; 4,307,723 Business Class headphones; 35 million Economy Class headphones; 10,203,481 blankets; 37,251,629 pillows and pillow cases; 35 thousand units of Business Class hand lotion, hand soap, air freshener; and 67,600 units of Economy Class hand lotion and hand soap.



1.6
MILLION

NUMBER OF
BUSINESS CLASS
AMENITY KITS
DISTRIBUTED
BY TURKISH
AIRLINES IN 2018



TURKISH AIRLINES GROUP - CATERING

693 NEW MOVIES OFFERED TO PASSENGERS

In-flight entertainment at Turkish Airlines has been enhanced with the addition of 693 new movies.

IN-FLIGHT ENTERTAINMENT SYSTEM PLANET AND INTERNET IN THE SKY

As a result of agreements reached in 2018, Turkish Airlines revised the media categories of the in-flight entertainment system "Planet." The revision was designed to facilitate access to different types of content and to highlight the most preferred types of content. The quality and quantity of new movies, classic movies, international movies, TV programs and documentary programs featured in the Planet in-flight entertainment system have increased significantly. A total of 3,223 different types of media content have been added to the Planet in-flight entertainment system. These include 693 new movies from Hollywood, world cinema and Turkish cinema; 1,618 TV programs in different genres, such as local and foreign series, documentaries, sports, business and lifestyle; 55 audio books; and 912 different music albums, Turkish and foreign.

Aiming to provide passengers with a more comfortable and peaceful travel experience, Turkish Airlines has also added nature soundscape and meditation content into its in-flight entertainment system, Planet. As the airline flying to the most countries in the world, Turkish Airlines shot a special, short video to promote each of these destinations. All these videos were offered to passengers via Planet.

As on international flights, specially prepared rich media content consisting of movies, music and TV programming is presented to domestic passengers over the new interface of the Planet in-flight entertainment system. From December 2018 onwards, passengers traveling on domestic flights started to experience a more enjoyable travel experience thanks to TV programs, music and games featured in Planet.

In 2018, Turkish Airlines passengers enjoyed much more pleasant journeys by viewing 35,477,978 hours of movie and TV programming over the Planet in-flight entertainment system. In addition, passengers listened to 3,966,067 hours of music and played 1,853,269 hours of games.

Turkish Airlines started offering internet access service not only on B777 and A330 wide-body aircraft, but also narrow-body aircraft A321NEO and B737MAX. In 2018, the number of aircraft providing this service increased from 68 to 83. A total of 580 thousand passengers with Wi-Fi-compatible electronic devices enjoyed internet access by this means.

On aircraft without seat-back screens, a total of 160,000 Samsung tablets were installed in 2018 to allow Business Class passengers to enjoy diverse media content, such as movies, short programs and music from the flights longer than two hours.

One of the most important developments in 2018 was the introduction of the wireless in-flight entertainment system, giving passengers access to content of the Planet in-flight entertainment system over their personal electronic devices, such as smart phones, laptops and tablets. Turkish Airlines became the first airline to use this wireless in-flight entertainment system, developed domestically by Turkish engineers at Turkish Technic and Havelsan.

In the first stage, the innovative system launched in November 2018 on 44 Turkish Airlines narrow-body aircraft that do not have seat-back screens. As a result, 95% of Turkish Airlines aircraft now have in-flight entertainment system (IFE).

To use the wireless in-flight entertainment system via their personal devices, passengers must install the application "Wi-Fi Entertainment" on their smartphones or tablets. Passengers can also use their laptop computers to access the Google Chrome browser and enjoy over 250 movies, 700 TV programs, 2 thousand music albums or 19 thousand songs, and much more via the wireless entertainment system.



95%

RATE OF AIRCRAFT WITH IN-FLIGHT ENTERTAINMENT (IFE) SYSTEMS



TASTE MORE

WITH THE AIRLINE THAT FLIES TO MORE COUNTRIES THAN ANY OTHER

GREECE



TURKISH AIRLINES

WIDEN YOUR WORLD

GROUND SERVICES

Thanks to its steady growth policies, Turkish Ground Services has added the world's leading airline companies to its customer portfolio. TGS increased the number of its contracted airlines to 198 as of year-end 2018.



TURKISH GROUND SERVICES

Delivering world-class services since its founding, Turkish Ground Services continues to raise the bar in service quality with practices that shape the industry. TGS has made significant progress in its corporate development and is a standout with its unique ground handling service perspective. Thanks to its steady growth policies, Turkish Ground Services has added the world's leading airline companies to its customer portfolio. As of year-end 2018, TGS increased the number of its contracted airlines to 198.

Founded as a joint venture between Turkish Airlines and Havaş, TGS – Turkish Ground Services Inc. joined the sector on January 1, 2010. Since that time, TGS has successfully provided services to 182 contracted airlines at a total of eight stations – Istanbul Atatürk, Ankara Esenboğa, İzmir Adnan Menderes, Antalya, Adana, Istanbul Sabiha Gökçen, Milas-Bodrum and Dalaman Airports. Thanks to 7,631 units of equipment and over 14,000 employees, TGS provides a comprehensive range of ground services to nearly 720 thousand flights by domestic and foreign airline companies at international quality standards. Turkish Ground Services delivers passenger handling, ramp, operation, and cargo handling services pursuant to the Airport Ground Handling Services Regulation. TGS upholds an impeccable service approach, viewing customer satisfaction as a key corporate policy.

Thanks to its current sustainable growth policies, Turkish Ground Services is steadily advancing toward its goal of becoming a global service provider. TGS enhances its role as the industry pioneer with innovative investments. Over the last eight years, TGS has continued on its path to global success with growth-oriented, large-scale investments.

Having made a difference in the global arena with its service quality and with eight highly successful years of experience, TGS is now keen to take these achievements to the highest level. TGS aims to bolster its brand further and become a global service provider that supports sustainable growth and the national economy.

SUCCESS ON THE GROUND

Adding value to the aviation industry with its innovations, Turkish Airlines registered a 10% increase over the prior year in number of passengers and attained an on-time take-off performance of 83%. Furthermore, Turkish Airlines once again led the pack this year with its baggage irregularity rate of just 5.2%.

In 2019, Turkish Airlines' aims to climb to the top of the sector with Istanbul Airport, which will become one of the world's largest airports. Turkish Airlines also targets sharpening its competitive edge by boosting customer satisfaction with every innovation that meets the requirements of today. To this end, Turkish Airlines has allocated 23 thousand m² of GSE and workshop space, 5 thousand m² of operations office space and 50 thousand m² of equipment parking area to TGS in the new airport. The necessary infrastructure works in these areas have been completed to deliver top-notch service to current and potential customers.



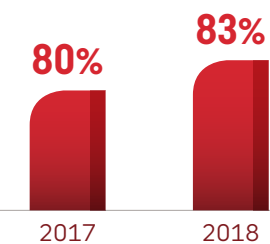
2018 GROUND HANDLING MARKET SHARE BY FLIGHT NUMBERS



Number of Flights in 2018

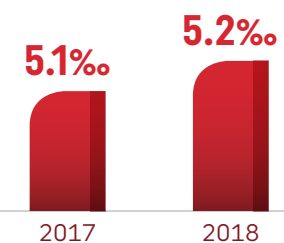


TURKISH AIRLINES ON-TIME TAKE-OFF RATE*



* Includes Istanbul Airport, Istanbul Sabiha Gökçen Airport, Ankara Esenboğa Airport, Antalya Airport and İzmir Adnan Menderes Airport.

BAGGAGE IRREGULARITY RATE



TRAINING

Turkish Airlines Aviation Academy ranks among the leading, most reputable aviation training organizations in Europe, Africa and the Middle East.



TURKISH AIRLINES AVIATION ACADEMY

Founded in 1982 to meet the training needs of Turkish Airlines – Turkey's top and a major European carrier in civil air transportation – Turkish Airlines Aviation Academy ranks among the leading, most reputable aviation training organizations in Europe, Africa and the Middle East.

In recent years, Turkish Airlines Aviation Academy has begun achieving the objectives of gaining an international standing, being recognized by local and global authorities, becoming a preferable and recommended institution, ensuring product and service diversity, expanding its target audience in qualitative and quantitative terms, applying technological and innovative approaches in training and becoming a global hub for training.

Holding a large number of national and international accreditations and certifications, the Aviation Academy provides training and consultancy services including everything from passenger service to ground operations training, management and personal development to aviation and vocational language training for airline and cargo companies, travel agencies, universities, airport operation firms, and other companies in the civil aviation sector.

TRAINING SOURCES

Operating across an expansive area of 5,800 m², Aviation Academy provided services in 2018 with 201 personnel, 29 of whom are trainers; 19 classrooms; 1 lecture hall with 108-seat capacity; one amphitheater; and one digitalization studio. During the year, some 6.2 million publications were printed in Aviation Academy's printing house for the use of Turkish Airlines' departments.

HIGH-TECH TRAINING SOLUTIONS

Activities of the Training Directorate are managed through the integration of Training Resources Management System (FAAL), online exam system, distance learning portal and academy website.

In line with Turkish Airlines' 2023 targets, the latest technologies are employed in order to transform the Aviation Academy into a corporate training center at world standards. As such, the Aviation Academy aims to deliver the corporate training courses in its pool to a much wider audience without space and time constraints.

Aviation Academy has started managing all information and reporting related to training via the Faal System.

The training digitalization studio became operational in the first quarter 2018. The aim is to digitize the entirety of courses present in Aviation Academy's training catalogue.

VAST AREA OF ACTIVITY

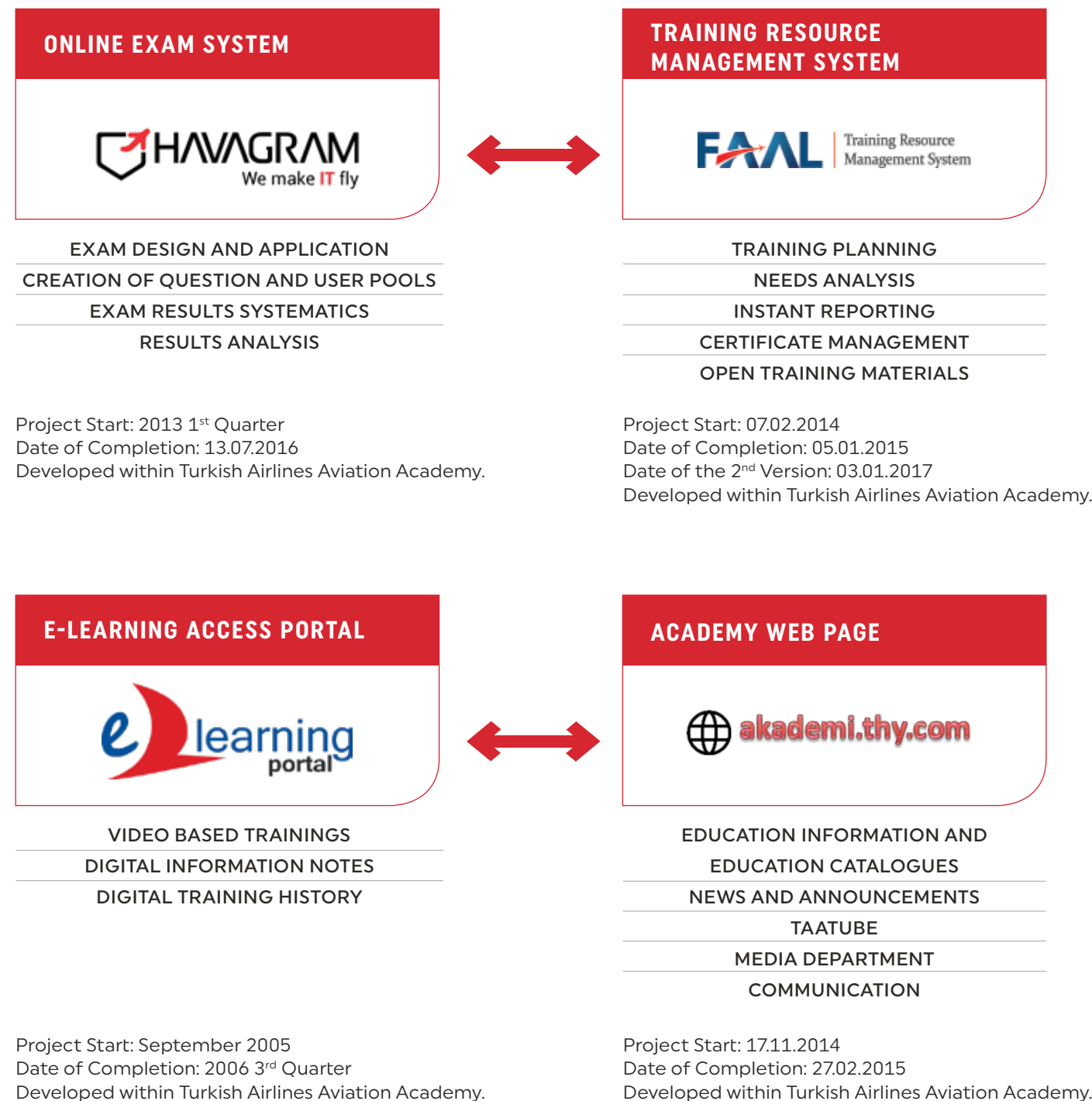
Aviation Academy operates over an expansive area of 5,800 m².



29

NUMBER OF TRAINERS IN AVIATION ACADEMY

SYSTEM INFRASTRUCTURE OF TURKISH AIRLINES AVIATION ACADEMY



TRAINING ACTIVITIES

Moving with confidence towards the goal of becoming a world class training center in line with Turkish Airlines' 2023 targets, through its innovative education approach, Aviation Academy has created huge momentum by using cutting edge technologies in training. The Digital Training and Digital Information Note has brought training to the masses without time and space limitations.

In 2018, Aviation Academy delivered 2,340 courses to 46,217 trainees while 183,138 trainees received 6 thousand hours of digital training. In addition, 2,839 exams, including in-house promotion exams, were administered to 56 thousand persons. This innovative approach helps use resources in an effective manner. The sharp rise in digital training yields significant economic benefits by reducing the amount of classroom training.

COLLABORATION WITH UNIVERSITIES

In line with its goal of contributing to the development of the civil aviation industry, Aviation Academy joined forces with Istanbul Technical University and Boeing to launch the Air Transport Management Master's Program in October 2013. The program recorded its first graduates in 2015. The fourth and fifth edition of the ATM Master's Programs (with or without thesis) were launched at Ibn Haldun University.

Conducted by Turkish Airlines in collaboration with Ibn Haldun University in order to train world class aviation professionals, coordinated by Aviation Academy and sponsored by Airbus, the Air Transport Management Master's Program (with or without thesis) educates managers who will shape the future of the aviation world.

LEADERSHIP AND MANAGEMENT TRAINING

The Leadership Development Program was established to help managers develop the core, managerial and functional skills they require. To date, around 200 Turkish Airlines managers have completed the program.



All Turkish Airlines managers were given the opportunity to participate in the Building Essential Leadership Skills (BELS) and Change Acceleration Process (CAP) trainings delivered by GE Academy. A total of 100 managers completed these trainings.

Vice Presidents and higher executives were provided with Leadership for Customer (LFC) training in Crotonville, New York delivered by GE Academy.

LANGUAGE EDUCATION AND SERVICES IN AVIATION

Aviation English training is provided to cabin and flight crew personnel at the Academy to help them improve their English skills. In order to facilitate the communication of foreign cabin personnel with domestic passengers speaking Turkish, the audio book "Turkish for Cabin" was prepared and delivered to the relevant personnel in the form of a digital information note. Furthermore, the computer-based, in-house Test of English for Cabin (iTEC) was created to measure the English language proficiency of cabin crew at regular intervals; and the Introduction to Aviation English for Cabin training program was launched in order to improve the English level of the staff. The Academy designed and implemented the Cabin General Announcements (Practicum) training to enhance the English announcement competence of cabin chiefs.

INTENSIVE TRAINING ACTIVITIES

46,217 trainees participated in the training programs.



6
THOUSAND HOURS
TOTAL DIGITAL TRAINING TIME



HIGH QUALITY ENGLISH EDUCATION

Cabin and flight crew personnel were administered Aviation English training.

1,800 PERSONS

NUMBER OF PERSONS WHO HAVE PARTICIPATED IN CABIN EXPERTISE TRAINING TO DATE

To meet the Business English needs of its employees, Turkish Airlines has prepared and started to implement the classroom versions of its digital Business English series trainings – English for Building Business Relations, English for E-mail, English for Presentation Skills, English for Negotiations and English for Meetings. The English Speaking Skills for Ground Handling training program was prepared in a blended format to improve the professional English proficiency and speaking skills of ground services personnel.

The computer-based in-house exam titled Test of English for Pilots (iTEP), created to measure the language proficiency of candidate pilots in recruitment processes, was successfully implemented in 2018. To measure the international language proficiency of pilots as per ICAO language criteria, Turkish Airlines completed the infrastructure, system and content studies of the DGCA-approved Test of English for Pilots (TEP) and initiated the authorization process. Similarly, Turkish Airlines completed the infrastructure and content studies of the DGCA-approved Test of English for Aircraft Maintenance Personnel (TEAM) and initiated the authorization process. To evaluate these exams in an objective and error-free manner, Turkish Airlines extended its contracts to this end with various universities in 2018.

CABIN SPECIALIZATION TRAINING PROGRAM

Launched in October 2016 and still implemented today, the Cabin Specialization Training program was prepared jointly by the Flight Training Directorate and Aviation Academy. The program is designed to expand the personal and professional competence of cabin crew, whom Turkish Airlines considers key to its competitive edge in the industry. To date, 1,800 persons have participated in the program, which consists of classroom training, distance learning, seminars and applied training on product and service delivery.

Turkish Airlines collaborates with universities in order to train qualified human resources for the aviation industry. In this regard, Turkish Airlines offered Aviation English and Rater Training courses to language instructors from various universities in 2018.

ELECTRONIC LIBRARY

In 2016, Aviation Academy started to cooperate with Lynda.com®, which delivers online trainings to the business community. The Aviation Academy training catalogue was extended with the integration of this platform featuring over 9 thousand training programs. Some 750 employees have made use of the online platform.

ScienceDirect is an electronic library featuring more academic content, such as articles, dissertations, journals and books.

"OVERCOME FEAR OF FLYING" PROGRAM

With the belief that "everyone has the right to fly," Aviation Academy launched the "Overcome Fear of Flying" program. The program continues today with a view toward eliminating the anxiety of those wishing to overcome their fear of flight. Delivered by technical instructors, psychologists, pilots and experienced cabin instructors at training locations equipped with the latest technologies such as cabin simulators, "Overcome Fear of Flying" features rich content and has continued since 2007 with a success rate of over 98%.

EDUCATION SERVICES MARKETING AND SALES ACTIVITIES

The event IATA Global Training Partner Conference 2018 was held in Istanbul, sponsored by Turkish Airlines, and hosted by Aviation Academy. Turkish Airlines Chairman İlker Aycı delivered the inaugural speech of the event which was attended by over 200 airline officials from across the world.

After extensive preliminary studies, Aviation Academy's new promotional film was shot in three different locations over two days in 2018.

In 2018, Aviation Academy conducted the "Talks with the Masters" and "TAALKS" programs for Turkish Airlines personnel. A total of six TAALKS events were held during the year.

The Training Assessment Forms completed by trainees after every classroom training have been digitalized. This effort helped eliminate paper consumption, amounting to 320 thousand pages since 2012, and eradicate a heavy workload of up to 8 thousand employee/hours of data entry and scanning.

Integration works conducted in coordination with the In-Flight Entertainment Products Directorate to provide digital courses and Lynda.com® educational videos to passengers on-board were completed. Further efforts were expended to increase the number of educational programs delivered.



The design of Aviation Academy website was simplified in various ways to make it more user-friendly; furthermore, it has become possible to purchase education content by credit card. The number of followers on social media accounts have uptrended each year, reaching an excellent position.

Turkish Airlines participated in or organized a total of 15 in-house or external events, including Teknofest Istanbul Aviation, Space and Technology Festival and Airex 2018.

A total of 46 thousand trainees participated in the training programs by the Aviation Academy. Some 9 thousand certificates were printed and sent to successful trainees. Training assessment forms completed by these 46 thousand trainees were analyzed; suggestions, demands and complaints were forwarded to relevant units. Some 5 thousand direct requests from customers were also met.

To help trainees communicate their feedback more effectively, and to prevent the loss of 50 thousand sheets of paper and 1,000 man/hours, the training assessment forms were digitalized and participants completed these forms via e-mail.

ALL CABIN CREW OVERCOME THEIR FEAR OF FLYING

The Overcome Fear of Flying in the Cabin program has been conducted since 2007, with a success rate of over 98%.

98%

SUCCESS RATE OF OVERCOME FEAR OF FLYING IN THE CABIN PROGRAM

TURKISH AIRLINES FLIGHT TRAINING CENTER

VARIOUS FLIGHT CREW TRAININGS

29 trainings were provided to support the advancement of flight crew personnel.



The Flight Training Center is the unit in charge of all flight training services of Turkish Airlines, in particular for flight crew and cabin personnel. The Center has provided training since 1994, in accordance with the rules and regulations set forth by national and international authorities.

The requirements of flight crew and cabin training expands in parallel with the continuous growth of the fleet as per Turkish Airlines' 2023 goals. Operational requirements are met by undertaking the necessary investment in flight training simulators and training equipment.

The Flight Training Center, which boasts 24 years of experience, trains more than 45 thousand flight crew, cabin, dispatcher and load-master trainees.

799-Strong Training Staff

The Flight Training Center has 388 regular staff and 799 highly specialized trainers, 648 of whom participate in flight crew training and 131 in cabin training. The training and operation quality at the Center improve every day as a result of ongoing investments. The Flight Training Center, which started operations in 1994 with a single simulator on its current campus, now confidently moves toward becoming the most extensive and modern training center in the entire region. By selling simulators and training to

firms such as The Boeing Company, KLM Royal Dutch Airlines, TUI Fly Nordic Ab, Middle East Airlines, Kuwait Airways Corp, and Nas Aviation Services, the Flight Training Center meets the requirements of both Turkish Airlines and other airline companies that operate in the industry. Thus, Turkish Airlines Flight Training Center contributes to the Incorporation as a revenue-generating profit center.

Authorizations from National and International Authorities

- Flight Simulation Training Device (EASA FSTD) Organization authorization,
- DGCA-approved ATO Training authorization,
- ATO authorization granted by the Civil Aviation Authorities of Saudi Arabia, Kuwait, Jordan, Iraq, Libya, Tajikistan and Afghanistan,
- Cabin Crew Initial Training authorization,
- European Resuscitation Council-approved Defibrillator Training authorization,
- Ministry of Health-approved Initial and Renewal First Aid Training authorization
- Authorized Dangerous Goods Regulations Training approved by the General Directorate of Dangerous Goods and Combined Transport Regulation (TMKTD),
- Ministry of National Education-approved Train-the-Trainer authorization,
- DGCA-approved Aircraft Security Training authorization.

The Flight Training Center has also been audited and authorized by the civil aviation authorities of many other countries as regards the external trainings it offers. The Flight Training Center was audited 62 times in 2018 by national and international aviation authorities due to the importance of its training services on offer. Turkish Airlines Flight Training Center demonstrated one of the most successful performances of any unit of the Incorporation during these audits.

FLIGHT CREW PERSONNEL TRAINING

The Flight Training Center has been authorized by DGCA to act as "Approved Training Organization (ATO)." All simulators and flight training equipment have been authorized by EASA.

The Flight Training Center features 29 different training programs of flight crew training, including "Conversion," "Aircraft Type" and "Recurrent." At the same time, 420 foreign flight crew personnel from 58 different countries working at Turkish Airlines are also trained at the Flight Training Center.

In 2018, a total of 8,535 persons received flight crew ground training/simulator training. Total ground training time exceeded 20 thousand hours.

The simulator usage time, over 85 thousand hours in total, is well above the sector average – a significant achievement in terms of efficient use of Turkish Airlines resources.

Flight Training Center Provides the Following Training to Flight Crew Personnel:

- Type Rating Training,
- Recurrent, Refresher Training,
- Type Rating Instructor/Type Rating Examiner (TRI/TRE) and Synthetic Flight Instructor (SFI)/ Synthetic Flight Examiner (SFE) Training,
- MCC Training and MCC Instructor Training (MCC/MCCI),
- ETOPS, LVO, PBN, UPRT and other special authorization and licensing training,
- Trainings such as Steep Approach and Rejected Landing that are specially designed to increase safety, as demanded by authorities and/or operators,
- License Conversion Trainings,
- Dispatcher Trainings,
- Load Master Trainings,
- Dangerous Goods Regulations Training,
- Crew Resource Management (CRM) Training and CRMI (CRM Instructor) Training,
- Ministry of National Education-approved Train-the-Trainer Training.

Cabin Crew Training

In 2018, some 30,388 persons received training at the Cabin Training Directorate in 26 different categories. The training categories include: Initial, Recurrent, Refresher, Requalification, Cabin Chief, First Aid, Defibrillator, Service Quality and Professional Development.

In 2018, the Flight Training Center graduated new cabin attendants, including 1,778 persons from Initial 79 from Expat and 40 from Albanian Airlines. A total of 458 hours of training was provided to cabin personnel of foreign airlines.

30,388 PERSONS TRAINED

During the year, 30,388 persons benefited from cabin crew trainings.



458 HOURS

DURATION OF TRAINING GIVEN TO FOREIGN AIRLINES CABIN PERSONNEL



20+ THOUSAND HOURS

DURATION OF GROUND TRAINING

NEW TRAINING CENTER BECAME OPERATIONAL

Upon completion of its new center, the Flight Training Center operates on two separate campuses.

Flight Training Center Provides the Following Training to Flight Crew Personnel:

- Initial Training,
- Aviation Safety Training,
- Flight Safety and Emergency Procedures Training,
- Crew Resource Management Training (CRM),
- Dangerous Goods Regulations Training (DGR),
- Normal Safety Procedures Training,
- Aircraft Type Trainings (B737, A320, B777, A330),
- Recurrent, Refresher, Requalification Trainings,
- Cabin Chief Training (Narrow-Body Aircraft),
- Cabin Chief Training (Wide-Body Aircraft),
- Provincial Health Directorate-approved First Aid Initial and Refresher Trainings,
- Training for Control Cabin Chiefs,
- European Resuscitation Council-approved Defibrillator Initial and Recurrent Training.

The Cabin Training Management also offers various trainings to enhance customer satisfaction:

- On-Board Announcement Practices,
- Life in Uniform Training,
- Passenger Needs in Flight Operation Training,

- Silence in Cabin Training,
- Flight Experience Training from the Cabin Crew's Perspective,
- Initial Cabin Service Training,
- Cabin Crew Professional Awareness Training,
- ER B/C Service Training (B777/A330),
- ER B/C Service Recurrent Training (B777/A330),
- B777/A330 Y/C Service Training (B777/A330),
- In-Flight Entertainment Systems Training (IFE),
- Professional Senior Cabin Crew Training
- Theory-Based Flight Day Training.

Training Infrastructure

With the inauguration of the new training center built with the efforts of the ex-president of Flight Training, the late Sedat Şekerci who retired in 2017, the Flight Training Center now operates on two different campuses. Together with the new training center, the Flight Training Center has reached the capacity of 28 simulators, 90 classrooms and a conference hall within a 47 thousand m²-covered space. The Center can serve 2,620 trainees at the same time.



The Flight Training Center, home to Turkey's first domestic civil aviation training simulator, produced by Havelsan, made the following efforts to enhance its technical infrastructure for the training of cockpit and cabin:

- Upon the agreement reached with Boeing, a contract was signed on the joint operation of one B737MAX simulator to be established at the Turkish Airlines facilities, and the factory acceptance of the device at the TRU factory facilities was completed.
- In 2018, 14 new simulator projects were launched upon completion of the tenders.
- Agreements were reached with Havelsan for five additional simulator orders: three A320 and two B737MAX.
- Turkish Airlines placed orders for two A320 NEO/CEO, two B787-900, two A350, one B777-300ER, one A330, and one B737MAX simulators. Of these, factory acceptance was completed for two A320, one A330 and one B787 simulators.
- The Flight Training Center enhances its technical infrastructure day by day with advanced technology flight crew and cabin training facilities, such as virtual training classes, which will be included in its inventory.

- The addition of simulator information screens to simulators has allowed the transfer of certificate malfunction information and operational process follow up of simulator users to the digital platform.

The Flight Training Center's Florya campus hosts the following training devices:

- For use in Flight Crew Training:
- 14 Full Flight Simulators (FFS),
 - 6 Flight Training Devices (FTD),
 - 6 Computer Based Trainer (CBT), classrooms,
 - 3 Flight Navigation and Procedures Trainer (FNPT II)

- For use in Cabin Training:
- 2 Cabin Emergency Evacuation Training Devices (CEET),
 - 6 Door Training Devices (2 X A320 DT, A320 ACF Owe. Exit DT, A330 DT, B777 DT, B737 DT),
 - 1 Fire Fighting Training Device (RFFT),
 - 2 Cabin Service Training Devices (CST),
 - Of the 5 CST (Cabin Service Trainer) devices being installed (B777, A330, 2 X A320, B737), the B737 CST device, which is in the testing phase, and A330 CST device, 80% of whose installation is complete on the Sedat Şekerci campus,
 - Ditching Pool.

14 FLIGHT SIMULATORS IN SERVICE

Fourteen flight simulators are in service at the Florya campus.



+14

THANKS TO THE SIMULATOR PROJECTS STARTED IN 2018, 14 MORE SIMULATORS WILL BECOME OPERATIONAL.



28

ESTIMATED NUMBER OF SIMULATORS AT THE FLIGHT TRAINING CENTER IN TWO YEARS

FLIGHT OPERATIONS

A new crew terminal is under construction at Istanbul Airport in order to further boost personnel satisfaction.



FLIGHT MANAGEMENT

With the new B787 and A350 aircraft set to join its fleet, Turkish Airlines aims to gain operational flexibility by managing variables related to the number of passengers and destination diversity more effectively. To reach this goal, Turkish Airlines plans to ensure that pilots in the current fleet can fly these new aircraft types along with the existing ones (operated as single fleet) without the need to establish a separate fleet.

Obtaining necessary operational authorizations and permits from public authorities for existing and new aircraft in the fleet is conducted in coordination with the Directorate General of Civil Aviation, Turkish Airlines and aircraft manufacturers. In 2019, this process will continue for the B787 and A350 aircraft scheduled to join the fleet.

Construction of the new crew terminal is currently underway in parallel with Istanbul Airport. With the completion of this facility, Turkish Airlines aims to provide flight crews with more effective information; facilitate preparations for flight operations systematically and efficiently; and provide opportunities to meet their social needs. The new crew terminal will also enhance personnel satisfaction and improve airport waiting conditions arising from meteorological and operational requirements.

As part of the fleet structure expansion with the transition to Istanbul Airport, Turkish Airlines has drafted the required digital projects and started to automate the resource management system. This effort aims to forecast the crew's needs and carry out other flight operation processes more swiftly and effectively.

WIDE-BODY B787 AND A350 AIRCRAFT SET TO JOIN OUR FLEET

Turkish Airlines aims to gain operational flexibility with the wide-body B787 and A350 aircraft that will soon join our fleet.

INTEGRATED OPERATION CONTROL

PREVENTIVE MAINTENANCE WITH LEARNING INTELLIGENCE

Turkish Airlines' store of big data is one of its most important competitive advantages. Big data helps not only aircraft and engine manufacturers but also airline companies in developing their own maintenance predictions against possible failures. Turkish Airlines' systems will be able to produce the necessary models and automatically provide preventive maintenance using machine learning. As such, Turkish Airlines can resolve these issues internally, without falling behind the sector or having to procure this service externally.

Thanks to capital investments planned in this key area for 2019, Turkish Airlines aims to ensure "Preventive Maintenance" much like Airbus and to enhance aircraft on-time take-off performance, flight safety, and passenger satisfaction by 2025. Such systems are already sold on the market by KLM and Lufthansa.

OPERATIONAL EFFICIENCY WITH LEARNING INTELLIGENCE

The aviation industry has now fully transitioned to the "manage by exception" system in its daily operations. The next stage of the process is "disruption recovery." However, the real breakthrough in the "manage by exception" approach will come via machine learning. At present, "disruption recovery" is a highly complex issue that is difficult to solve fully as it is easier to resolve single/binary/triple problems. When the alert function is used, the system is operated by placing thresholds on previously known conditions. When the appropriate machine learning techniques are used, it is no longer necessary to place such alerts since the machine learns about the unfavorable conditions and automatically generates alerts. To date, the aviation industry has failed to invest sufficiently in this area.

When Istanbul Airport starts to operate at full capacity in 2019, landing/take-off delays due to airport traffic intensity will gradually be eradicated to a large extent and the on-time take-off performance (OTP) of flights will increase.

CABIN SERVICES

THE RICHNESS THAT MULTI-CULTURALISM ADDS TO THE FLIGHT EXPERIENCE

In line with Turkish Airlines and our country's strategic focus on the African market, we will continue to employ Arabic and French speaking staff to bolster our position in that growing market.

In 2018, Turkish Airlines continued its focus on innovations and brand leadership, while ramping up preparations for the transition to Istanbul Airport. As Istanbul Airport started to operate at full capacity, Turkish Airlines presented new, award-winning uniforms to cabin crews to boost the corporate image among its cabin crew staff and introduce a visual innovation.

Turkish Airlines remains committed to boosting its service standards at global hubs, highly competitive destinations, and high-potential local destinations. To this end, the Incorporation analyzes customer surveys and closely monitors cabin service innovations and other efforts by global airlines.

Understanding the richness that multi-culturalism brings to the flying experience, Turkish Airlines recruits cabin personnel fluent in local languages. In 2019, in line with Turkish Airlines and our country's strategic focus on the African market, we employed Arabic and

French speaking personnel from Morocco and Mauritius to bolster our position in the market.

In 2018, Turkish Airlines recruited students of the Civil Aviation Cabin Services Program as Professional Training Students (cabin). This effort aimed to help the recruits implement their theoretical knowledge in a work environment and join the service to hone their professional skills and education. Turkish Airlines plans to expand the number of cabin staff who have received sector training in 2019.

To further improve flight experience in the coming year and quickly address shortcomings that affect passenger comfort on-board, Turkish Airlines aims to develop the e-Cabin Maintenance Log Book (e-CML) application to boost the comfort level of passengers.

CREW PLANNING

One key factor that contributes most to passenger satisfaction is ensuring the satisfaction of the flying crew. To meet this requirement, Turkish Airlines established the Manager Crew Communication under the Crew Planning Directorate in 2018. All satisfaction or dissatisfaction experienced by crew staff related to planning and flight are evaluated by representatives at communication desks in crew rooms, based on crew feedback received.

Cabin and flight crew projections to 2023 were set as a core component of Turkish Airlines' growth- and quality-oriented human resources policy in line with its 2023 vision. Necessary information was also provided to units charged with staff recruitment. The number of flight crews increased from 4,152 in 2017 to 4,848 in 2018. Under the expanding fleet structure, crew requirement projections were prepared for 2019 in coordination with relevant units.

Efficient cabin and flight crew planning depends on systemic infrastructure and robust software that yield swift and efficient solutions. To this end, Turkish Airlines develops the software applications that it requires on the digital platform.

Crew planning systems will be updated according to SHT-FTL rules and parameters that will come into effect in January 2019. The Call for Roster (CFR) application is planned to go online as of January 1, 2019, to reduce the number of calls flight and cabin crews receive over Interactive Voice Response (IVR) during their rest periods.

The new station, base and other system definitions arising from the operationalization of Istanbul Airport have been defined in the Crew Planning Systems.

Under the Fatigue Risk Management System (FRMS) module, work is ongoing to collect crew sleep preferences via surveys and enter these into the system to take into account crew fatigue level.

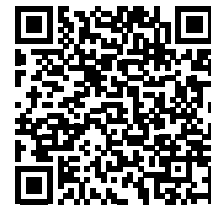

15,551

NUMBER OF TURKISH AIRLINES FLIGHT AND CABIN CREWS IN 2018



ISTANBUL AIRPORT

Istanbul Airport will become the new hub of global aviation in all directions, thanks to Istanbul's location, which spans continents, its geographic advantage and rich history. In addition, Turkish Airlines' growing fleet, expanding flight destination map, and evolving new service concept will take Istanbul Airport to the pinnacle of world aviation.



Istanbul Airport is the largest one-off infrastructure investment project in Turkey to date. Once all phases are complete, the state-of-the-art facility will serve 200 million passengers per year. On October 29, 2018, Istanbul Airport was inaugurated with a spectacular ceremony by the Turkish President. Turkish Airlines started to deliver services for a number of scheduled flights at that time.

To accommodate our passengers in the best way, some 15,000 personnel from Turkish Airlines and subsidiaries were administered classroom and field training. Prior to October 29, about 5,000 employees from IGA Airport Operations, Turkish Airlines and other stakeholders took part in applied trial operations. In addition, applied trial operations are being conducted to ensure that Turkish Airlines, subsidiaries and affiliates deliver the best service in their respective facilities at Istanbul Airport.

Prior to the opening ceremony of October 29, a sufficient amount of equipment was transported to Istanbul Airport to manage Turkish Airlines' operations. This was equivalent to 10% of the inventory to be transported for the grand opening.

Following the grand opening ceremony of Istanbul Airport on October 29, 2018, the first domestic passenger flight by Turkish Airlines was held at 11:10 to Ankara and the first international passenger flight to Ercan, TRNC at 17:30, both on October 31, 2018.

Commercial passenger flights from Istanbul Airport thus began on October 31, 2018, with 10 flights to Ankara, Izmir, Antalya, Cyprus and Baku. On January 10, 2019, Gaziantep, Trabzon, Adana, Kayseri, Hatay, Diyarbakir were added to domestic destinations while Ashgabat, Paris, Frankfurt, Kuwait, London, Moscow, Munich, Tbilisi to international destinations, bringing the total number of flights per day to 32. By January 1, 2019, approximately 100 thousand passengers were served at Istanbul Airport.

According to the official notification by the General Directorate of State Airports Authority (DHMI), Istanbul Airport will become operational at full capacity on April 7, 2019 following the primary moving operation. The Atatürk Airport hub operation will be moved in as little as 45 hours, in the form of a grand migration involving both public and private organizations.

According to the moving plan, Atatürk Airport will continue to serve all commercial flights until April 6, 2019, 02:00 hours. After the main moving operation, the first aircraft from Istanbul Airport will take off on April 6 at 14:00.

AIRPORT TRANSFER PROGRAM FOR ISTANBUL AIRPORT

- * The 45-hour main moving operation will start on April 5, 2019 at 03:00 and be completed on April 6, 2019 at 23:59.
- * All flights of Turkish Airlines will continue from Atatürk Airport until 06:00 on April 6 (night connecting April 5 to April 6).
- * From 02:00 on April 6 (night connecting April 5 to April 6) until 14:00 on April 6, commercial flights from Atatürk Airport will cease for 12 hours (closure and main moving operation).
- * From 14:00 on April 6 until 19:00 on April 6, only Turkish Airlines aircraft will take off from Istanbul Airport (only Turkish Airlines flights for five hours).
- * From 19:00 on April 6 until 23:59 on April 6, airlines that use Atatürk Airport as a base will also begin to fly from Istanbul Airport alongside Turkish Airlines. (Turkish Airlines and airlines that utilize Atatürk Airport as a base for five hours.)
- * As of April 6, 2019 (night connecting April 6 to April 7), 00:00, foreign airlines will also start flying from Istanbul Airport.



**100
THOUSAND**

APPROXIMATE
NUMBER OF
PASSENGERS
SERVED AS OF
JANUARY 1, 2019

TURKISH AIRLINES TO PROVIDE SERVICES WITH 14 FACILITIES

Turkish Airlines will operate 14 facilities at Istanbul Airport.

The transportation of the hub operations of an airport on the scale of Atatürk Airport, and of an airline on the scale of Turkish Airlines is unprecedented in the aviation industry. The closest example, that of the Bangkok Suvarnabhumi Airport, is half the size of this operation. The success of the so-called "grand migration" from Atatürk Airport to Istanbul Airport, an operation that has no precedent in world history, will depend on implementation of a very detailed moving plan with a minimum number of deviations. This will only be possible with meticulous and well-balanced coordination between stakeholders.

During the transition from Atatürk Airport to Istanbul Airport, around 25% of all moving operations – about 1,000 trucks in total (TIR, lowbed and containers) – will take place in the two days prior to the moving day (big-bang date) set by General Directorate of State Airports Authority (DHMI). Approximately 75% of total planned flights will take place during the big-bang period.

During the main moving period, over 5 thousand personnel will participate and over 10 thousand operational equipment will be transported. Besides these transport vehicles, 620 additional vehicles without traffic licenses – including cars, vans, minibuses and buses utilized on the apron for operational services – will travel to Istanbul Airport with temporary traffic licenses during the big move in groups of 50. This effort will take place under the supervision of the traffic police at hours when the motorways will be closed to traffic.

The airline moving project will continue even after Istanbul Airport starts to operate at full capacity. Transport of certain specified facilities, such as Main Cargo, Main Catering and Aircraft Maintenance Hangars, will take place during 2019. At Istanbul Airport, the world's largest campus, spanning 700,000 m², is being built for the operational facilities of Turkish Airlines. Once the Turkish Airlines campus is complete, there will be 14 facilities, main and satellite buildings, in the four regions:

- 1- Aircraft Maintenance Hangars,
- 2- Main Cargo Building,
- 3- Satellite Cargo Building,
- 4- Main Catering Building,
- 5- Satellite Catering Building,
- 6- Airside Gate for Personnel (ASG),
- 7- TGS Administration and Ground Services Equipment Maintenance (GSEM) Building,
- 8- Operation Center and Crew Terminal Building,
- 9- Line Maintenance (LMH) Building,
- 10- Temporary Hangar Building,
- 11- Cargo Fast Delivery Base,
- 12- On-Board Catering Warehouse,
- 13- ULD Repair Workshop,
- 14- ULD Storage Area.

Operational Readiness and Airport Transfer (ORAT) for Istanbul Airport will continue while these additional facilities are being commissioned. Once the hub operation is transported with one thousand truck trips, Turkish Airlines will be transferred to Istanbul Airport with about 5 thousand truck trips, including the shipment of all these additional facilities.



700 THOUSAND M²
TURKISH AIRLINES' CAMPUS AREA

At Istanbul Airport, the world's meeting point, intensive efforts are underway to uphold passenger comfort across all processes. These include contact points where passengers will complete travel procedures such as special entrance, check-in counters and lounge services, as well as ticketing, baggage and transfer.

To be able to serve different passenger segments for flights from Istanbul, lounge services have expanded from one category to three. Turkish Airlines plans to welcome its passengers at Istanbul Airport around a new and much more advanced concept, with its same high quality standards. The terminal includes a total of five Turkish Airlines Special Passenger Lounges spanning a total area of 15,500 m². The Domestic Departure Lounge will operate on 3,500 m² and Arrival Lounge on 1,000 m²; the Exclusive International Departure Lounge on 1,800 m²; and within

the Mezzanine Floor (floor H) Main Lounge, the Business Lounge will operate on 4,600 m² and the Frequent Flyer Lounge on 4,600 m². Furthermore, there are 252 check-in counters in the terminal; 70 self-check-in kiosks on the land side and 32 on the air side; in addition to three heavy luggage counters.

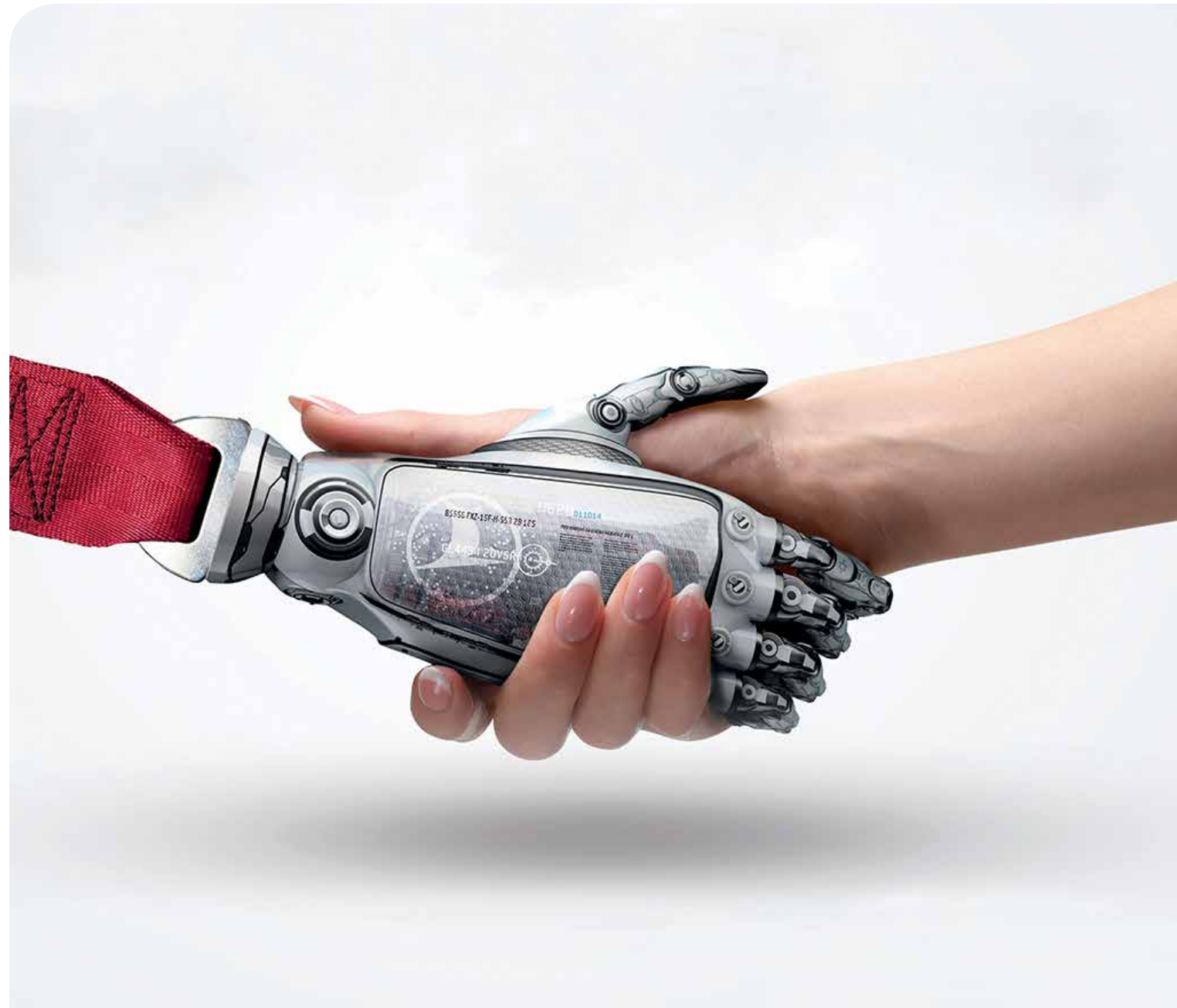
Constantly expanding and rejuvenating its fleet with new types of aircraft every day, Turkish Airlines aims to achieve unmatched superiority in airway transportation by moving to Istanbul Airport. To this end, once Istanbul Airport becomes operational at full capacity, the partnership will continue to invest in Istanbul Airport in line with its growth strategy.

FIVE SPECIAL PASSENGER LOUNGES

Turkish Airlines will operate five Special Passenger Lounges at Istanbul Airport.

CORPORATE INNOVATION

Turkish Airlines evaluates various innovation opportunities within its 24/7 operational processes, thus achieving financial benefits of more than TL 300 million.



Turkish Airlines actively uses numerous open innovation resources, such as the corporate world, customers, entrepreneurship ecosystem, and technology transfer offices. The Incorporation leads the way forward and regularly records successes in the Turkish innovation ecosystem, as it does across all its various business lines. To render its leadership position sustainable in the markets where it competes, Turkish Airlines continuously changes, transforms and prepares for the future via innovation. To this end, the Incorporation organized a Brands Workshop with a group from the innovation teams of Turkey's most prestigious brands. Turkish Airlines also brings together high-potential entrepreneurs with prospective investors, via the Invest on Board application on its in-flight entertainment systems. Thanks to feedback collected from across the world via its web site, call center, Skylife magazine and offices spread over six continents, Turkish Airlines strives to add value not only to its operations but to the entire country.

Boasting Turkey's largest and most qualified human resource pool with its nearly 27 thousand employees, Turkish Airlines is able to successfully monitor areas open to development within its 24/7 operational processes. With this perspective, the Incorporation capitalizes on the innovative ideas of its workforce and with great success.

On February 23, 2017, Turkish Airlines launched the Idea Management by integrating more than eight separate suggestion efforts on a single platform. By consolidating these systems, the Incorporation aimed to make better use of employee ideas to improve operational processes, boost revenues, enhance customer and personnel satisfaction, and reduce costs. Employees have been given the opportunity to shape the future and participate in the management of Turkish Airlines via the Idea Management System. Since launch, the staff has shown ample interest in the platform which is coordinated by the Corporate Innovation and Projects

Directorate. To date, this fervent interest has yielded 16,906 innovative ideas in total; 5,189 of which were entered in the system in 2018.

As of year-end 2018, 450 of the ideas submitted into the Idea Management System have been implemented. Seventy of these ideas made a positive financial contribution to the Incorporation. Meanwhile, 380 projects led to improvements in quality, satisfaction and process efficiency. Thanks to the Idea Management System, whose project cost amounted to about TL 18 million, Turkish Airlines has recorded financial gains of more than TL 300 million over the past two years. This figure is projected to increase exponentially in 2019 once further projects are implemented. For example, projects currently in the implementation phase are expected to yield an additional TL 350 million in benefits.

The Idea Management System bolstered the financial and operational development of Turkish Airlines while also providing a platform to recognize and reward employees who share productive ideas. As of end-2018, Turkish Airlines has distributed 106 whole-, 272 half-, 249 quarter-gold coins and 220 pieces of gram-gold to employees who made beneficial suggestions. Employees who provided the very best ideas were also recognized by their Directorate and Turkish Airlines.

Turkish Airlines understands the importance of accurate prioritization to obtain maximum benefit from suggestions shared by the staff. To this end, the Incorporation developed a methodology that allows for the assessment of these projects based on Standardization, Optimization, Leanness, Traceability and Digitalization (SOLID). By using this methodology, Turkish Airlines aims to take efficiency to the next level. Projects arising from the suggestion platform are subjected to the SOLID test in order to prioritize them systematically.

CORPORATE INNOVATION PLATFORM

16,906 innovative ideas have been submitted into the Idea Management System.

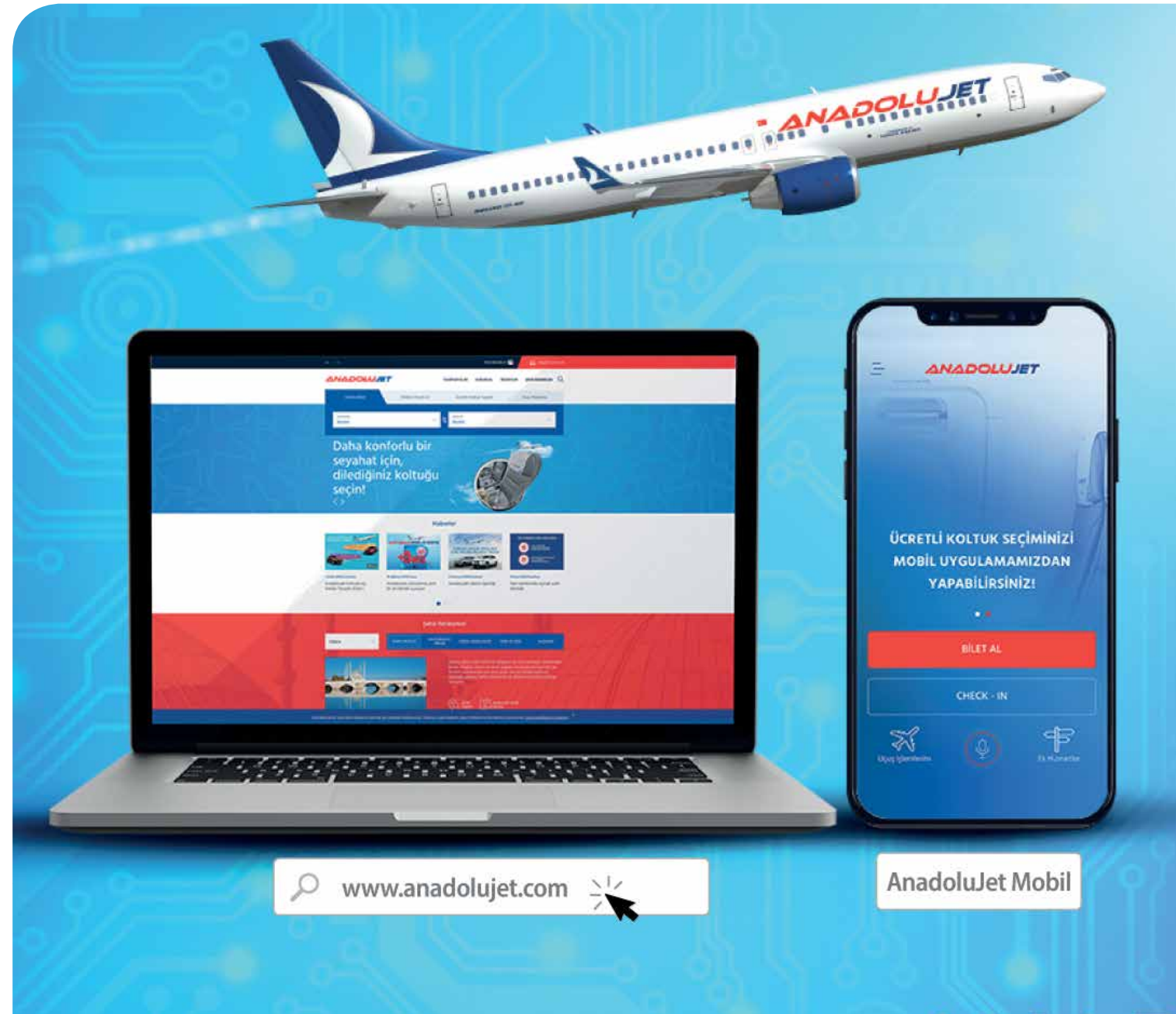


TL
300+
MILLION

FINANCIAL GAIN
ACHIEVED

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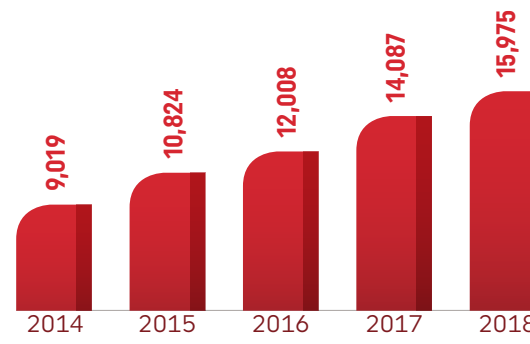
www.anadolujet.com

AnadoluJet Mobil

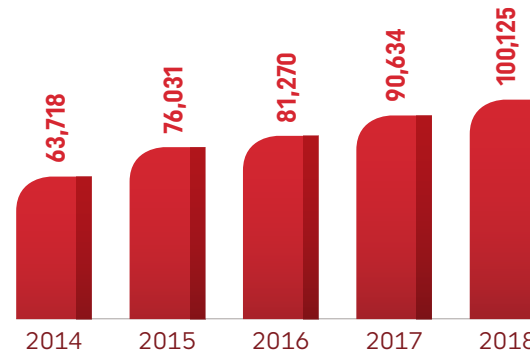
ANADOLUJET TRAFFIC FIGURES

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|---------|
| Revenue Passengers (000) | 9,019 | 10,824 | 12,008 | 14,087 | 15,975 |
| Available Seat Kilometers (million) | 7,811 | 8,615 | 9,809 | 11,244 | 12,388 |
| Revenue Passenger Kilometers (million) | 6,519 | 7,196 | 8,098 | 9,459 | 10,674 |
| Passenger Load Factor (%) | 83.5 | 83.5 | 82.6 | 84.1 | 86.2 |
| Number of Landings | 63,718 | 76,031 | 81,270 | 90,634 | 100,125 |

REVENUE PASSENGERS (THOUSAND)



NUMBER OF LANDINGS



AnadoluJet – a Turkish Airlines brand – utilizes the Esenboğa and Sabiha Gökçen airports as hubs with its fleet composed of 37 Boeing 737-800 aircraft. Organizing flights on a total of 69 routes, AnadoluJet makes domestic air travel accessible with its affordable ticket prices. Thanks to its expanding flight network, AnadoluJet increased its production amount and number of passengers carried in 2018. AnadoluJet has conducted over 97 thousand flights and carried 16 million passengers, thus boosting the number of revenue passengers by 13.4% over the previous year. With this increase in revenue passengers, AnadoluJet expanded its domestic passenger market share from 25% in 2017 to 28.3% in 2018.

AnadoluJet offers affordable ticket prices to allow more passengers to enjoy the practicality of air travel. Despite rising costs, AnadoluJet has attempted to minimize the effect of cost increases on ticket prices with its intensive productivity efforts. Thanks to frequent promotional campaigns, over 6 million passengers bought AnadoluJet airline tickets at a discount in 2018.

In 2018, AnadoluJet recorded significant progress in its digitalization works to add convenience to passengers' flying experience. During the year, AnadoluJet started to offer sales of services such as excess baggage, insurance and sports equipment via online channels. Family discounts were offered to passengers who purchase tickets via the website or mobile app. On social media, AnadoluJet transitioned to communication methods that touch the lives of passengers and increase interaction.

In 2019, AnadoluJet plans to further expand its flight network, boost its operational and commercial efficiency and continue offering attractive prices to passengers. AnadoluJet also aims to focus on online sales and mobile apps. In particular, AnadoluJet targets significantly expanding online sales via its revamped sales channels and with the Search Engine Optimization project that will launch in the coming year.



28.3%

ANADOLUJET
DOMESTIC
PASSENGER
MARKET SHARE
IN 2018

COMMERCIAL PARTNERSHIPS WITH AIRLINES, TRAFFIC RIGHTS AND EXPANDING FLIGHT NETWORK

Thanks to numerous commercial partnerships, Turkish Airlines can now provide access with its flight code to 245 destinations that it has no direct operation.

245 Offline
Destinations
with TK
Flight Code



Turkish Airlines operating direct flights to 310 destinations by the end of 2018 has further expanded its flight network by offering ticket sales to 245 more cities located in Scandinavia, Russia, America, Africa and the Far East region thanks to 53 code-share agreements with major airlines in the world.

Turkish Airlines' offline destinations now total 245, up 21% over the prior year. Turkish Airlines, plans to increase this number further in 2019 in line with its growth strategy. Thanks to these commercial agreements, passengers can now fly in a comfortable, swift and economical manner to 245 additional world cities – such as Malmö, Kaliningrad, Las Vegas, Seattle, Ottawa, Sydney and Melbourne, to which there are no direct flights from Istanbul currently – with a single Turkish Airlines ticket and under a TK flight code and number. Passengers can perform check-in to the final destination, without any further luggage procedure at the transfer point. In 2018, Turkish Airlines undertook efforts to enhance commercial partnerships with leading airlines in key markets – such as Latin America, Australia, China, India and Alaska – in accordance with its corporate strategies.

During the year, Turkish Airlines reported an Interline contribution of USD 483 million. This amount represents about 5% of the Turkish Airlines' 2018 total passenger revenue.

Turkish Airlines receives consultancy from Seabury-Accenture related to enhancing existing partnerships, and creating a joint venture (JV) with a suitable partner. Three potential JV partners have been identified as a result of these efforts. A final decision will be reached in 2019, after detailed assessments, evaluation and negotiations with the concerned airlines.

THE AMERICAS

Turkish Airlines signed a special prorated agreement with Alaska Airlines (AS), providing access to 11 destinations beyond Los Angeles and 12 other destinations beyond San Francisco, with direct flights by Alaska Airlines. In South America, Turkish Airlines expanded its codeshare agreements with Avianca and TACA, with the addition of six Colombian domestic destinations beyond Bogota – Cartagena, Cucuta, Bucaramanga, San Andres, Armenia, Santa Marta – as well as two international destinations – San Salvador and San Jose. Similarly, thanks to the Copa codeshare agreement, seven more Latin American destinations beyond Panama have been added: Brasilia, Guatemala, Port of Spain, San Pedro Sula, Georgetown, Montevideo and Bridgetown. In addition, three destinations beyond Sao Paulo – Navegantes, Belo Horizonte and Santiago – have been included in the Avianca Brazil codeshare agreement. In conclusion, passengers can enjoy uninterrupted journeys from destinations served by Turkish Airlines until their final destination, in a total of 62 locations in the Americas: Eight destinations with Avianca, four with TACA, 35 with Copa Airlines and 15 with Avianca Brazil.

MIDDLE EAST

In Iraq, an important market for our country, weekly 79 frequency rights were obtained in addition to the current 116 frequency passenger flights for Turkish carriers. Of these, 24 additional frequency rights were allocated to Turkish Airlines, in accordance with its growth plans. Turkish Airlines also obtained the necessary permission for seven passenger flights per week to the UAE destination of Sharjah from April 4, 2019 onwards.

Commercial negotiations were conducted with Kuwait Airlines (KU) in order to sign a code-share agreement on the Istanbul-Kuwait route; for seven flights per day.



USD
483
MILLION
CONTRIBUTION
OF INTERLINE

TURKISH AIRLINES GROUP - COMMERCIAL PARTNERSHIPS WITH AIRLINES, TRAFFIC RIGHTS AND EXPANDING FLIGHT NETWORK



TWO FLIGHTS PER WEEK TO LUSAKA

Since December 13, 2018, Turkish Airlines has operated two flights per week to Lusaka.

AFRICA

In order to deepen its partnership under the existing joint business agreement, Turkish Airlines is currently negotiating with Royal Air Maroc (AT) leading airline with a high business volume across the region. Turkish Airlines also plans to sign a codeshare agreement with Kenya Airways to have access to destinations beyond Nairobi, such as Livingstone, Victoria Falls, Bujumbura and Kisumu. On the other hand negotiation is ongoing with South African Airways (SA), which has a wide flight network in the Africa region, to provide access to Port Elisabeth, Lusaka, Harare, Victoria Falls and Lilongwe via Johannesburg, Cape Town and Durban.

Upon signing the Air Services Agreement with Mauritius, passenger flight right was increased from three to five per week, and unlimited cargo rights were obtained along with Fifth Freedom Right. Turkish Airlines also obtained the necessary civil aviation permits for flights to Port Sudan beyond Khartoum.

In addition, the necessary civil aviation permits for new African points have been acquired. Since November 26, 2018, Turkish Airlines has operated two flights per week to Banjul in Gambia, and since December 13, 2018, two flights per week to Lusaka, the capital of Zambia as Istanbul-Lusaka-Darussalam-Istanbul operation.

ASIA AND THE FAR EAST

Turkish Airlines reached a codeshare agreement with Hong Kong Airlines (HX), whereby HX can sell and put its code on Istanbul-Hong Kong flights and flights beyond Istanbul to Amsterdam, Barcelona, Birmingham, London, Paris, Copenhagen, Rome and Frankfurt. In return, Turkish Airlines can sell and place its code on Hong Kong Airlines flights beyond Hong Kong to Auckland, Osaka and Bangkok. The scope of the existing codeshare agreement with Thailand-based Thai Airways (TG) was expanded and code shared flights were initiated to offline destinations in Cambodia, Myanmar and Laos. Turkish Airlines is also negotiating with Vietnam Airlines to reach a codeshare agreement in order to access Vietnam's domestic routes. Turkish Airlines' commercial cooperation agreements with Royal Brunei Airlines (BI), Eva Airways (BR) and Myanmar Airways International (8M) have been revised and their validity have been extended.

Turkish Airlines has made great efforts to start operation to Xian, as part of the Silk Road Initiative in China as well as other flights to new destinations in China. In addition, Turkish Airlines is in negotiations with Sichuan Tourism officials to start operation to Sichuan. Onur Air has initiated flights to Chengdu; Turkish Airlines plans to reach a codeshare agreement with this Turkey-based airline to sell tickets to these flights under its own code. With the proposed agreement between these two Turkish carriers, Turkish Airlines will be able to have access to Chengdu, while Onur Air will have access to some destinations beyond Istanbul.

To boost frequency and access additional destinations in India, Turkish Airlines reached a comprehensive partnership agreement with India-based Indigo Airlines, which plans to organize flights to Turkey; the codeshare agreement will start to take effect in Delhi, Mumbai and Ahmedabad.

Turkish Airlines signed a mutual code-share agreement with Uzbekistan Airlines and the airlines reached a consensus to conduct 14 flights per week to Tashkent and 3 flights per week to Samarkand.

Additionally, negotiation is ongoing to enhance the cooperation with Malaysian Airlines. The objective is include Malaysian domestic destinations and Australian destinations in the second run to the codeshare agreement.

EUROPE

Turkish Airlines is also negotiating with Alitalia regarding a code-share agreement to provide access to all domestic routes in Italy. As a result of ongoing negotiations with Monacoair, transport will be provided between Monaco and Nice. Thanks to the code-share agreement with British Midland Regional (BM), Turkish Airlines has added six destinations – Newcastle, Bristol, Nottingham, Aberdeen, Norrköping and Saarbrücken – to its flight network. The existing codeshare agreement with Air Europa allows for an increase in traffic volume while granting Turkish Airlines offline access to Santo Domingo, Palma de Mallorca, Ibiza and Gran Canaria.

By strengthening the current cooperation with Poland-based LOT (LO) Polish Airlines additional flight rights were obtained on Istanbul-Warsaw route. In Belarus, where flight frequency could not be expanded, by commencing a codeshare agreement with national carrier Belavia (B2) for the Istanbul-Minsk route, 10 mutual flight rights per week were obtained on Istanbul-Minsk route.

Turkish Airlines has reached the final stage of the Bilateral Interline and Special Prorate Agreement with Accessrail (9B), which has numerous European train companies under its umbrella. The referenced agreement will go into effect in early 2019. As a result, Turkish Airlines passengers will have the opportunity to travel by train from numerous European destinations.

14 FLIGHTS PER WEEK TO TASHKENT

Thanks to the code-share agreement signed between Turkish Airlines and Uzbekistan Airlines, the number of flights per week to Tashkent has increased to 14.



TURKISH AIRLINES GROUP - COMMERCIAL PARTNERSHIPS WITH AIRLINES, TRAFFIC RIGHTS AND EXPANDING FLIGHT NETWORK

AVIATION AGREEMENT NEGOTIATIONS WITH THE EU

Round four of the ongoing official talks for the comprehensive aviation agreement between Turkey and the European Union (EU) has been completed.

Fourth round of ongoing official negotiations for the comprehensive aviation agreement between Turkey, one of the leading country in terms of passenger traffic to Europe, and the European Union (EU) was completed. If signed, the agreement will replace current bilateral agreements with EU member states. This agreement aims to harmonize with EU aviation legislation. The comprehensive aviation agreement will improve market access by eliminating capacity and frequency limitations, and achieve high standards in the areas of fair competition, security, air traffic and infrastructure, while protecting consumers and the environment.

REPORTING, ANALYSIS AND BUSINESS DEVELOPMENT PROJECTS

The Interline Dashboard used by Turkish Airlines was redesigned over QlikSense to boost efficiency. The more user-friendly interface facilitates analyzing and monitoring the operational and marketing volumes of MPA, SPA, codeshare agreements, relevant sectors, involuntary rates, and similar details, as well as the performance of ZED/MIBA agreements signed with airlines.

Turkish Airlines embarked on the second phase of the contribution report in collaboration with relevant units. This effort aims to identify and compare the revenue and contribution from sectors covered by current agreements; analyze the agreements in this respect and make any revisions if necessary. The contribution report is also designed to determine the contribution of these sectors to current marketing

sectors; measure the effect of Interline passengers on passenger load factor rates; identify new sectors outside the current agreements that may add revenue, profit and contributions; and analyze possible agreement opportunities to this end. In the second phase, the efficiency of the related report will be increased by providing both general data in addition to agreement type and details.

Relevant units are offered reports that analyze all Interline agreements in more detail on a monthly basis and a report on the load factor contribution of Interline passengers per route. A summary activity report is also provided showing monthly and cumulative data on code-share agreements and the number of offline destinations; total Interline contribution and share in total passenger revenue; the proportion of Star Alliance members in the total contribution; top three airlines with the highest contribution and O&D; top three lines in terms of Interline passenger share, Interline volume and number of coupons; distribution of Interline volume according to agreements; operating/marketing rate; top three airlines with the highest Interline volume; and involuntary rate in volume.

Turkish Airlines also uses various purchased reporting resources to identify new sectors that may be added to existing agreements as well as new airlines with agreement potential, in the form of periodic reports. To monitor the sales volume of agencies in order to prevent possible losses from abuse and fraud in Interline ticketing transactions,

the Agency Risk Interline Monitoring Module was created under the existing Agency Management System, called the Online Risk Monitoring Module. In cases where the designated risk percentage is exceeded, the system automatically generates warnings related to the risk amount as well as the agencies and sales amounts involved.

STAR ALLIANCE

Currently, Star Alliance has 28 members and a vast flight network that offers more than 18,800 daily flights to 1,317 airports and grants access to over 1,000 lounges in 193 countries around the world. Star Alliance remains the largest global airline alliance, with operations in 98% of the world's countries. Over 700 million passengers travel each year with member airlines.

Star Alliance strives to create a unique vision of innovation, leading member airlines to deliver the highest standards of safety and customer service to their passengers. Against this backdrop, Star Alliance has defined its strategy to 2020 as "digitalization." Under this strategy in 2018, Star Alliance recorded progress on key projects such as Unpaid & Paid, Seat Selection, Check-in Anywhere, Baggage Location Tracking, Contact Me and Journey Information. As a result, some member airlines have started to offer these services to their passengers. In addition to the completed above-referenced initiatives, Cloud Integration is also scheduled for completion in 2019.

Over the years, Star Alliance has received many awards, including the "Air Transport World Market Leadership Award" and Best Airline Alliance designation by Business Traveler Magazine. In addition, Star Alliance was presented with the "Best Airline Alliance" award by SKYTRAX for the second time.

Continuing its strategy of providing lounge services at airports that are not its member airlines' hubs, Star Alliance began operating a lounge under its own brand in Rome in June. Additional new lounges are scheduled to be opened at Amsterdam and Guangzhou airports in 2019. The advantages offered to passengers traveling in the business cabin and who have achieved Gold status continue to expand.

As a result of surveys conducted to understand the latest expectations of its passengers, Star Alliance started work on a new initiative: Biometric Hub. In conjunction with airport operators and governments that agree to participate in the project, Star Alliance will record the biometric data of passengers who grant their approval. In return, the passengers will receive ultra-fast access.

The Interline volume achieved by Turkish Airlines via code-share agreements with 21 member airlines within Star Alliance and other commercial agreements constitutes 48% of total Interline volume.

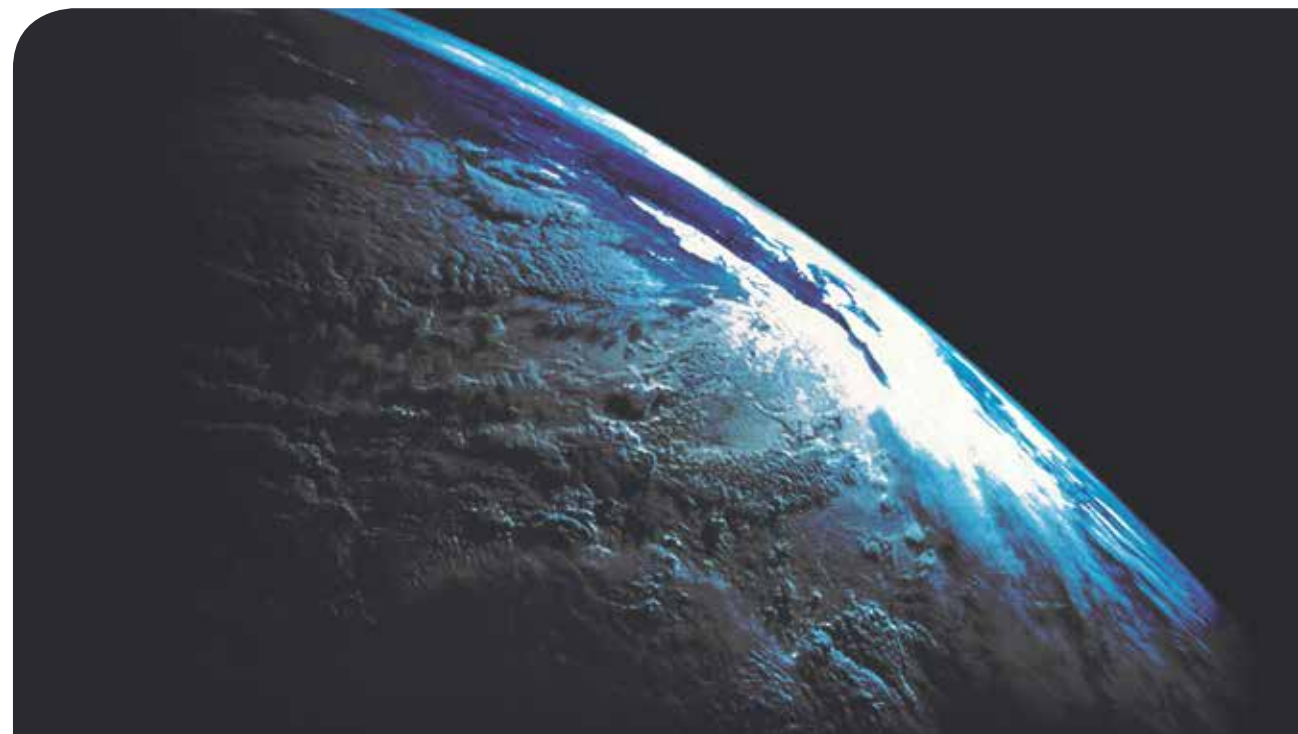
SERVING OVER 700 MILLION PASSENGERS

Star Alliance serves more than 700 million passengers annually.



98%

PERCENTAGE OF COUNTRIES WORLDWIDE SERVED BY STAR ALLIANCE



TURKISH AIRLINES GROUP - COMMERCIAL PARTNERSHIPS WITH AIRLINES, TRAFFIC RIGHTS AND EXPANDING FLIGHT NETWORK

SENIOR REPRESENTATION ON STRATEGIC PLATFORMS

Turkish Airlines senior representatives participated in the General Assemblies of IATA, AACO and AFRAA held in 2018, alongside other leading global airlines.



International Organizations

Turkish Airlines participates in events and meetings held by international aviation organizations – such as International Air Transport Association (IATA), Airlines International Representation in Europe (AIRE), Arab Air Carriers Organization (AACO), Latin American and Caribbean Air Transport Association (ALTA), African Airlines Association (AFRAA) and International Civil Aviation Organization (ICAO) – and closely monitors developments in the field of aviation.

Turkey has signed the "Montreal Protocol Amending Tokyo Convention on Crimes and Certain Other Acts Committed on Board Aircraft," which includes regulations on "Unruly Passengers," prepared by ICAO. The Protocol makes amendments and additions to the Tokyo Convention on key matters such as jurisdiction; the captain pilot's authorities; crimes committed on aircraft; authorities and responsibilities of air police; and compensation of damages from passengers who cause the landing of the aircraft. The amendments made pursuant to Article 18 of the Protocol shall become effective in international law following the ratifications of 22 ICAO Member-States which shall approve this amendment. In addition, the "Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)" approved

by ICAO in 2016 to reduce carbon emissions will take effect in 2021. In 2019, under the coordination of IATA, the airlines of volunteer countries, including Turkey, will record their fuel consumption and emission values, and notify relevant authorities.

The 74th General Assembly of IATA, which regulates the aviation industry via legislation and procedures, was held in Sydney, Australia on June 3-5, 2018. Turkish Airlines participated in the assembly and took part in the Finance and Sector Relations Committees – two of six total IATA committees that track developments in the civil aviation industry. Through these committee meetings, Turkish Airlines monitors developments related to strategically significant aviation industry projects, such as New Distribution Competency (NDC), Unruly Passenger, CORSIA, International Settlement Systems (ISS), among others.

The International Civil Aviation Organization (ICAO) coordinated and Kenya hosted the ICAO 11th Air Services Negotiation Event (ICAN 2018) on December 10-14, 2018 in the city of Nairobi. During the event, Turkish Airlines conducted bilateral civil aviation negotiations with 24 countries, mostly from the Middle East and Africa. As a result of these negotiations, Turkish Airlines acquired 14 frequency passenger, 19 frequency cargo and 14 new

destinations complete with Fifth Freedom Right. The number of countries that have air transport agreements with our country has risen to 171 with the addition of Iceland and Seychelles.

A meeting was held in Istanbul on June 28, 2018 between Turkish Airlines CEO Bilal Ekşi and Abdul Wahab Teffaha, the Secretary General of the Arab Air Carriers Organization (AACO), of which the Turkish Airlines is a Partner Airline. Items on the agenda were discussed at the meeting, during which a joint announcement was made concerning Turkish Airlines' more active participation in AACO activities and events. Within this framework, Turkish Airlines now participates in meetings and studies related to strategic projects carried out by AACO. In addition, Turkish Airlines was represented by CEO Bilal Ekşi at the 51st General Assembly held on November 5-7, 2018 in Cairo, Egypt. Turkish Airlines, maintaining a strategic presence in this organization composed of leading Arab airlines, also conducted high-level meetings with various individual airlines.

Furthermore, Turkish Airlines closely monitors high-level meetings and activities of the Latin America and Caribbean Airlines Association (ALTA), where it has "Associate" member status.

Turkish Airlines also participated in the 50th General Assembly of the African Airlines Association (AFRAA) held in Rabat, Morocco, on November 25-27, 2018. Although it is not currently a member, Turkish Airlines expressed its potential to become a member of AFRAA during the General Assembly, and held meetings with various airlines.

Zonal Employee Discount (ZED) and Multilateral Interline Business Agreement (MIBA)

With the recently signed agreements, the number of existing ZED agreements has risen to 94, and the number of MIBA agreements increased to 12. Turkish Airlines provides its staff with the opportunity to organize vacation and business trips to its offline destinations via these ZED and MIBA agreements. In 2018, Turkish Airlines signed ZED agreements covering the vacations of staff and their families with Hong Kong Airlines (HX), Royal Brunei Airlines (BI), Wideroes Flyveselskap (WF) and Flynas (XY); in addition to MIBA agreements regarding employee business trips with Finnair (AY), Avianca (AV), Alitalia (AZ), Qatar Airways (QR) and Avianca Brazil (O6).

12
NUMBER OF MIBA AGREEMENTS



MORE ADVANCED TECHNOLOGY, HIGHER SATISFACTION

Regardless of total flight time, airlines try to make the time spent onboard as pleasant as possible. We took a close look at the technological offerings of Turkish Airlines, which has made a difference in this key area with its intensive efforts and investments. What we found was surprising and delightful.



TECHNOLOGICAL EDGE NOT ONLY ON WIDE-BODY BUT ALL AIRCRAFT

We generally find entertainment systems on wide-body aircraft. Turkish Airlines offers more and more opportunities to its passengers, both on aircraft that will be included in the fleet, and on aircraft undergoing modernization.



Turkish Airlines, which has played a leading role in shaping and developing the domestic aviation industry through partnerships, has reached an agreement with Havelsan to equip all its aircraft with entertainment systems. This means that every aircraft in the fleet will be much more enjoyable in the near future.

TURKISH AIRLINES ANNOUNCES WIRELESS IN-FLIGHT ENTERTAINMENT SYSTEM

The wireless in-flight entertainment system will first become operational on Turkish Airlines' 44 narrow-body aircraft that do not have seat-back screens. With this innovation, passengers will be able to connect to the in-flight entertainment system via their mobile devices. As a result, 95% of Turkish Airlines aircraft now have an in-flight entertainment system (IFE).

To use the wireless in-flight entertainment system via their personal devices, passengers simply install the "Wi-Fi Entertainment" application on their smartphones or tablets prior to the flight. Afterwards, they will simply connect to the Wi-Fi network offered to passengers on-board.

Passengers can also use their laptop computers to access the Google Chrome browser and enjoy over 250 movies, 700 TV programs, 2 thousand music albums and 19 thousand songs, and much more via the wireless in-flight entertainment system.



NEW GENERATION AIRCRAFT ARE ON THE WAY

With the ongoing evolution of advanced technology, the aviation industry has started to make significant progress and is now focusing on high-tech aircraft. Similarly, our nation's flag carrier airline, Turkish Airlines, is updating its fleet with new generation aircraft.

In March 2018, Turkish Airlines decided to purchase Boeing 787-9 Dreamliner and Airbus A350-900 aircraft.

In line with this decision, Turkish Airlines announced that 30 A350-900 and 30 Boeing 787-9 aircraft will join the fleet, with five aircraft optional in both brands. Delivery will be distributed in the coming years and completed by 2024.

With these efforts, Turkish Airlines will offer its passengers state-of-the-art aircraft in the future, just as it does today. The journey to the future continues with Turkish Airlines.



218

NARROW-BODY AIRCRAFT



92

WIDE-BODY AIRCRAFT

CORPORATE DEVELOPMENT AND INFORMATION TECHNOLOGIES



CUSTOMER SOLUTIONS APPLICATIONS

Under the effort to add new functionality to the "TKFraud Fight" application, Review, Score and Chargeback menus were introduced to enhance the application's ability to detect fraudulent transactions and to transfer air miles processes over the payment gateway.

Turkish Airlines made systems infrastructure changes to TROYA to enable sales channels to market multiple additional services at the same time (shopping cart) and make the E-ticket Data Feed (EDF) system searchable for tickets that have completed their life cycle (purge). Now, it is possible to calculate under TK the constructed price data transferred to the TK-Price system over Airline Tariff Publishing Company (ATPCO). With upgrades to the pricing system, the tariff change passenger approval procedure, previously available only via the sales offices and call centers, is accessible via mobile and web sales channels as well.

GDS systems and TROYA were integrated by means of special message formats, with seat selection becoming an interactive process. The interactive seat selection project, which started in January 2018 with Amadeus, was gradually extended to other GDSs and completed in September 2018.

In April 2018, the Hybrid model moved online to enable more efficient use of a scientific approach based on demand forecasting and revenue management optimization in domestic route management. With the WebsAgent application, ticketing and change sales can now be performed over the UATP card in order to boost additional service revenues by excess baggage sales and to grant manual option times.

In the Agency Risk Management-Online Risk Module in relation to Interline agreements reached with foreign airlines, the Interline Risk Tracking sub-module was developed to track agencies making sales to Turkish Airlines via real-time data from EDF.

During the year, additional self-back drop and self-check-in kiosks were deployed. With the automatic information completion function of the Advanced Passenger Information System (APIS), introduced to the mobile application, passengers can easily complete the required information using their mobile devices.

A systems infrastructure was developed to enable faster detection of failures and early intervention. As a result, service failures and warnings are examined in short intervals and compared with historical values of the same hour intervals. Twenty-seven APIs were presented over the developer portal at the Travel Hackathon organized jointly by IGA and Turkish Airlines.

Location design in the web site ticketing flow was given a leaner and more user-friendly structure. Improvements and upgrades were made to the mobile application and mobile web site to ensure that passengers have the best end-to-end experience at every moment of their trip. The amount of content that can be published at any given time on the web site has been increased to boost efficiency.


27
NUMBER OF
APIS PRESENTED
AT TRAVEL
HACKATHON



CRM PRACTICES

In 2018, Turkish Airlines introduced a series of data systems innovations to the CRM platform developed in line with its customer-focused vision. The Incorporation's CRM systems are compliant with the "Turkish Personal Data Protection Law," and the "General Data Protection Regulation" which came into force in Europe. Thanks to efficient data management, the Incorporation's CRM systems allow customers to diversify personalized offers based on their needs and preferences. New functionality added to the application center app, where customer feedback is managed, and shortened the response time for feedback. Meanwhile, the integrated automatic survey application laid the groundwork for continuous measurement and improvement of customer satisfaction.

During the year, Turkish Airlines revamped the technical systems infrastructure of the Miles & Smiles Program end-to-end. As such, the range of online services offered to members was expanded with innovations, such as instant return and change of award tickets, and purchase of tickets from other Star Alliance members with air miles. In addition, a number of new business partners were added to the system, including banks, airlines and telecom companies to expand members' options in earning air miles.

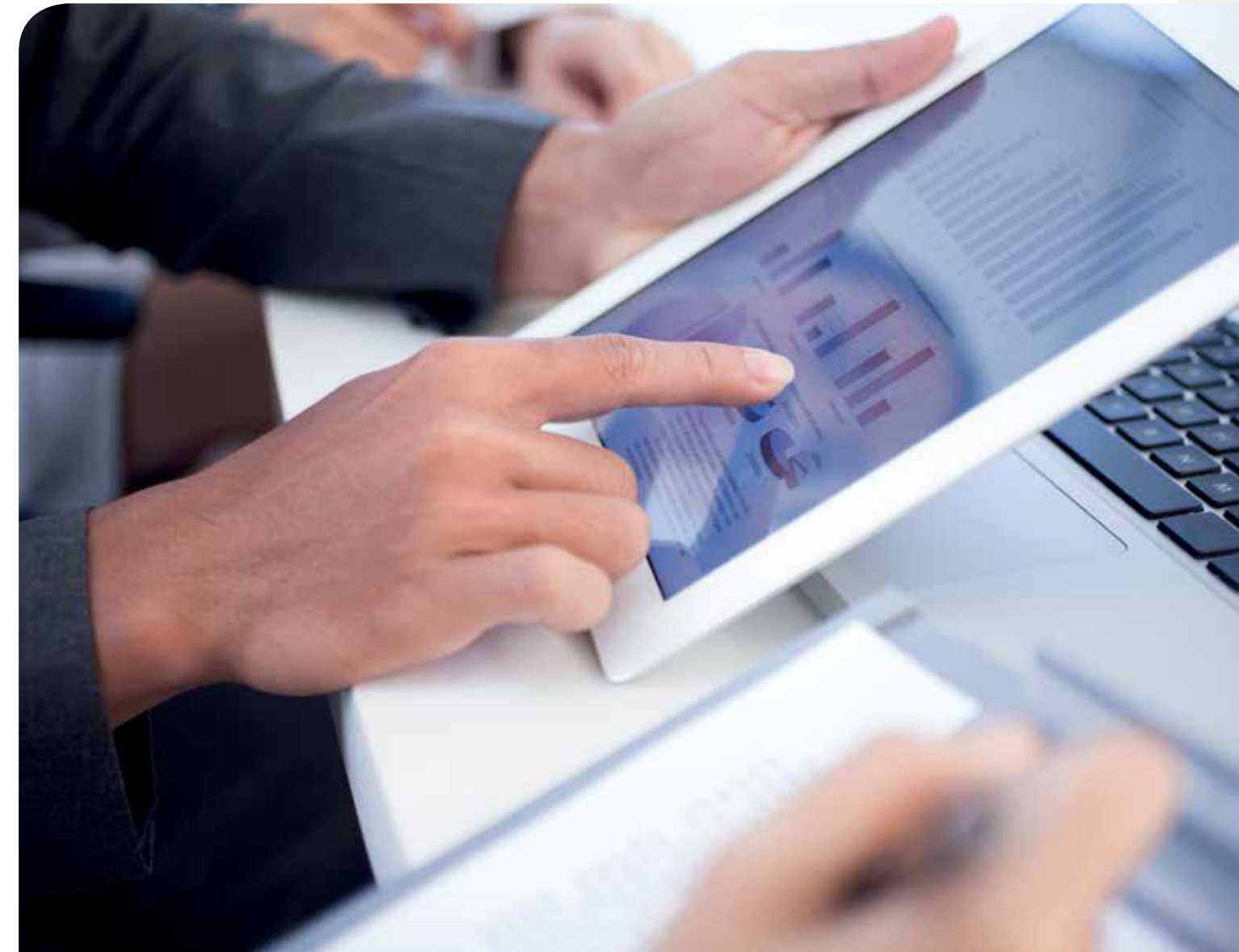
Innovations were also introduced during the year to the Corporate Club system, Turkish Airlines' corporate customer program. With this effort, the Incorporation can manage the objectives and acquisitions of corporate customers more effectively and offer them a wider range of campaigns.

CRM SYSTEMS IN COMPLIANCE WITH DATA PROTECTION LEGISLATION

Turkish Airlines' CRM systems are compliant with the Turkish Personal Data Protection Law, and the General Data Protection Regulation which came into force in Europe.

CORPORATE AND OPERATIONAL PRACTICES

- Turkish Airlines upgraded the Electronic Flight Bag (EFB) versions utilized on paper-free flight crew processes in aircraft; added new EFB devices to the inventory; and revised the maintenance agreement to enhance business continuity. An e-Enabling Project was implemented on Boeing 737Max and 787 aircraft to automate data communication.
- Software and integration works for the transition to Istanbul Airport were completed; the OPSEYE application, which monitors ground and air traffic, was updated and ADBS antennas were installed on the field.
- Corporate practices were enhanced to improve the follow-up and management of Turkish Airlines' written notification and NOTAMs.
- To boost operational continuity, the AODB Ops application was developed for use in the event of system failure.
- Turkish Airlines continued to develop applications and educational games accessible over every media and device; Cabin Crew Quiz, Exam System, Roll Call System, Candidate Evaluation System and Training Management Systems have launched for use by Incorporation employees.
- Under BOSS, the performance and competency management initiative launched by the Cabin Services and Flight Operations Directorate, all administrative process analyses and process maps were completed.
- To facilitate the follow-up of crew hotel check-in/check-out procedures, Turkish Airlines initiated the Use of NFC-Supported Tablets at Hotels project.
- Productivity increased thanks to software applications that improve transport management of transfer baggage in containers.
- By integrating the most commonly used baggage failure tracking application with the baggage tracking system, a significant increase in scope was achieved in the end-to-end monitoring of baggage transportation.



- With the use of the BingoSheet load tracking solution at over 30 stations without baggage matching systems, the possibility of failure was minimized.
- In the event passenger baggage is not loaded on the same aircraft due to some failure, Turkish Airlines now sends such baggage of Business Class, Miles & Smiles Elite, Elite Plus Card passengers or passengers with a return ticket on the same PNR within 15 days on the nearest flight to increase customer satisfaction.
- The quality and efficiency of catering services was enhanced with the enriched modules of the Catering Management application (e.g. catering options for Business Class passengers, charter flights, monitoring aircraft catering readiness and storage equipment, and over catering reports).
- Turkish Airlines recorded progress in its quantitative transformation works with QR code use in in-flight material management; transfer of catering quality control processes to the mobile environment via tablet PCs; extension of aircraft cycle process management and transfer passenger management applications; transfer of operational follow-up schedules and load trim sheet paper forms to the electronic environment; and automatic identification of remaining baggage failures.
- Legislative requirements and business unit requests were prioritized in order of importance; applications were developed to accelerate the workflow, eliminate areas prone to human error and facilitate control.



ERP SYSTEMS MIGRATED TO SAP HANA DATABASE

All ERP systems were migrated from Oracle to the new generation SAP HANA database.

- PORTAL and Customer Support applications were rolled out to manage and resolve the requests of cargo agencies faster. Thanks to the Cargo Smart mobile application, international cargo sales personnel can now perform booking and sales transactions over their mobile devices. The DWH project, initiated to manage all reporting needs from a single source, was successfully completed during the year. Simulation software was purchased to improve processes at Istanbul Airport. The Smart Warehouse project was implemented to save space, time and human resources.
- All ERP systems were migrated from Oracle to the new generation SAP HANA database. Thanks to the HANA in-memory structure, improvements were made in application, reporting and system infrastructure.
- With the Tender Follow-up System project, additional functions were introduced to the procurement process currently running on SAP with a traceable process flow design. In the newly conceptualized structure, all details related to the tender can be entered with the capability to track current statuses over the system and report all processes end-to-end.
- The Accounting "Dashboard" project contributes to Turkish Airlines' long-term goals by supporting managers and accounting chiefs in charge of monitoring the financial situation of the overseas offices where they are responsible; providing necessary financial information to vice-presidents in the business management process; facilitating routine audits of central accounting employees; and obtaining objective criteria in personnel management.

- Thanks to the Balance Analysis Flight Crew project, the Financial Control Directorate can now perform the controls and corrections for accounting records based on expense location and expense type via e-mail during the account closing period, via a single program that is open to shared access.
- The new career web site featuring enriched content, redesigned to provide a better user experience to job applicants, is scheduled for launch in 2019.
- Turkish Airlines established the practices and senior management dashboards which ensure that performance and profitability measurements of agreements with other airlines can be performed and followed up by relevant units.
- The ODS layer of Revera, the revenue accounting application, was redesigned to enable reporting of new types of information.
- A search engine was developed for all stations operating under Turkish Airlines with the most frequently needed operational information now displayed on a mobile compatible portal. This project ensures communication between stations, personnel awareness and operational efficiency.
- On the mobile app UP, Turkish Airlines launched the sub-app Feedy, where staff can give and receive feedback to each other while accelerating both their individual and corporate development.
- Turkish Airlines revamped and relaunched the Corporate Performance Monitoring System – which holds the Incorporation's strategic goals and performance data and ensures process management and reporting – by means of additional upgrades to meet today's needs

DIGITAL INNOVATION WORKS

In 2018, Republic of Turkey Ministry of Industry and Technology conducted its 2017 R&D audit of Turkish Airlines and the result was a success. To bolster the R&D culture within the organization and encourage personnel, Turkish Airlines established an R&D incentive system. Under this system, R&D staff were granted unconditional leaves of absence for their academic studies. In addition, project fund and patent applications as well as R&D proposals were rewarded. The R&D Portal System, launched at year-end 2017, enables the monitoring of the R&D center and employee activities via a single platform. R&D staff can communicate project fund applications, patent applications, activity participation requests, and the like over this system. Improvements were made to the system in order to monitor the R&D processes end-to-end.

Turkish Airlines applied to TÜBİTAK for its Mercury project; the project was approved and received funding in 2018. The RFID Baggage Tracking project shares real time information about which line the passengers' baggage fall on; this effort was implemented at Atatürk Airport on the international baggage delivery lines.

During the year, Turkish Airlines became a partner of Startershub's XO acceleration program. The Incorporation carried out a number of PoC and pilot studies with selected initiatives within this program. This effort aims to increase the Incorporation's effectiveness in the entrepreneurship ecosystem, discover technology initiatives at an early stage, and develop projects on new business models.

Travel Hackathon 2018, organized for the second time this year in conjunction with IGA, took place at Istanbul Airport as part of TeknoFest, with the participation of a large number of API providers.

The Avatar project, which instantly translates text content on the Turkish Airlines web site into sign language, facilitates hearing impaired passengers' access to content. A number of flight inquiry services were integrated with voice assistants as well as chatbot solutions that were developed using artificial intelligence technologies.

R&D studies were conducted to migrate the cargo messaging system over to blockchain technology. New enterprises were added to the Invest on Board platform via various partnerships. In 2018, Invest on Board supported 50 new ventures in finding new investment by featuring their investor presentation videos on in-flight entertainment (IFE) screens and on the web site www.investonboard.com.

MERCURY PROJECT APPROVED

Turkish Airlines applied to TÜBİTAK for its Mercury Project; The project was approved and received funding in 2018.



IN-HOUSE ACTIVITIES

To anticipate, design and build the future corporate architecture of Turkish Airlines, the foundations of the Architectural Transformation Program were laid. In addition, the Incorporation continued to provide consultancy to both business units and IT teams.

Turkish Airlines abandoned the idea to replace the TROYA system, used as a Passenger Services System (PSS) solution, with a fixed system dependent on the outside. As a result of this development, architecture upgrade projects were initiated to construct a customer service management infrastructure with the latest technologies in line with today's requirements. With these efforts, Turkish Airlines aims to upgrade the software that processes booking, price and ticket data, and to establish and operate platforms that will run updated software. Once the projects are complete, the Incorporation will have the advanced technology infrastructure to effectively support the capacity expansion and new service needs emerging in tandem with the accelerating growth after the transfer to Istanbul Airport.

In terms of demand, portfolio and project processes, 2018 saw processes initiated the previous year become mature, measured and digitized. The digitized Scorecard application and service levels are monitored over seven main domains and 40 KPIs. As a result, Turkish Airlines entered a process to determine the main competencies of information technology across the organization and identify any aspects open to improvement. Portfolio processes were digitized to ensure timely work delivery at the expected quality level. In addition, analytical reports were designed and developed for IT managers to take action. Turkish Airlines has undertaken technical vehicle investments and implementations – such as Jenkins, SVN, SonarQube, FishEye, Crucible, Bitbucket – that allow the interconnection of end-to-end IT processes used in DevOps solutions. The aim is to enhance code quality, particularly in agile teams.

During the year, efforts were initiated to improve test environments; a detailed test environment inventory was drafted to show the current status of test environments. New UAT environments were prepared and efforts initiated for their implementation. Service virtualization work started and proof of concept studies are ongoing to virtualize web-service behavior; this effort aims to ensure that testing and development processes can continue without access to real components. By focusing on test automation studies, Turkish Airlines boosted the test automation coverage of Middle Tier Web Services, Web 3.0, Jet Mobile, Smart Mobile and Easy Ticket applications to above 90%. These applications were integrated with CI/CD systems of automated test scenarios; work was initiated to transition to a continuous testing structure. Turkish Airlines performed the configuration and maintenance of tools used in DevOps solutions. In addition, the Incorporation continued manual, automation and performance testing services for critical applications and projects.



TEST ENVIRONMENT INVENTORY

Turkish Airlines drafted a detailed test environment inventory that shows the current state of test environments.

As part of big data and analytics efforts, Turkish Airlines made technology investments and initiated projects that will create added value from corporate data. The Incorporation's maturity in using its data was enhanced and a favorable environment was created for projects that may offer new perspectives. The user base in the corporate reporting environment reached about 8 thousand. During the year, the Monthly Reliability Report Automation project, RealTime Agency Activity Analyze project, Load Factor Estimation project and Advanced Revenue project were implemented.

Orientation programs were organized for personnel new to Corporate Development and Information Technologies to ensure that they learn about the areas of activity of the relevant directorates. Turkish Airlines conducted "Training Volunteers" sessions where employees talk about their areas of expertise and interest during lunch breaks; "Master Classes" where experienced employees share their expertise in the areas of aviation and IT; and "Technology Classes" where staff with technical experience share their know-how with colleagues.

The resource management portal was launched to help access employment reports and documents from a single point. Audits were performed for the PCI DSS 2018, ISO 27001 Information Security Management System, ISO 9001: 2015 Quality Management System, ISO 14001 Environmental Management System and TS 18001 Occupational Health and Safety Management System.

Turkish Airlines diversified and boosted the effectiveness of its information security activities in order to store and process stakeholder and customer data with the best available methods. Progress achieved under this effort was verified with internationally recognized ISO/IEC 27001 Information Security Management System certification. Together with various products and processes that were commissioned, sensitivity was increased to protect data managed under the responsibility of Turkish Airlines more effectively against internal and external threats and to ensure its proper use. Understanding that well-skilled human resources are key to protecting information assets, Turkish Airlines employs a sufficient number of experts in this critical area.



INFRASTRUCTURE AND OPERATION WORKS

Turkish Airlines completed the information technologies infrastructure of the units that have started to operate with the inauguration of Istanbul Airport. Work is underway for the IT systems infrastructure of the units to be moved in 2019. Efforts carried out for Istanbul Airport in 2018 include the following:

- Network infrastructure investments were undertaken for Turkish Airlines' operation at Istanbul Airport; wired and wireless network infrastructure was established and end-to-end connection was created.
- Server and storage infrastructure of the camera (CCTV) systems required for security and operation was established.
- Computers, printers, handheld terminals and telephones to be used by Turkish Airlines personnel were supplied and installed.
- VHF walkie-talkie communication infrastructure, which is necessary for aircraft to communicate with the station, was established complete with back-up.
- An alternative was created for the check-in system with reliable back-up thus ensured.

Following the acquisition of the Web 3.0 project from IBM by Turkish Airlines in 2017, an initiative to improve security and upgrade the systems architecture was launched in 2018. Under this effort, a significant portion of the project activities were completed, including improved server security and version updates of applications, active-active back-up of systems, and optimization of network connections. The remaining project activities are scheduled for completion in early 2019.

During the year, Turkish Airlines' call center, switchboard and wireless systems were upgraded. In the call center system, video call features were added to meet the needs of hearing impaired passengers. Integration with IVR was established to make customer ticket changes for special cases (penalty-free changes in extraordinary situations such as weather events and terrorism incidents) over the phone. In addition, the IVR systems infrastructure was expanded and upgraded to meet the needs and complaints of candidates and CRM customers applying for employment at Turkish Airlines. Systems serving the IP Switchboard were transported to increase usability; active-active functioning was established between data centers. Work on the back-up of HF-SSB radio systems was initiated for aircraft to perform Selective Calling Check; this effort is planned to be completed in the first quarter 2019.

The capacity of the Next-Generation Firewall was increased by the Network and Security Directorate; improvements were made in terms of architecture and technology. The Network Access Control (NAC) project was launched to improve network connection security with profiling and rules put into effect on network connections in many offices; this practice is planned to be extended to all stations in 2019.

Improvements were made to the monitoring infrastructure. Thanks to the "ITMC Voice Call Application," whenever monitoring systems generate an alarm signal, authorized system managers automatically receive a voice call.

Support was provided to implement the Orange Line v2.0 project. This effort was initiated to establish lean IT processes of Corporate Development and Information Technologies with reference to the

Information Technologies Infrastructure Library (ITIL). Management of the application was performed and its daily operation was ensured.

The "Microsegmentation" project was supported and the applications were moved to separate network regions to not affect each other in terms of security. To monitor the efficiency of critical IT applications, an application performance management system was established; it will be expanded in 2019.

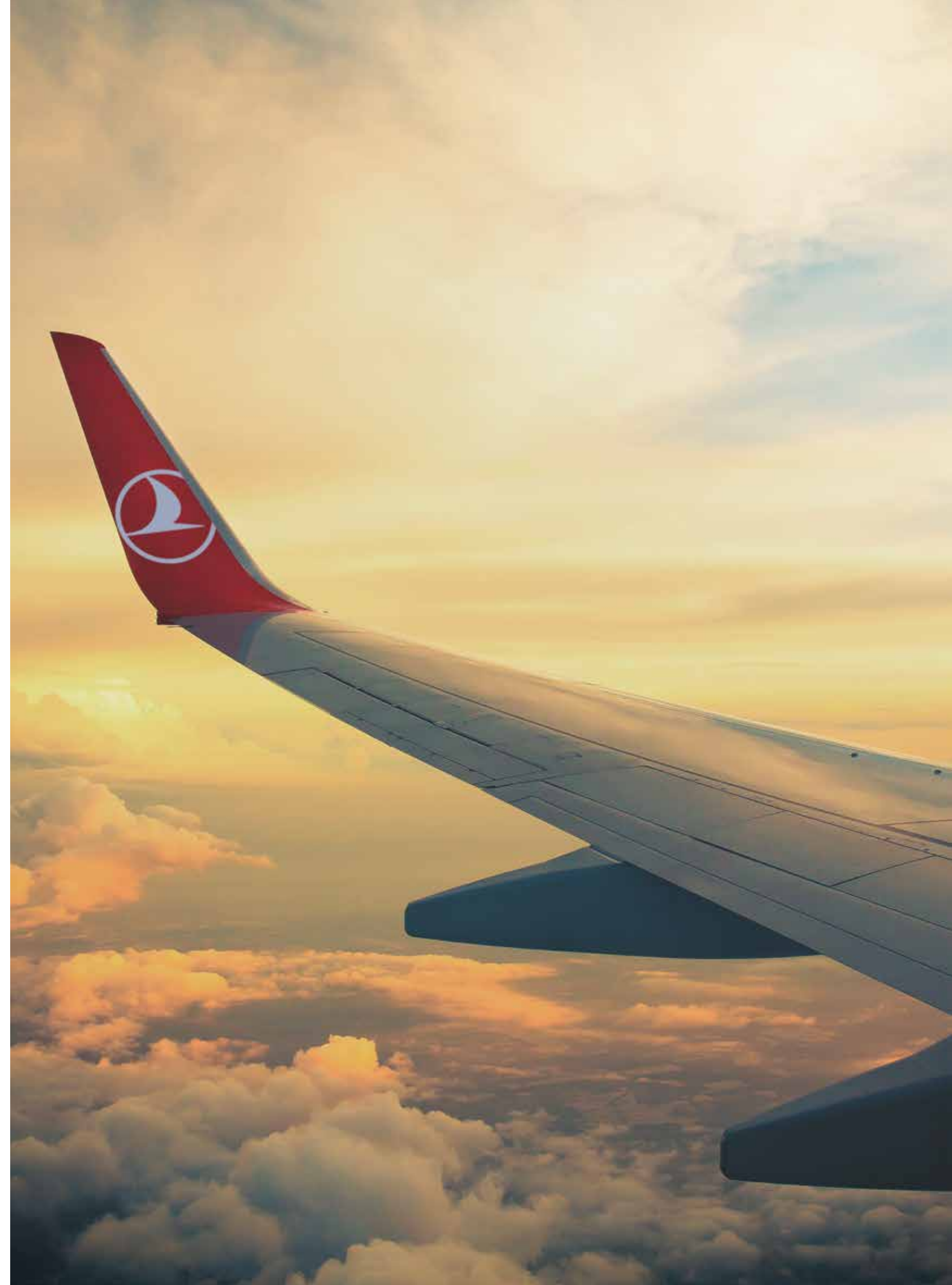
The architectures of "Active Directory" and "Exchange" servers were updated to meet today's technological requirements. Security tightening measures were taken in computers provided to Turkish Airlines staff members. By using application and desktop virtualization solutions, the needs of Turkish Airlines users were met quickly and securely. This scheme is planned to be expanded in 2019.

Infrastructure investments were made and new systems were installed to consolidate Oracle databases on a single platform. In 2019, Turkish Airlines plans to migrate all Oracle databases to new systems. The Central Logging project was launched in 2018 to facilitate analysis of application logs (transaction records), accelerate application development and create cost advantages. Some critical applications were commissioned during the year. The project is planned for expansion in 2019. In addition, version updates were made for databases that support business applications; security and performance upgrades were carried out as well.

Technologically outdated servers and storage systems were upgraded; new systems were installed to meet the additional capacity requirements. Server virtualization alternatives were diversified to reduce costs and gain additional competencies. The infrastructure required for Container architecture was created to enable teams developing applications to implement their applications quickly. The TKBox File Sharing project was completed to secure file sharing internally and externally; this capability was implemented for managers and certain business units that share files outside the Incorporation. The plan is to further expand the project in 2019.

ITMC VOICE CALL APPLICATION

Thanks to the ITMC Voice Call application, whenever monitoring systems generate an alarm signal, authorized system managers automatically receive a voice call.



WHAT VALUE DO SOCIAL RESPONSIBILITY PROJECTS ADD TO LIFE?

Since companies have placed sustainability at the center of their business operations in order to create more value for society and the environment, corporate social responsibility is now considered to be a mainstream activity. Turkish Airlines, which has conducted special projects in this arena for many years, not only in Turkey but also across the world, adds significant value to life.



AN AIRLINE THAT TARGETS ZERO WASTE

The "Zero Waste Project," initiated by the Ministry of Environment and Urbanization, is gradually expanding across the country. Public awareness on the issue is raised by this major initiative under the auspices of Mrs. Emine Erdoğan.



Turkey's Zero Waste Project, hugely important for our sustainable future, is designed to collect garbage separately at the source and recycle it, thus preventing the waste of raw materials and energy. By 2023, the Zero Waste Project will be expanded to include public agencies, terminals, educational institutions, shopping malls, hospitals, hotels, restaurants and large workplaces that generate significant amounts of recyclable waste.

SUSTAINABILITY AND ZERO WASTE PROJECT AWARD TO TURKISH AIRLINES

Turkish Airlines develops and implements a wide range of projects with the goal of leaving a beautiful world for future generations. The Incorporation has reduced the fuel efficiency of its flights by 15% over previous years; it also recycles 100 tons of waste each month, contributing significantly to the Zero Waste Project. Under this vitally important project, Turkish Airlines received the Award for Sustainability Politics and Support for the Zero Waste Project from Mrs. Emine Erdoğan. The Incorporation considers this award as an incentive for even larger-scale projects in the future.

TURKISH AIRLINES EXTENDS A HELPING HAND TO SOMALIA

Serving 53 destinations in Africa, Turkish Airlines is the continent's largest international airline. The Incorporation has been recognized for its efforts to connect Africa to the world. Turkish President Recep Tayyip Erdoğan presented Turkish Airlines Chairman and CEO M. İlker Aycı with the award the "Airline that Connects Africa to the World and Flies to Most Destinations in Africa" award during the year.

Turkish Airlines is also widely cited for its corporate social responsibility activities across the African continent. The Incorporation responded to a call last year on social media to assist Somalia, which is grappling with hunger and drought. As the only international airline flying to this country, Turkish Airlines delivered two freighters full of food and equipment to Somalia.

WHOLEHEARTED SUPPORT TO "WE ARE ANATOLIA"

Under the Republic of Turkey Ministry of Interior's "We are Anatolia" initiative and Tunceli Governorate's "Getting to Know Our University" project, 2,019 students in Tunceli will travel to various Turkish cities with AnadoluJet until the end of the year.

As part of "We Are Anatolia" and "Getting to Know Our University," students studying in Tunceli are taken to various cities across Turkey to offer them motivational support. Additionally, students from various high schools in Tunceli go to Istanbul to get to know the universities in Turkey's largest city. AnadoluJet facilitates these meaningful trips, connecting cities and hearts.



HUMAN RESOURCES

In 2018, Turkish Airlines recruited 3,900 employees – 1,329 cabin crew, six load masters, 999 flight crew personnel, 1,169 domestic ground personnel, seven overseas employees appointed by headquarters and 390 overseas local staff – to meet its human resources requirements.

In line with recent growth of the aviation industry in Turkey and worldwide, Turkish Airlines has rapidly boosted the number of its flight destinations, increased its fleet size, and consequently expanded its workforce.

In 2018, Turkish Airlines recruited 3,900 employees – 1,329 cabin crew, six load masters, 999 flight crew personnel, 1,169 domestic ground personnel, seven overseas employees appointed by headquarters and 390 overseas local staff – to meet its human resources requirements.

As of year-end 2018, a total of 26,739 persons were employed by Turkish Airlines. The average age of Turkish Airlines' workforce is 34.5; 46% are female and 54% are male. With its youthful human resources, Turkish Airlines has become the best airline in Europe and now looks forward to becoming the best in the world.

According to their main functions, the employees are categorized as flight crew, cabin and ground personnel. The flight personnel, cabin crew, and ground staff make up 20%, 39%, and 41% of the Incorporation's human resources, respectively.

As of 2018, Turkish Airlines employees have an average seniority of 6.8 years. The average number of employees per aircraft is 81.

EFFICIENT AND PRODUCTIVE HUMAN RESOURCES POLICY

Turkish Airlines' human resources policy is designed to ensure the employment and sustainability of qualified personnel who are capable of performing their duties effectively and productively, in line with the strategic plans and objectives of Turkish Airlines and in compliance with professional and ethical regulations.

The human resources policy covers key areas, including human resources planning, determination of job descriptions, shaping corporate culture and awareness, staff employment, feedback system, training and development, personnel affairs, social and economic rights, ensuring employee satisfaction, and establishing work order, discipline and awards.

In addition, all Turkish Airlines personnel are obliged to comply with applicable laws, rules, and regulations, under the scope of their job description within the organizational structure.


34.5
AVERAGE
EMPLOYEE AGE



TEAM SPIRIT

EMPLOYEE SATISFACTION

Turkish Airlines strives to enhance employee engagement by offering a wide array of benefits.

Turkish Airlines conducts a range of activities to enhance employee satisfaction and foster staff engagement. Employee satisfaction and engagement rates are measured regularly across the organization. Reports are generated on an organizational unit basis and actions are taken according to identified strengths/weaknesses. Thanks to the Ethics Committee's efforts since 2012, Turkish Airlines has established an active system where employees can easily communicate issues such as discrimination, conflict of interest and mobbing. Such issues are settled through a detailed investigation by the Ethics Committee.

Turkish Airlines provides important social benefits to its workforce. The Incorporation raises employee satisfaction to the highest level with its vast service network; private

health insurance; private health insurance discounts for employee families; benefits related to birth, breastfeeding, death; marriage support; kindergarten support for female employees with children; free or discounted domestic/international air tickets; visa facilitation; contracted accommodation worldwide; and corporate discount agreements in all sectors.

To help local overseas employees adapt to and embrace the Incorporation, Turkish Airlines launched the Local Personnel Orientation Program in 2018. Under this orientation program, which was organized a total of 15 times in 2018, about 250 employees were invited from 120 different offices in 75 different countries to participate in activities held at the headquarters.

OCCUPATIONAL HEALTH AND SAFETY

In the area of occupational health and safety, Turkish Airlines acts in compliance with national, legal and other regulatory requirements and international rules of the aviation industry. While planning new investments in its field of activity, expanding its fleet, and boosting its advanced technology infrastructure, Turkish Airlines takes into account the health and safety of employees and selects equipment and organizations with the lowest risk. The Incorporation takes measures to minimize noise created by aircraft in its fleet. In addition, Turkish Airlines conducts efforts to raise the occupational health and safety awareness of its employees and other stakeholders.

Committed to continuously improving its occupational health and safety performance, Turkish Airlines ensures the participation of all levels of the organization and its stakeholders. An open dialogue on occupational health and safety is established

with employees, suppliers and the local community as regards current and future activities. The necessary corrective measures are taken in line with the concerns of customers, employees, suppliers and the general public.

Turkish Airlines identifies occupational health and safety risks in all its activities. The Incorporation develops action plans to prevent occupational accidents and diseases. Turkish Airlines also ensures ongoing supervision of the working environment, and preventive medicine. The Incorporation provides the necessary infrastructure to ensure a healthy and safe working environment for employees, subcontractors and visitors. Turkish Airlines makes sure that employees involved in critical functions are physically and medically ready for the operations they will perform. The Incorporation is in continuous contact with National Emergency Response Units in the event of an emergency.

Turkish Airlines takes measures to minimize noise created by aircraft in its fleet.



15

NUMBER OF LOCAL STAFF ORIENTATION PROGRAMS



OCCUPATIONAL HEALTH AND SAFETY IS IN OUR HANDS!

We have no option to deviate from OHS rules because our first mission is Occupational Health and Safety. **Pay attention to occupational health and safety rules at any time.**



QUALITY AND CORPORATE RESPONSIBILITY

Turkish Airlines successfully passed the audits conducted in 2018 and received full marks from international authorities.



Turkish Airlines is committed to delivering service quality that exceeds customer expectations without compromising customer satisfaction. The Incorporation takes the necessary steps to provide the same service quality to an increasing number of passengers. Turkish Airlines also opts for environmentally friendly technologies and methods in planning new investments related to its fields of activity, expanding its fleet and raising the level of its advanced technology infrastructure.

The Incorporation's effective Compliance Monitoring System plays a major role in ensuring the consistent commercial, financial and operational growth and success of Turkish Airlines.

Turkish Airlines' Compliance Monitoring System is designed to:

- Ensure the continuous compliance and conformity of all operations undertaken with applicable laws, national and international civil aviation regulations as well as Turkish Airlines rules;
- Assure that aviation operations where customers are directly and significantly involved comply with the highest level of safety and security requirements of national and international civil aviation authorities;
- Ensure that the services which it has committed to deliver to customers are delivered "at least" at the level committed;
- Guarantee the sustainability of managerial maturity to deliver customers the best service within the most reasonable amount of time;
- Establish and continuously control a service quality that aims to exceed the expectations of customers rather than merely satisfying them;
- Maintain a strong and wide business network while standing out from the competition with its well-skilled employees.

Turkish Airlines always closely controls the background processes that underpin the quality visible to its customers. Internal audits conducted by the Incorporation's auditors are designed to achieve the goals of the Turkish Airlines Compliance Monitoring System.

Turkish Airlines does not discriminate between products and services procured from suppliers and subcontractors for customers and those it directly offers to customers. Embracing this perspective and using the Compliance Monitoring System, the Incorporation closely checks the quality standards that each product and service, whether supplied by third parties and delivered to Turkish Airlines customers directly or indirectly, must meet. With this approach, Turkish Airlines guarantees that these products and services are at the quality level it promises to its customers. In 2018, products and services delivered in each operational area were audited to ensure that they meet Turkish Airlines' quality standards.

TURKISH AIRLINES RECEIVES FULL MARKS IN QUALITY

Turkish Airlines is regularly audited by a series of institutions, especially national and international civil aviation authorities, regarding the safe and secure operation conditions and the management systems in use. The Incorporation successfully passed all external audits conducted in 2018. Turkish Airlines also enhanced its operational authorizations and management system certifications, which are guarantees of sustainable achievement.

COMPLIANCE MONITORING SYSTEM

With the Compliance Monitoring System, Turkish Airlines controls the quality of the products and services that it provides.

As a result of the independent audits it undergoes, Turkish Airlines ensures the continuity of its TSE EN ISO 9001 Quality Management System Certification.

QUALITY MANAGEMENT SYSTEM

Turkish Airlines verifies the maturity of its business processes and the robustness of its management system with TS EN ISO 9001 Quality Management System Certification, which it has held since 2006. The Quality Management System is still in effect as a result of the audit conducted in 2018 by an independent audit firm. The Quality Management System is one of the strongest management tools to achieve sustainable success and generate added value for Turkish Airlines' business processes and customers thanks to its continuous improvement component.

CUSTOMER SATISFACTION MANAGEMENT SYSTEM

Turkish Airlines added the TS EN ISO 10002 Customer Satisfaction Management System to its range of management systems in 2015. Thanks to the Customer Satisfaction Management System, Turkish Airlines processes customer complaints related to its passenger transportation services more systematically, effectively and productively. By receiving more accurate information via customer feedback, the Incorporation provides concrete input to each effort to improve products and services. Turkish Airlines maintained the validity of its Customer Management System Certification as a result of the audit performed in 2018 by an independent audit firm. The Incorporation continues efforts to further advance in this key area.

SAFETY POLICY

Safety is the top priority for all organizational levels across Turkish Airlines. Safety is a fundamental and critical element of the Incorporation's corporate values. Employees across the organization do their utmost to deliver the safety commitment by achieving and improving the best practices and standards in the industry.

Turkish Airlines internalizes operational safety principles as an integral part of the service it delivers. The Incorporation publishes these principles via its safety policy and secures all resources necessary to bolster its safety culture.

OPERATIONAL SAFETY AUDIT (IOSA) CERTIFICATE

Turkish Airlines obtained IATA Operational Safety Audit (IOSA) Certification for the first time in 2005. Subsequently, the Incorporation has renewed the IOSA Certificate every two years, demonstrating that IATA verifies Turkish Airlines as a safe airline in the international arena. Turkish Airlines goes beyond simply holding the IOSA Certificate: The Incorporation executes safe and secure operations that meet IOSA's requirements – a key factor underlying its sustainable success. Turkish Airlines renewed its IOSA Certificate in 2018.

SAFA RATING

As a result of audits conducted in countries included in the Safety Assessment of Foreign Aircraft (SAFA) program executed by European Aviation Safety Agency (EASA), Turkish Airlines capped 2018 with a SAFA rating of 0.22. This strong rating – highly successful compared to European countries whose SAFA average is 0.48 – results from national and international relations that are managed more effectively. In addition, the Safety Assessment of Company Aircraft (SACA) program applied on Turkish Airlines' aircraft by our SACA team uses the same methodology as the SAFA program, helping to boost our SAFA rating.

An outcome of the importance given by Turkish Airlines to operational safety and security investments, this rating has also contributed to reducing Turkey's overall average. This success was recognized with the Certificate of Appreciation granted to the Incorporation by the Directorate General of Civil Aviation.

THIRD COUNTRY OPERATOR (TCO) CERTIFICATE

A holder of European Aviation Safety Agency (EASA) Third Country Operator (TCO) Certification, Turkish Airlines is authorized to carry passengers and cargo to EASA-member countries. Continuity of its EASA TCO Certificate – which Turkish Airlines first obtained in 2015 – is the most important confirmation that the Incorporation is a safe and secure airline that upholds the rules of EASA. Turkish Airlines maintained its EASA TCO Certification in 2018.

THE ENVIRONMENT AND FUEL EFFICIENCY

Air transportation is an integral part of the global economy and one of the fastest growing sectors in the world. As such, it necessary to monitor and control the environmental impact resulting from air transportation activities.

One of the world's top airline companies, Turkish Airlines conducts intensive efforts to minimize its environmental impact, by keeping under control the environmental aspect of its activities, products and services. When planning new investments in its business line, expanding its fleet, and upgrading its technology platforms, Turkish Airlines always use eco-friendly technologies. The Incorporation aims to leave a cleaner and habitable environment for future generations by using natural resources more efficiently while prioritizing flight safety and security. With its various efforts to boost fuel efficiency, Turkish Airlines also takes measures to mitigate greenhouse gas emissions and fight against climate change.

Turkish Airlines' fuel efficiency efforts are built upon three pillars:

- Optimizing operations,
- Investing in new advanced technologies,
- Improving its infrastructure.

As a result of efforts made in 2018, Turkish Airlines saved 29,609 tons of fuel and prevented 93,268 tons of carbon emissions into the atmosphere.



Turkish Airlines has Green Company Certificates for Ankara Esenboğa Airport, Istanbul Atatürk Airport and Izmir Adnan Menderes Airport.



MANAGEMENT OF GREENHOUSE GAS EMISSIONS AND GREEN COMPANY PROJECT

Turkish Airlines calculates and monitors greenhouse gases released as a result of its flight activity and domestic operations. Greenhouse gases, which are calculated and reported within the framework of the standard TS EN ISO 14064-1 Calculation of Greenhouse Gas Emissions and Discharge at Enterprise Level, have been verified since 2016 by third party verification organizations.

In 2017, Turkish Airlines joined the Green Airport/Green Company Project initiated by the Directorate General of Civil Aviation to systematically reduce and, if possible, eliminate damages inflicted on the environment and human health by airport companies. In 2018, Turkish Airlines maintained Green Company Certifications for Ankara Esenboğa Airport and Istanbul Atatürk Airport; in addition, the Incorporation received a Green Company Certificate for Izmir Adnan Menderes Airport.

OCCUPATIONAL HEALTH AND SAFETY

In all its business activities, Turkish Airlines is committed to securing the health and safety of its workforce. The Incorporation strives to avoid occupational accidents and disease by bringing under control any dangers that employees may be exposed to and managing risks effectively. Turkish Airlines fosters an occupational health and safety culture by raising employee awareness on occupational health and safety. The Incorporation provides the necessary infrastructure to ensure a healthy and safe working environment for its employees, subcontractors and visitors.

ENVIRONMENTAL MANAGEMENT SYSTEM AND OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

Turkish Airlines received TS EN ISO 14001 Environmental Management System and TS 18001 Occupational Health and Safety Management System Certifications in 2013. The Incorporation implements these two management systems with a keen awareness of its social responsibility. Turkish Airlines extended both certifications as a



result of an audit performed in 2018 by an independent audit firm. The Incorporation pursues a systematic approach that manages the environmental impact of all its activities; embraces environmentally-friendly technologies; secures the health and safety of all its stakeholders; is aware of and manages risks; and takes necessary measures by anticipating potential emergencies in advance. Turkish Airlines continuously improves the application of both management systems by measuring its environmental and occupational health and safety performance, and closely monitoring its progress.

INFORMATION SECURITY MANAGEMENT SYSTEM

In 2017, Turkish Airlines added the TS ISO/IEC 27001 Information Security Management System to the portfolio of management systems that it implements. As such, the Incorporation manages risks associated with all its information assets by using a systematic risk management methodology. The aim is to ensure the security, and when necessary, the destruction or anonymization

of any information assets that it owns or which it is required to protect pursuant to applicable national or international laws, regulations, conventions, standards or ethics. Turkish Airlines monitors, records and periodically tests all its data processing systems in a secure manner, with well-trained staff who are capable of responding quickly to any information security incident that may occur, and minimizing the impact of the incident.

In 2018, Turkish Airlines extended its certification as a result of the audit conducted by an independent audit firm. The Incorporation continues its training and auditing efforts in order to raise the information security awareness of its employees and other stakeholders.

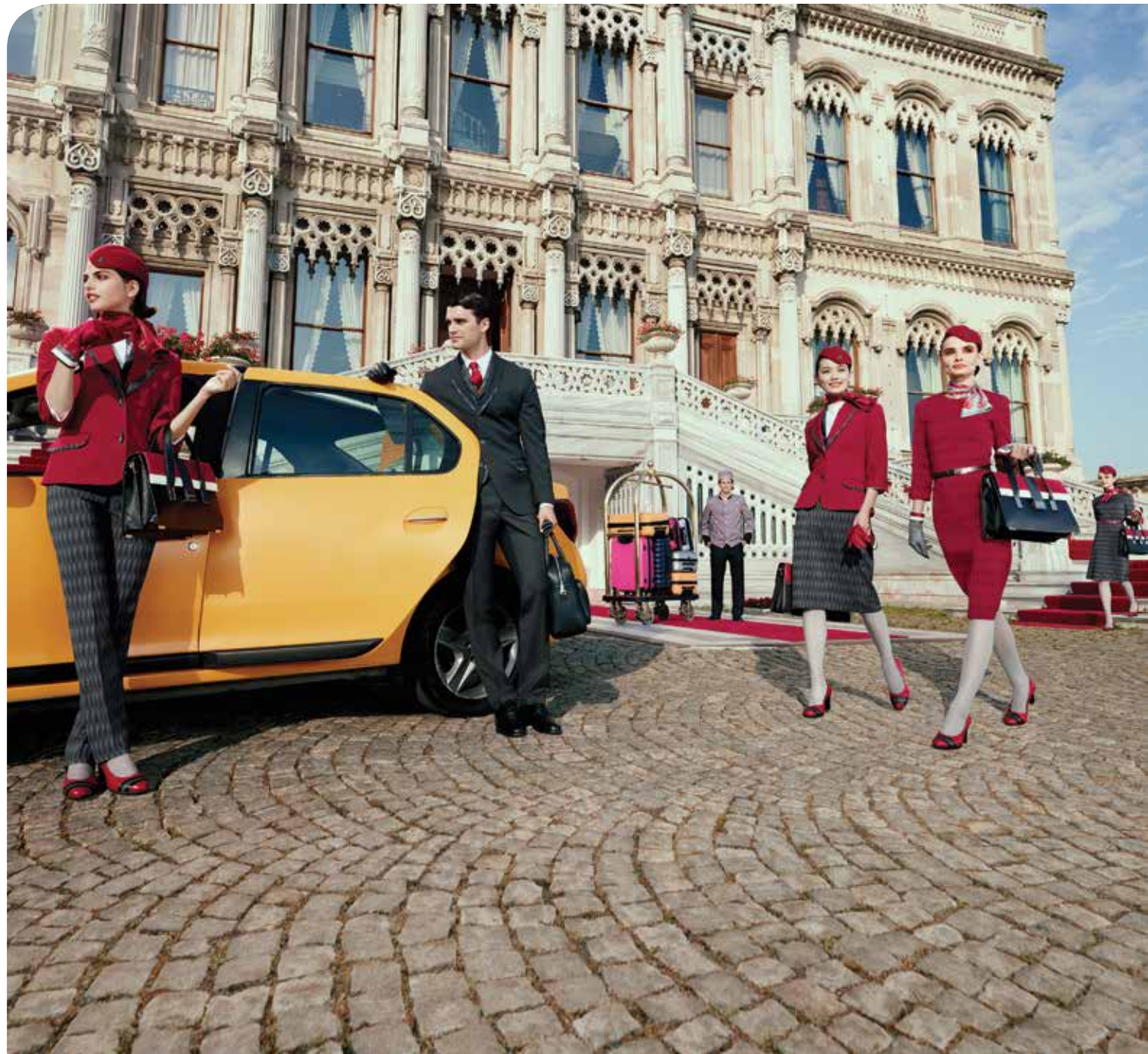
TRAINING AND AUDIT ACTIVITIES

As a result of the independent audits it undergoes, Turkish Airlines ensures the continuity of its TS ISO/IEC 27001 Information Security Management System Certification.

CORPORATE COMMUNICATION

Selected as the Lovemark in the airline category, Turkish Airlines achieved the highest score across all categories with 52%¹.

¹"Turkey's Lovemarks Survey 2018, MediaCat-Ipsos"



TURKISH AIRLINES BRAND

In the last decade, Turkish Airlines has positioned itself as the airline that flies to the most countries in the world, and achieved to become one of the leading airlines in the world with its fleet size and expanding flight network, as well as communication campaigns with a huge global impact in terms of brand awareness.

According to the Global Brand Health research conducted by Nielsen, an independent research firm, at year-end 2017, Turkish Airlines is:

- The world's second best known airline with a score of 71%, right after Emirates;
- Europe's best known airline;
- The first airline brand that springs to mind.

According to the 2018 report by Brand Finance, the world's leading brand valuation firm, Turkish Airlines is:

- Turkey's most valuable brand across all sectors, with a value of USD 2.042 billion;
- Europe's third most valuable airline brand;
- The world's 15th most valuable airline brand.

In addition, in the Turkey's Lovemarks survey conducted by Ipsos under the leadership of MediaCat, Turkish Airlines was selected the Lovemark in the airline category and achieved the highest score across all categories, with 52%.

BRAND UNIFORMS

The uniforms used by Turkish Airlines crews since 2008 were replaced by new branded uniforms designed by Italian designer Ettore Bilotta and rolled out in September 2018. This effort aimed to showcase the service quality and elegance of Turkish Airlines. The newly designed uniforms were named the Most Chic Uniform of 2018 by the Design Air, a world-renowned aviation design platform. The Incorporation launched this initiative to ensure that the Turkish Airlines brand is represented across all platforms in a standardized way and to take the first step toward product/service standardization. With this major change, which takes place about 10 years later, Turkish Airlines crews now have cabin, flight crew and ground handling uniforms created by a single designer.

The photo shoot for the new uniforms was performed by world-renowned British photographer Miles Aldridge in prominent locations across Istanbul. The ads featuring these photos started to appear in mid-September 2018. As part of efforts to promote the new brand uniforms, Turkish Airlines selected the world's foremost fashion hubs, and published ads in the most popular fashion magazines of Milan, Paris, London, Moscow, Dubai, Japan and New York from September 11 to December 31. Advertising visuals designed with the same photographs were used in outdoor adverts in well-known locations, such as Piccadilly Circus, Paris' Opera La Fayette building, and airports.

A total of 270 news stories were published in the global press about Turkish Airlines' new cabin uniforms announced on September 12, 2018, resulting in an advertising reach equivalent of USD 20,701,242. The countries that generated the highest number of news stories about the press release included the USA, South Korea, Italy, Russia, United Arab Emirates and Greece. The topic was also covered by leading media outlets, including CNN International, Travel Leisure, Daily Mail UK and Business Traveler.



NUMBER OF NEWS STORIES ON NEW CABIN UNIFORMS



NEWS COVERAGE OF ISTANBUL AIRPORT

1,807 news stories were published in 58 countries about Istanbul Airport.

CHANGE IN THE BRAND'S VISUAL IDENTITY

Turkish Airlines has upheld the slogan "new home, brand new airport" to highlight the momentum that Istanbul Airport will bring to Turkish and world aviation. Key messages included the fact that the world's largest airport is rising in Istanbul and how this new facility will further boost service quality of Turkish Airlines. A new visual identity was designed around the concept of "Flow," which represents the progress made by Turkish Airlines over the last 10 years. The new identity ensures product and service standardization, bolsters the perception of an excellent reputation, and showcases the service quality promise of the new airport.

As a philosophy, "Flow" represents two prominent values of Turkish Airlines:

- "Flow" is primarily a service offer, referencing the uninterrupted service experience that Turkish Airlines passengers can easily access.
- "Flow" also represents Turkey and Istanbul's multicultural melting pot and dynamic energy – the centuries-old flow of people, commerce, ideas and cultures through Turkey, the meeting point of East and West.

The design program prepared in accordance with Turkish Airlines' new visual identity are now being used across all contact areas of the brand.

AD CAMPAIGNS

THE 85TH YEAR TURKEY IMAGE COMMUNICATION

Turkish Airlines' "85th Year" advertising film, based on unforgettable moments in Turkish aviation history, was broadcast on national TV channels in Turkey. The commercial, which provided access to 80% of television viewers across the country, received several awards in advertising competitions held in Turkey.

PROMOTION OF ISTANBUL AIRPORT

To promote Istanbul Airport overseas, outdoor advertising was planned in 50 countries. At the same time, a commercial video was broadcast on global television channels and ads appeared on effective print media outlets, simultaneously.

A total of 1,807 news stories in 58 countries were published about the opening of Istanbul Airport on October 29. Thanks to this level of news coverage, a plural outreach of 6.2 billion was achieved. Of these news stories, 1,546 were published online and 256 in print media outlets; five stories were broadcast on TV and radio. The event was also covered by major global media outlets, including Yahoo, CNN, MSN, New York Times, Fox Online, Fox News, The Independent, Telegraph, Bloomberg, Reuters, Le Figaro and Al Jazeera.

DR. ÖZ CAMPAIGN

As part of the global image campaign communicating the network power of Turkish Airlines with the mediation of Dr. Öz, television, cinema, outdoor, magazine and newspaper ad campaigns were conducted simultaneously in 23 countries in the period February 5-18.

The campaign emphasized that the riches of the world need to be perceived via the five senses: Travelling is not limited to flying and involves the senses of sight, sound, smell, taste, and touch. It encouraged everyone to explore these experiences with the airline flying to the highest number of destinations in the world.

COLLABORATION WITH LEGO MOVIE

The in-flight safety film featuring Lego Movie characters produced by Warner Bros Entertainment and LEGO®, the toy brand designated the world's strongest brand by Brand Finance in 2017, has aired via social media and on Turkish Airlines aircraft since August 1, 2018.

Turkish Airlines' in-flight safety film broadcast on YouTube on August 1 reached a total of 26 million views. A total of 215 news stories were published about the video, with plural outreach totaling 182 million persons. Seventy of these news stories appeared online, 12 in print media and one on TV. The stories were published in 84 countries: the United States led the list with 31 news stories, followed by the UK with 17, France and India with 11 news stories each. Media outlets including Ad Week, Age, Mirror, CNN, Yahoo, and Business Traveler published news pieces on the Lego Movie video.

SPONSORSHIP EFFORTS

SUPER BOWL

Turkish Airlines is the first airline and first Turkish brand to invest in Super Bowl advertising. With its spots among Super Bowl commercials and pre-game program sponsorships, the Incorporation reached out to around 103 million households. Turkish Airlines has also boosted its brand recognition in the region by 24 percentage points since 2012, climbing to 54%. The significant contribution to the brand of these Super Bowl commercials was confirmed by Nielsen's brand health survey results.

In 2018, the Turkish Airlines ad titled "Five Senses" featuring Dr. Öz was aired during Super Bowl commercials. A total of 462 news stories related to this ad appeared in 32 countries including the US, Turkey, Canada, Greece, Japan, Jordan, Brazil, India, South Africa and United Arab Emirates between January 30-February 5. Of these stories, 166 were broadcast on TV/radio, 281 appeared on online channels, and 15 were published on print media. Some 284 related news stories were published in the USA, with 45 in Turkey, 24 in Canada, 10 in Greece and nine in Japan. A total plural outreach of 341 million was achieved via the media coverage of this major sporting event.

103 MILLION

NUMBER OF HOUSEHOLDS REACHED VIA SUPER BOWL COMMERCIALS

1,546
NUMBER OF ONLINE NEWS STORIES ON ISTANBUL AIRPORT



TURKISH AIRLINES SPONSORS EUROLEAGUE

EuroLeague, sponsored by Turkish Airlines, reached a total of 2.4 billion spectator.



GLOBAL MEDIA INVESTMENTS

The Incorporation sponsored various programs "Presented by Turkish Airlines" on the following global broadcasters:

- BBC (Travel Show),
- CNN (Richard Quest – Quest's World of Wonder),
- Eurosport (Daily News),
- Euronews Meteo Airport,
- Bloomberg (Markets Close),
- TRT World (Showcase and Beyond the Game),
- Anews Sport News,
- Al Jazeera (Ramadan Iftar Timing).

TURKISH AIRLINES WORLD GOLF CUP

Organized since 2012, Turkish Airlines World Golf Cup Amateur Series was held in 100 destinations in 63 countries in 2018. Thanks to this tournament, Turkish Airlines develops business relations on both a regional and global scale. Using this platform, Turkish Airlines promotes its products and services such as Flying Chef and in-flight catering, as well as its extensive flight network.

TURKISH AIRLINES BOWLING

Turkish Airlines Bowling – the world's largest corporate bowling tournament – launched in 2012 in order to reach out to passenger agencies, which figure among the Incorporation's most important sales channels. As a tournament organized by a corporate entity for its business partners, the event is a first in the world. Over the last eight years since its launch, the tournament

has recorded significant organic growth driven by Turkish Airlines' expanding number of destinations/countries served.

PORSCHE TENNIS GRAND PRIX (APRIL 22-30, 2018)

The Porsche Tennis Grand Prix, sponsored by Turkish Airlines for the last five years, has been held in Germany since 1978. A major women's tennis tournament, the event is attended by tennis players in the top 10 of world women's tennis rankings. At the "Turkish Airlines Tie Break Showdown," the grand opening of the event held on April 23 this year and name-sponsored by Turkish Airlines, the world's six leading female tennis players competed against each other and the winner was awarded 1 million Turkish Airlines airmiles.

PRESIDENTIAL CYCLING TOUR

In 2018, Turkish Airlines continued to support the Presidential Cycling Tour, as it has over the last 10 years. The tour figures among the five most important cycling races in Europe.

EQUESTRIAN SPORTS

Turkish Airlines engages in sponsorship activities in equestrian sports, which appeals mainly to the upper income segment. The Incorporation has provided support to the Chio Aachen, London Olympia, Dutch Masters and Concours Hippique tournaments.



AWARD TO WINNER OF PORSCHE TENNIS GRAND PRIX



USD

7

MILLION

TURKISH AIRLINES OPEN TOTAL AWARDS

TURKISH AIRLINES EUROLEAGUE

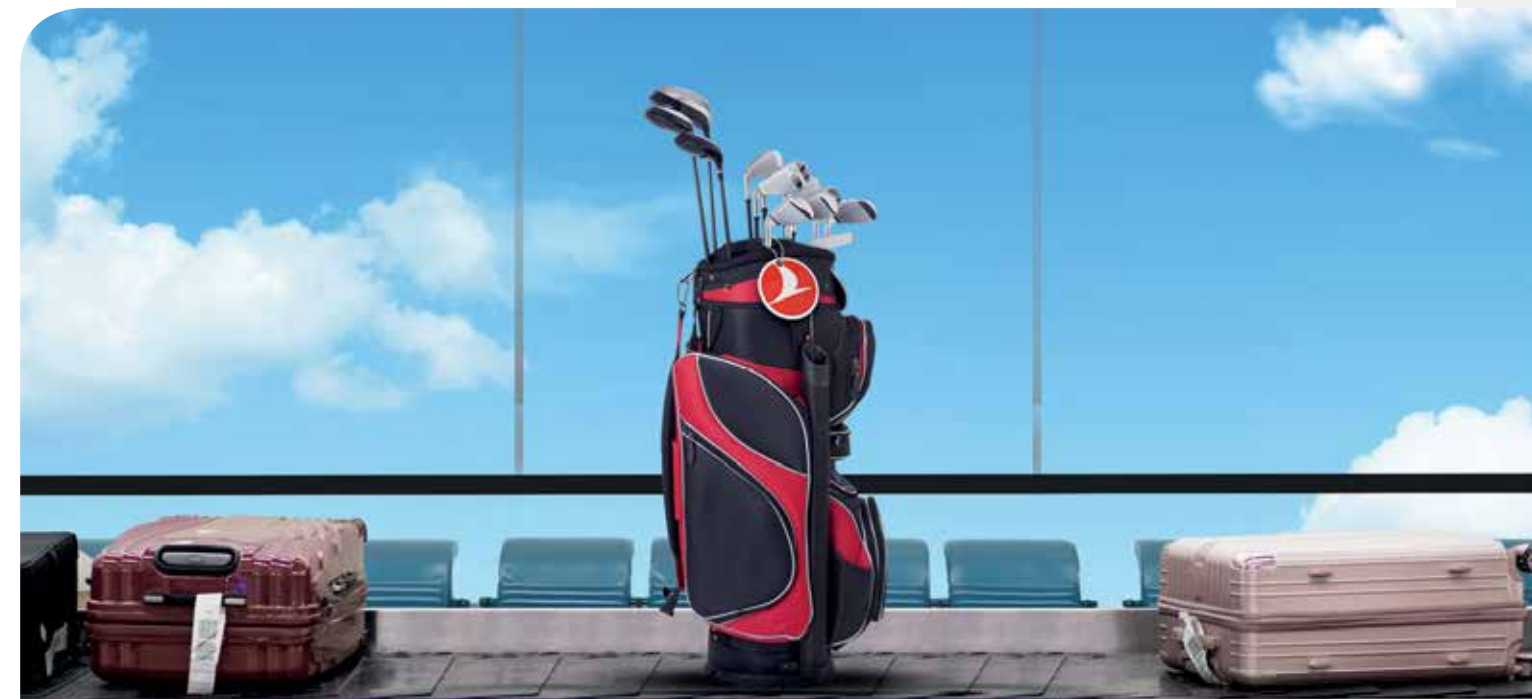
Turkish Airlines EuroLeague, broadcast by 132 different outlets in more than 190 countries for around 25 thousand hours per year, reached a total of 2.4 billion spectators.

A total of 13,967 news stories were published about the Turkish Airlines EuroLeague Final Four tournament held in Belgrade on May 18-20, 2018 – a total plural outreach of 38 billion. Of these stories, 6,632 appeared in Spain, 4,563 in Serbia, 3,003 in Russia, 2,946 in the US, 2,555 in Turkey, 1,711 in Greece, 1,655 in Italy and 1,194 in Germany. In total, the event was covered by the media outlets of 80 countries in 40 languages. Of these news articles, 11,860 appeared in online channels, 420 in print media, and 1,689 on radio and TV.

TURKISH AIRLINES OPEN

Held in November, the Turkish Airlines Open, one of the three final legs of the European Tour, holds an important place in the European Tour tournament calendar with USD 7 million in award money. The tournament was broadcast by 58 media outlets worldwide and reached over 500 million viewers.

From October 31 to November 12, a total of 3,559 news stories on the tournament appeared in 34 countries, mainly the United States, United Arab Emirates, United Kingdom, Turkey, China, France, South Africa, Australia, Japan, India and Italy. Of these news stories, 2,803 were published online, 753 appeared in print, and three were broadcast on TV and radio. Some 1,036 news stories appeared in the United Kingdom, 956 in the US, 207 in Turkey, 195 in Germany, 109 in South Africa, 94 in France and 88 in Italy.



DIGITAL ADVERTISING CAMPAIGNS

393 MILLION VIEWS

Turkish Airlines' commercials were viewed 393 million times in 2018.

Turkish Airlines conducted the domestic and international sales campaign communications for approved commercials, product/service communication activities, communication works for newly opened lines, and sponsorship communication activities in line with its corporate strategies.

In 2018, a total of 356 advertising campaigns received 28 million clicks, while advertising videos were viewed 393 million times.

FIRST FLIGHT TO THE NEW AIRPORT BROADCAST LIVE

On October 31, the first Turkish Airlines' flight to Istanbul Airport was broadcast live directly in collaboration with major global media outlets. The first scheduled flight to Istanbul Airport was brought live to Internet users across the globe. Viewers became a part of this exciting experience via online media outlets with a global audience, including businessinsider.com, bbc.com and cnn.com.

ADCOLONY - EXPLORATION WITH THE FIVE SENSES VIDEO PROJECT

With a unique mobile experience design, users are invited to explore locations that appeal to the sense of their choice. This effort yielded 10 times better performance than standard video broadcast with an interaction level of 54%. Some 72% of impressions turned into a full viewing session.

Thanks to interactive mobile video, users selected the sense best suited to the travel experience they want from among the options at the bottom of the screen. Visitors were provided with different destination suggestions according to their choices. At the conclusion of the experience, visitors were directed to the sales page with the "buy ticket" option on the "end card."

SPOTIFY-FREE YOUR SENSES

Under this effort, the concept of "Five Senses" was transformed into an interactive experience with destination suggestions tailored according to user preferences. As part of the project, which went online in eight countries, travelers on the Spotify platform were directed to microsites in their language via premium advertising. Users were offered destination suggestions on the page customized according to their sense of choice. They went on to listen to playlists on this page via Spotify and shared posts on their social media accounts. The advertising was listened to 5,270,864 times and viewed 3,667,871 times.



AWARDS RECEIVED

LEGO® Safety Video YouTube Campaign

In August, Turkish Airlines' LEGO® Safety Video placed first in the YouTube Ads Leaderboard, in both global and Turkey rankings.

Most Productive Video Campaign: Dr. Öz

The Dr. Öz campaign, although it had a budget 41% lower than the Legends on Boards campaign, was reported to yield the highest VCR rate among global campaigns.

Felis Awards: Seven Felis, Seven Achievement Awards

- The "85th Year" video received three Felis Awards in the Travel, Transportation, Tourism, Director of Photography/Visual Effects and Director categories,
- The "Flight of Respect" video received two Felis awards in the Travel, Transportation, Tourism and Event Use categories,
- The "Five Senses with Dr. Öz" video received one Felis award in the Production Design category,
- The "Taxi Top Geofencing" project in San Francisco and Los Angeles received one Felis award in the "Outdoor/Unit Vehicle Wrapping" category,
- The "85th Year" video received five Achievement Awards in the Art Management, Music and Sound Design, Production Design, External Sound, and Best Advertisement Music categories,
- The "Cannes Lions Digital Billboard" project received an Achievement Award in the category of Travel, Transportation, Tourism,
- The "Handy" project received an Achievement Award in the Direct Marketing Activities on the Digital Platform category.

Crystal Apple Awards: Five Crystal, Two Silver, One Bronze Apples

- The "85th Year" video received two Crystal Apples for Best Advertising Film Production and Best Art Direction,
- Bronze Apple in Film and Cinema – Tourism and Transportation category,
- The Barcelona-London-Torino Quiz campaign received a Silver Apple in the Press-Tourism and Transportation category,
- The "Flight of Respect" video received a Silver Apple in the Media/Media Usage/ Special Event Usage category; and a Crystal Apple in the Outdoor/Large and Small Scale Ambient Ad/Corporate Image and Social Responsibility category,
- The "Social Flight Case" video received a Crystal Apple in the category of Digital, Social Media and Activation/Social Media/Community Management – Service,
- Crystal Apple in Film-TV and Cinema / Tourism and Transportation category.



356
NUMBER OF AD CAMPAIGNS IN 2018

FINANCIAL RISK MANAGEMENT

The functionality and effectiveness of Turkish Airlines' risk management strategies are regularly monitored by the Treasury and Risk Management Commission comprising the relevant executives.



FINANCIAL RISK MANAGEMENT PRACTICES

The financial risk management policy of the Company aims to ensure a healthy cash flow and liquidity in the future. In this respect, the financial risk factors are listed as follows:

- **Cash Flow Risk:** The disruption of Company activities due to a possible mismatch between short, medium and long-term cash flows, resulting from operational activities and non-operational activities such as investment and financing,
- **Fuel Price Risk:** The effect of fluctuations in jet fuel prices on cash and profitability,
- **Interest Rate Risk:** The effect of changes in interest rates on financing cost and portfolio returns,
- **Foreign Exchange Risk:** The effect of fluctuations in the value of different currencies that make up the Company's revenues and expenses on cash flow and profitability,
- **Counterparty Risk:** Losses that may arise due to a possible default of the financial institutions which constitute counterparties to the Company's financial transactions.

The Company prioritizes natural hedging methods for the management of the thus defined financial risk factors. In case the natural hedging is not possible, risk-specific hedging strategies are developed and implemented. In this vein, hedging transactions are done by using derivative instruments against the possible fluctuations in fuel prices, exchange rates, and interest rates. The strategies mainly aim to increase the predictability and minimize the financial impact of such fluctuations.

The functionality and effectiveness of Turkish Airlines' risk management strategies are regularly monitored by the Treasury and Risk Management Commission comprising the relevant executives. The changes in market dynamics are also closely monitored by the Commission and, whenever deemed necessary, improvements and enhancement are made in the related strategies.

CASH FLOW RISK MANAGEMENT

Cash flow risk is defined as the disruption of Company operations due to a mismatch between short, medium and long-term cash flow from operational activities and non-operational activities like investment and investment financing. The establishment and implementation of a sound cash management policy is one of the most prioritized aims of the Company since the aviation industry necessitates large-scale, long-term investments and is relatively more prone to operational risks. In order to manage cash flow risk effectively, the future cash flow of the Company is forecast regularly, on monthly basis. The said forecast study is performed on the basis of the major currencies which have significant importance in Company revenues and expenses, and the underlying fuel price and exchange rate forecasts are also updated each month.

The cash flow forecast study creates a projection as regards the future cash position of the Company. This projection is intended to provide the basis for strategic decisions to be taken. For this reason, the outcomes of the forecast study are regularly monitored by the Treasury and Risk Management Commission. In order to create an effective and highly accurate forecast, the forecasted data in the study are compared with the actual data and the necessary analyzes are performed.

Furthermore, in due consideration of the size, business volume and operations of the Company, the minimum cash level required for corporate continuity has been determined as well. Current and forecasted cash amounts are monitored with respect to this minimum level, and all necessary precautions are taken in order to prevent falling below this threshold.

FUEL PRICE RISK MANAGEMENT

Fuel expense stands out as the biggest operational expense item of the Company. For this reason, possible fluctuations in fuel price may potentially generate a huge volatility in the cash flow and corporate profitability. In order to keep this effect at the minimum level, the Company has developed a fuel price risk hedging strategy.

In line with the strategy, a cumulative and layered hedging methodology is executed. In this context, hedging transactions are done for the tenor of at most the next 24 months and up to 60% of the forecasted fuel consumption of the following month. Swaps and options-with/without premium are used for these purposes. Market conditions and expectations are analyzed dynamically in accordance with the strategy, and the hedge tenor, ratio, and instruments to be used are determined accordingly. With these hedging transactions, the Company aims to fix the fuel cost at a single level or to keep it within a certain range.

Although the Company consumes jet fuel, crude oil is used as the underlying asset since the crude oil and jet fuel prices are strongly correlated, besides, crude oil has much more market depth with respect to jet fuel. Therefore, in order to ensure effective hedging, the Company regularly monitors the correlation and volatility concerning the past price evolution of jet fuel and crude oil, as well as future price expectations.

In order to monitor and manage the fuel price risk, all developments that may have a supply or demand side effect in the oil market are watched closely. In addition, other hedging strategies implemented across the industry are analyzed regularly and the Company's fuel price hedging methodology is updated accordingly, if necessary.

FUEL PRICE RISK HEDGING

Turkish Airlines executes hedging transactions corresponding to at most 60% of the fuel consumption of the following month.

INTEREST RATE RISK MANAGEMENT

Turkish Airlines has a long-term debt liabilities due to the financing of its investments, especially the aircraft financing. In order to measure and monitor the interest rate risk arising from the debt portfolio, the sensitivity of the portfolio to interest rate changes and its weighted average duration are analyzed regularly. In addition, developments and expectations in the interest rate market are closely monitored as well. In order to keep interest risk at a reasonable level, hedging transactions are executed by using swap and option-based derivative instruments. As such, the Company aims to either totally fix the borrowing cost or to keep it within a certain range, for a certain portion of the portfolio.

On the other hand, the Company prioritizes cash flow planning, and manages the interest rate risk arising from the return of cash portfolio by focusing on the tenor-return relationship at an optimum level.

FOREIGN EXCHANGE RISK MANAGEMENT

Foreign exchange risk is defined as the effect of fluctuations in the value of different currencies that make up the Company's revenues and expenses, on cash flow and profitability. Since Turkish Airlines generates a large portion of its revenues in EUR, and its expenses are mainly in USD and TRY, fluctuations in these exchange rates cause the exchange rate risk.

In the management of exchange rate risk, the first objective is to provide natural hedging. In this context, the basis currency of the contracts to be signed by the Company is determined as to ensure the balance between revenue and expense currencies, thus the financial effects of foreign exchange rate fluctuations is minimized. In line with this strategy, in May 2015, Turkish Airlines switched the pricing currency for tickets of international flights from domestic airports from EUR to USD. In this way, the ratio of USD in revenues was increased and that of EUR was reduced; and the composition of income and expense currencies became more balanced.

In addition, historical correlation between the main currencies TRY, USD, EUR and other more than 100 income and expense currencies are also monitored periodically. Such correlations are also taken into consideration in order to balance the income and expense currencies.

In order to monitor exchange rate risk, the Company's future cash flow forecast is renewed on a monthly basis, on the basis of EUR, USD and TRY. As a result, the Company's future cash flow positions in these currencies are projected. The cash flow forecast of the Company shows that despite the natural hedging measures, the Company remains long in EUR and short in USD and TRY. In order to manage the exchange rate risk arising from this mismatch, hedging transactions are done by using derivative instruments.

In line with the exchange rate risk management strategy, a cumulative and layered hedging methodology is applied. In this context, in order to hedge the projected short USD position with long EUR position, hedging transactions are executed for the tenor of at most the next 24 months and up to at most 60% of the forecasted short position for the next month. Forward and option-based zero-cost derivatives are used for these transactions. Likewise, in order to hedge the projected short TRY position with long EUR position, hedging transactions are executed for the tenor of at most the next 18 months and up to at most 50% of the forecasted short position for the next month. Forward derivative instruments are used for these transactions. In accordance with the strategy, market conditions and expectations are analyzed dynamically, and the hedge tenor, ratio and instrument to be used are determined accordingly. With these hedging transactions, the Company aims to fix the exchange rate at a single level or to keep it within a certain range.

COUNTERPARTY RISK MANAGEMENT

Turkish Airlines takes various measures in order to minimize the losses that may arise as a result of possible problems of the financial institutions which are parties to the financial transactions it performs under numerous categories. In this context, for its deposit and derivative transactions, the Company adopts an approach that includes fair and objective criteria for each institution so as to reduce long-term counterparty risk. In particular, specific agreements are signed with financial institutions to counter credit risk that may arise as a result of the executed derivative transactions.

In deposit and derivative transactions, the Company takes into account the credit risk ratings assigned by international credit rating agencies to financial institutions, and does not engage in transactions with institutions that fall below the threshold credit risk rating that it determines. As for financial institutions that are above the said threshold, the Company trades with them within the limits determined by the credit risk assessment methodology. In addition, the strategy is based on periodically updating the credit ratings and the limits of the financial institutions with which transactions are carried out, and in the event that the credit rating of a financial institution drops, the transactions with that institution are monitored very closely. In case the credit rating falls below the specified limits, the Company may choose to unilaterally unwind the transactions with the concerned financial institution.

Turkish Airlines signs "Derivative Framework Agreement" with domestic financial institutions, and "International Swaps and Derivatives Association (ISDA)" agreement and other necessary agreements with foreign financial institutions, regarding the credit risk arising from the use of derivatives. In particular, matters relating to credit risk management are regulated under a separate agreement called the "Credit Support Annex" (CSA). In accordance with the said agreement, credit risk is reduced by margin calls in certain periods.

ORGANIZATION 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) Corporate Governance Communique n: II-17.1 and pays utmost attention to abide by non-mandatory principles thereof.

Pursuant to the Capital Market Board Corporate Governance Communique n: II-17.1 dated on 10.01.2019 and numbered 2/49, corporations are subject to disclose Corporate Governance Compliance Report on the Public Disclosure Platform. Non-mandatory Corporate Governance Principles disclosed on Corporate Governance Compliance Report template and current corporate governance applications disclosed on Corporate Governance Information Form template. Templates of the Incorporation are available on the following website <https://www.kap.org.tr/en/sirket-bilgileri/ozet/1107-turk-hava-yollari-a-o> under the titles of Corporate Governance Principles Compliance Report and Corporate Governance.

Non-mandatory Corporate Governance Principles, which are not observed by the Incorporation and the reasons thereof, are given in the templates and 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.

PART I – SHAREHOLDERS

2. Investor Relations Department

There is an Investor Relations Management, directly reporting to Assoc. Prof. Murat Şeker, Ph.D., 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 organization of Turkish Airlines.

In 2018, Investor Relations Department participated in 7 investor conferences and roadshows, performed 49 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 180 investors/analysts from 110 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. 2 teleconferences were organized about financial statements results and their records were published on the

Investor Relations website. Approximately 2.800 applications were received by the Incorporation by e-mail within the activity period 2018 for the purpose of obtaining information. Besides the applications received by e-mail, many investors and shareholders were also informed by phone.

In 2015, Sustainability Reporting was carried out for the first time within the organization 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 2018, Turkish Airlines stuck at the studies and investments it has carried out for a sustainable future, and has released its 2017 Sustainability Report, comprised of four pillars, each of which includes a number of material aspects, namely Governance, Economy, Environment and Social.

With its sustainability practices and policies in 2018, Turkish Airlines, strongly committed to contributing to sustainable development by conducting its business in a socially, economically and environmentally responsible manner, has been entitled to place in the BIST Sustainability Index, as it has been in the past years. BIST Sustainability Index, is composed of companies traded at Borsa Istanbul that boast high level of corporate sustainability performance. Aiming to further improve the transparent communication it established with its stakeholders, Investor Relations Department has an 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 2018, to the information of the Board of Directors of the Incorporation.

Contact info of the Investor Relations staff is provided below:

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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/organizations, 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 2018.

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 2017 were discussed, was held on 04.05.2018 at VIP Meeting Hall at the General Management Building situated at Yeşilköy Mh. Havaalanı Cad. No: 3/1 Bakırköy/Istanbul, the principal office address of the Incorporation. The shareholders, representing TRY 1,026,500,491.99 (74%) of TRY 1,380,000,000, which was the issued capital of the Incorporation, attended the Ordinary General Assembly Meeting and The Meeting was held open to the public including the stakeholders, without having the right to speak. There is no special demand from media to the General Assembly 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 (TTSG), nr. 17.04.2018/9560, in Sabah newspaper dated 17.04.2018 and on the Electronic General Assembly System, which is available within the organization 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 authorized 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 in writing 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 04.05.2018, was published in the TTSG, dated 21.05.2018 and no: 9582.

Since there was no process where favorable 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 2017 for the purpose of social aid was TRY 372,667 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 General Assembly for any modification in the Articles of Association;
- Increase of the share capital;
- Approval of transfer of registered shares and registration of the transfer in the Share Register;
- Any transaction, based on each contract, which exceeds 5 % of the total assets of the Incorporation as indicated in the latest balance sheet submitted to the Capital Market Board and which is directly or indirectly binding for the Incorporation, any resolution which will bring the Incorporation under any commitment, (provided that in case the share of the public in the Incorporation has decreased below 20 % of the Incorporation's share capital, then the provisions of this clause will automatically terminate);
- Merger, termination or liquidation of the Incorporation;
- Any resolution about the cancellation of any flight route or for a remarkable decrease in the number of flights, excluding the routes which do not even have 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 Privatization High Council or any other public institution, which will take over such duties.

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 2018, where the accounting and activities for 2017 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 organization 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 strategical 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 04.04.2016 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 01.01.2017-31.12.2017 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 gain for the period is TRY 639,000,000. 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 2,869,492,938 and previous years' loss account has a balance of TRY 7,142,969,041. Accordingly, it has been decided, in the Ordinary General Assembly Meeting dated 04.05.2018 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 gain of TRY 639,000,000 (according to IFRS) will be transferred to the previous years' gain account and that no profit distribution to the shareholders of the Incorporation shall be distributed for the year of 2017.

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 Civil 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, 69 Material Disclosures were made by our Incorporation in 2018 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 organizations 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.

UP mobile application developed in order to ease the employees' daily lives, is the most active channel used in our Incorporation, and currently has 32.000 users. Thanks to the application, the employees can access information of load factor of any flight, discounted brands special to employees, transportation services and food menu, smart address book, employees' birthdays, surveys, opinions and suggestions delivery through their mobile devices.

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. Stakeholders' Participation in Management

Management meetings, in which domestic and international managers and senior executives of the Incorporation participate, are held within the organization of the Incorporation on regular basis every year, in addition to the meetings in which the suppliers, domestic and international sales agencies, sales organizations 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.

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 organized 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 loyalty/satisfaction on a yearly basis, and reporting on department basis, taking actions to increase employee satisfaction and motivation, following the trends that boost the motivation with benchmark studies and implementing them within the Incorporation and carrying out any announcements in relation to the employees. 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 2018, 245 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 organization 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 labor 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 labor 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. In addition, The Ethic Committee procedure coded as PR.10.32.084 has been updated and gone into operation on 26.10.2017. 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 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 behaviors in line with the generally-recognized principles in business life. For this purpose, The Code of Conduct and The Ethic Committee trainings are assigned to Incorporation employees to enhance their awareness about The Code of Conduct.

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, on 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 in the light of studies that is carried out by members of the Subcommittee before it submits its advisory decisions or proceeds administrative act about the personnel.

Our Incorporation carried out various activities in the fields of humanitarian aid, sport, science-technology and culture in 2018. As in 2017, the support for Somalia continued in 2018. After carefully evaluating the needs, the necessary supplies have been

provided for the selected orphanages. As a result of the Somalia Cataract Project, hundreds of people suffering from visual loss due to cataract disease, were treated in Somalia. In addition, the packages of clothes prepared within the framework of the sister cities -Somalia and Galkayo, were sent to the children in need in the orphanages.

Following the humanitarian crisis in which more than 1 million Rohingya were affected, projects initiated in 2017 continued into 2018.

Within the scope of our agreement with the Turkish Red Crescent, our support for the transportation of aid materials, blood/blood supplies and travel aid teams continued.

In order to increase the interest of children and young people in scientific research in Turkey and to support their activities in the field of technology and innovation, Turkish Airlines supported various educational associations, sponsored science festivals and provided transportation support to hundreds of students participating in different competitions on science and technology in Turkey and abroad.

Having sponsored sporting events all over the world, Turkish Airlines is carrying out various activities to integrate disabled individuals into sports activities more. In this context, the sponsorship agreement with the Physically Disabled Sports Federation continues.

Finally, Turkish Airlines, as the "Transportation Sponsor" of the project "Biz Anadoluyuz" started in the year 2017 and continued in 2018, has been contributing to live and learn process of thousands of students in the field of culture, history and common values by means of organizing excursions from our eastern cities to western cities and vice versa within the scope of the project.

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 optimizing 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 2018. Significant changes made in the structure of our Board of Directors in 2018, are listed below.

- Mrs. Arzu Akalın and Mr. İsmail Gerçek resigned from their office as Member of the Board of Directors at the Ordinary General Assembly dated 04.05.2018.
- Due the resignation of Mr. İsmail Gerçek from the Member of the Board, the Board of Directors has decided to appoint Mr. Mithat Görkem Aksoy as the Member of the Board, until the approval of the next General Assembly in accordance with our Incorporation's Articles of Association, Article 10.
- Due the resignation of Ms. Arzu Akalın from the Member of the Board, the Board of Directors has decided to appoint Ms. Fatmanur Altun as Member of the Board, until the approval of the next General Assembly in accordance with our Incorporation's Articles of Association, Article 10.
- Upon Board of Directors' decision dated 04.05.2018, related to the Independent Board Member Nominee, Ms. Fatmanur Altun has been approved by the Capital Markets Board letter dated 25.05.2018, as Independent Board Member.
- Due to the resignations of Ms. Arzu Akalın, Chairman of Corporate Governance Committee and Mr. İsmail Gerçek, Member of Corporate Governance Committee, the Incorporation has decided to appoint Ms. Fatmanur Altun as the Chairman of Corporate Governance Committee upon the Independence Board Member Approval of Capital Market Board and Mr. Mithat Görkem Aksoy as the Member of Corporate Governance Committee.

Information regarding the Members of the Board as of 31.12.2018 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:

| Name | Position | Start of Office | Status | Other Committee Roles |
|------------------------|--|-----------------|-----------------|--|
| M. İlker Aycı | Chairman of the Board of Directors | 04.04.2014 | Non-Independent | Executive Committee/Chairman |
| Bilal Ekşi | CEO, Deputy Chairman of the Board of Directors and the Executive Committee | 21.10.2016 | Non-Independent | Executive Committee/Deputy Chairman |
| İsmail Cenk Dilberoğlu | Member of the Board | 06.04.2015 | Non-Independent | Executive Committee/Member |
| Prof. Dr. Mecit Eş | Member of the Board | 29.03.2013 | Non-Independent | |
| Orhan Birdal | Member of the Board | 09.06.2017 | Non-Independent | Corporate Governance Committee/Member |
| Mithat Görkem Aksoy | Member of the Board | 04.05.2018 | Non-Independent | Corporate Governance Committee/Member |
| Ogün Şanlıer | Member of the Board | 06.04.2015 | Independent | Early Identification of Risks Committee/Chairman, Audit Committee/Member |
| M. Muzaffer Akpınar | Member of the Board | 24.04.2007 | Independent | Audit Committee/Chairman, Early Identification of Risks Committee/Member |
| Fatmanur Altun | Member of the Board | 04.05.2018 | Independent | Corporate Governance Committee/Chairman |

Information, regarding the executives who held office as a Member of the Board in 2018, but are no longer in office as of 31.12.2018, are given below.

| Name | Position | Start of Office | Status | Other Committee Roles |
|---------------|---------------------|-----------------|-----------------|---|
| İsmail Gerçek | Member of the Board | 08.04.2011 | Non-Independent | Corporate Governance Committee/Member |
| Arzu Akalın | Member of the Board | 04.04.2014 | Independent | Corporate Governance Committee/Chairman |

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 and given in the appendices. No circumstance, which would remove the independency, occurred as of the relevant activity period.

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 favorable 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 favorable 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 subject to certain prescribed rules or otherwise restricted.

In 2018, 52 Meetings of the Board of Directors were held and 300 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 USD 25 million.

17. The Number, Organization 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 2018 and Corporate Governance Committee was adopted to carry out such duties, as well. 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. Ogün 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: Fatmanur Altun
Members: Orhan Birdal, Mithat Gökem Aksoy, Kadir Çoşkun (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 recognized 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 2018.

Turkish Airlines, INC. Audit Committee

Chairman: Mehmet Muzaffer Akpınar
Member: Ogün 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 at least quarterly, before the announcement of the quarterly financial results. In 2018, the Audit Committee presented six written reports to the Board of Directors.

Turkish Airlines, Inc. Early Identification of Risks Committee

Chairman: Ogün Şanlıer
Members: Mehmet Muzaffer Akpınar

Early Identification of Risks Committee was formed and authorized 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 2018 and submitted risk assessment reports to the Board of Directors.

18. Risk Management and Internal Control Mechanism

Risk Management Mechanism

In order to control potential risks in the highly competitive aviation industry and to establish sustainable growth, executing an effective risk management strategy is crucial for Turkish Airlines. The Incorporation aims to provide reasonable assurance against possible shocks and to minimize the effects of fluctuating fuel prices, interest rates and foreign exchange rates on its cash flow together with any other possible risks resulting from its financial counterparties.

In order to determine the financial risk management strategy of the Incorporation and to carry out the necessary actions in the scope of financial risk management, the Treasury and Risk Management Commission has been established. The Commission holds meetings on regular basis under the chairmanship of CFO and participation of SVP Finance, SVP Accounting and Financial Control, VP Treasury and all other related managers.

Within the scope of the financial risk management strategy, the Incorporation started to implement its fuel price hedging strategy in 2009, in order to control the possible cash flow effect that may arise from the fluctuation in the oil market. Fuel price risk management strategy was updated several times over the years with the experience gained. In line with market conditions, Turkish Airlines chooses the most suitable derivative instrument among swap, zero-cost collars and premium-paid options in order to minimize the fuel price risk.

In order to minimize the foreign exchange risk, Turkish Airlines gives priority to the natural hedging methods by contract management. In this regard, the basis currency for all contracts are determined to equilibrate the income and expense in each currency. In addition to natural hedging strategy, Turkish Airlines developed and started to implement a FX risk management strategy in 2013. This strategy was updated in 2015 and 2018, in line with the market developments and experienced gained.

In accordance with the FX risk management strategy, Turkish Airlines aimed to hedge its short USD and TRY position by using its long EUR position. Such that, Turkish Airlines currently uses the most convenient derivative instrument based on the market conditions among forward and zero-cost option collars to manage the fluctuations in FX rates. Furthermore, in order to increase the effectiveness of natural hedging, the ticketing currency of international flights originated from domestic airports was changed from EUR to USD in 2015, so the need for derivative products was reduced.

Turkish Airlines is exposed to financial risk arising from the fluctuations in the interest rates, by nature of the aviation industry and its operations. Monitoring and analysis of the interest rate market, preparation of indebtedness structure, sensitivity to changes in interest rates, weighted average maturity analysis and follow-up of possible cost changes due to interest rates are carried out on a regular basis within the scope of interest rate risk management. Besides, derivative instruments are used for a portion of the debt, to either by fully fixing the interest rate liabilities at a certain level or keeping it within a certain band until the maturity.

Also, sustaining a healthy liquidity structure and cash management is so critical issue for airlines due to nature of the sector. For that purpose, Turkish Airlines prepares prospective cash flow projections on monthly basis and the required minimum cash amount is determined based on this analysis. By the help of monthly projections, necessary action plans are scheduled in order to prevent the cash amount falls below this level. Realized and forecasted cash flows are strictly tracked and analyzed by the Treasury and Risk Management Commission.

Various measures are also taken in order to minimize the possible loss that will come up in case of default of the financial counterparties. In this context, main practice of Turkish Airlines is to apply a fair methodology to evaluate all counterparties in deposit and derivative transactions with equal and objective criteria and to reduce the long-term counterparty risk. In particular, specific agreements are signed with the counterparties against the credit risk that may arise as a result of the derivative transactions. All transactions are made within certain limits with each counterparty and these limits are monitored and updated dynamically.

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 organization,
- 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 organization 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 General Instruction On Responsible Units of Company Objectives and target achievements are monitored regularly through the Corporate Performance Monitoring System and reported to the Board of Objectives' Status that convene quarterly. 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, which is published 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 2018, 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 19,659,981.

ASSESSMENT OF THE BOARD ON THE EFFECTIVENESS OF THE BOARD COMMITTEES

The Corporate Governance Committee, the Audit Committee and the Early Identification of Risks Committee, which exist within the Board of Directors of the Incorporation, carry out activities within the framework of the relevant legislation and the duties and working principles set forth by the Board of Directors. In 2018, the specified 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 Markets Board. In accordance with the said Communiqué, the Committee determines whether the Incorporation complies with the Corporate Governance Principles and, if not, to identify the reasons thereof and the conflicts of interest caused by such incompliance, to give advice to the Board of Directors on improving the Corporate Governance Practices, and to oversee the activities carried out by the Investor Relations department. Besides, since no separate Nomination Committee and Remuneration Committee have been established within the Board of Directors, the Corporate Governance Committee fulfills the duties of these committees as well.

The Corporate Governance Committee, which also fulfills the duties of the Nomination Committee, convened in 2018 in order to nominate the candidates for independent board members and evaluated whether the said candidates meet the independence criteria stipulated in the Corporate Governance Principles within the annex of the Corporate Governance Communiqué of the Capital Markets Law. As a result of the evaluations and assessments made, The Committee informed the Board that there is no obstacle to the independence of the candidates for independent board membership. Following the approval of the Capital Markets Board regarding the issue, the election of the candidates to Independent Board Members was submitted for approval of and accepted by the General Assembly at the Ordinary General Assembly dated May 4, 2018.

The Audit Committee convened prior to the disclosure of the quarterly financial results and assured that the publicly disclosed consolidated financial results disclosed to the public are sufficiently transparent and comprehensible, and that all the necessary precautions have been taken to conduct independent external audits transparently and efficiently. The Committee has also supervised the operation and effectiveness of the internal control and internal audit system of the Incorporation. The Audit Committee presented six written reports to the Board of Directors in 2018.

The Early Detection of Risk Committee convened every two months in 2018 to identify risks in the areas in which the Incorporation operates and to review the risk management systems by informing the Board of Directors in writing. In addition to evaluations of the Incorporation's 2018 budget, the Committee assessed the impacts of the geopolitical risks and the capacity increase and the regional capacity planning in the sector. Financial and operational results were reviewed within the framework of the sustainability of the Incorporation's stable growth strategy. In line with that purpose, determinations and proposals regarding the cash projections and prepayment amounts are presented to the Board of Directors, by considering the financing need and debt services of the aircraft that are planned to be delivered between 2018 and 2024. On the other hand, the relocation plans for the new Airport campus were reviewed and possible risks and opportunities were identified.

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

ASSESSMENT OF THE BOARD OF DIRECTORS ON 2018 RESULTS

After the year 2017, when it broke records in terms of both operational and financial performance, Turkish Airlines enhanced its successful performance further in the year 2018. On the back of rising demand and unit revenues, the Incorporation increased its annual sales revenue by 17% to USD 12.9 billion in 2018 and despite the rapidly increasing oil prices, capped the year with a net profit of USD 753 million.

Turkish Airlines brought up the number of its passengers to 75.2 million in 2018, as the number of tourists arriving in Turkey increased by 22% over the year to reach approximately 40 million visitors. Having achieved many important accomplishments during the year, the Incorporation posted the highest annual passenger load factor rate in its history in 2018 and reached a passenger load factor of 81.9% with an increase of 2.8 points over 2017. It is beyond any doubt that Turkish Airlines' continuing its operations without any compromise from its unique service quality, that makes it the first choice through the eyes of the passengers, and by keeping the passenger satisfaction always at the top level has made great contribution to its success.

One of the most important contributors to the success achieved in 2018 as in 2017 is undoubtedly Turkish Cargo. Continuing its services to customers in 124 countries of the world at Turkish Airlines quality, Turkish Cargo transported more than 1.4 million tons of cargo in 2018, in an increase of 25% over the previous year. Turkish Cargo, which is the fastest growing air cargo carrier in the world with its carried cargo, new flight destinations, and freighters added to its fleet, continues to deliver services to customers in 124 countries of the world at Turkish Airlines

quality and to increase its share in the world air cargo market. Turkish Cargo, which opens up a wide corridor from Asia to Africa, Europe to Latin America with its flight routes, has set its eyes on becoming one of the top 5 air cargo companies in the world.

As our country's National Flag Carrier since 1933, we are focused on our 2023 targets, while leaving behind the year 2018, which is completed with successes. Istanbul Airport was inaugurated in the 95th anniversary of our Republic, and after the great move in 2019, it will witness a major turning point for the Turkish aviation industry and Turkish Airlines. The growth of Turkish Airlines will accelerate further thanks to Istanbul Airport, which will breathe new life into the entire aviation sector, as well as to the new aircraft it will receive. With this huge investment, Turkish Airlines will carry its customers' brand experience to the highest level and continue its steep ascent towards worldwide leadership.

Turkish Airlines, which has left behind one of the most successful years in its history in spite of the instability in our geography and intense global competition, continues to be one of the most preferred airlines today with its wide flight network and high-quality service it provides to its customers, and takes firm steps towards its sustainable growth path. As one of the most valuable brands in Turkey, in accordance with its 2023 vision, Turkish Airlines will continue its rise on this growth path and contribute to Turkey's 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 Incorporation and their potential consequences

None.

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

None.

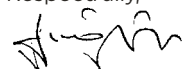
Conflicts of interest between the Incorporation and its service providers that provide investment consulting and rating services, etc.; and actions taken by the Incorporation to avoid such conflicts of interest

None.

STATEMENT OF INDEPENDENCE

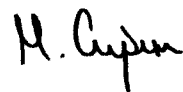
I hereby declare that I run for the office of "Independent Member" of the Board of Directors of Turkish Airlines Inc. in accordance with the criteria stipulated by applicable regulations, the Articles of Association and the Capital Markets Board's Corporate Governance Principles, and accordingly that;

- 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 Incorporation and any affiliates, who either hold the control of or have any significant influence on the management of the Incorporation, or any shareholders who hold the control of the management of the Incorporation, or have a significant influence on the Incorporation, 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 Incorporation, 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 Incorporation (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 incorporation, from which the Incorporation has procured any services or products or to which the Incorporation 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;
- d) 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,
- e) I am resident in Turkey according to the Income Tax Law numbered 193 dated 31/12/1960,
- f) I am strongly bound by ethical standards, and enjoy the professional reputation and experience to positively contribute to the operations of the Incorporation, maintain my impartiality in any potential case of conflict of interest amongst the shareholders of the Incorporation, and to make decisions freely with due consideration of the rights and benefits of the stakeholders, and also that;
- g) I will be able to allocate time for the affairs of the Incorporation 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 Incorporation, and also that;
- h) I have not held the office of a member of the Board of Directors at the Board of Directors of the Incorporation for a period longer than six years within the last decade, and also that;
- i) 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 Incorporation 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;
- j) I have not been registered and announced for the legal person which has been elected as a member of the Board of Directors.

Respectfully,

 Fatmanur Altun

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 Incorporation and any affiliates, who either hold the control of or have any significant influence on the management of the Incorporation, or any shareholders who hold the control of the management of the Incorporation, or have a significant influence on the Incorporation, 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 Incorporation, 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 Incorporation (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 incorporation, from which the Incorporation has procured any services or products or to which the Incorporation 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;
- d) 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,
- e) I am resident in Turkey according to the Income Tax Law numbered 193 dated 31/12/1960,
- f) I am strongly bound by ethical standards, and enjoy the professional reputation and experience to positively contribute to the operations of the Incorporation, maintain my impartiality in any potential case of conflict of interest amongst the shareholders of the Incorporation, and to make decisions freely with due consideration of the rights and benefits of the stakeholders, and also that;
- g) I will be able to allocate time for the affairs of the Incorporation 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 Incorporation, and also that;
- h) I have not held the office of a member of the Board of Directors at the Board of Directors of the Incorporation for a period longer than six years within the last decade, and also that;
- i) 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 Incorporation 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;
- j) I have not been registered and announced for the legal person which has been elected as a member of the Board of Directors.

Respectfully,

 Mehmet Muzaffer Akpınar

REPORT ON AFFILIATES

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 Incorporation and any affiliates, who either hold the control of or have any significant influence on the management of the Incorporation, or any shareholders who hold the control of the management of the Incorporation, or have a significant influence on the Incorporation, 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 Incorporation, 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 Incorporation (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 incorporation, from which the Incorporation has procured any services or products or to which the Incorporation 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;
- d) 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;
- e) I am resident in Turkey according to the Income Tax Law numbered 193 dated 31/12/1960;
- f) I am strongly bound by ethical standards, and enjoy the professional reputation and experience to positively contribute to the operations of the Incorporation, maintain my impartiality in any potential case of conflict of interest amongst the shareholders of the Incorporation, and to make decisions freely with due consideration of the rights and benefits of the stakeholders, and also that;
- g) I will be able to allocate time for the affairs of the Incorporation 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 Incorporation, and also that;
- h) I have not held the office of a member of the Board of Directors at the Board of Directors of the Incorporation for a period longer than six years within the last decade, and also that;
- i) 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 Incorporation 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;
- j) 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 Şanlıer

CONCLUSION SECTION OF THE REPORT ISSUED ON AFFILIATES FOR THE ACCOUNTING PERIOD BETWEEN 01.01.2018 - 31.12.2018

As per Article 10 of the Capital Market's Board's Communiqué No.II-17.1 on Corporate Governance; The Board of Directors of the Incorporation issued a report on Related Party Transactions, due to the fact that the rate of the amount of common and continuous fuel supply /purchasing transactions executed between Turkish Airlines and THY Opet Havacılık Yakıtları A.Ş. in 2018, exceeded 10%, compared to the cost of sales in 2018 financial statements disclosed to public; and that it is also foreseen that transactions with similar features will continue in 2019, in accordance with the determined principles. These transactions mentioned in the aforementioned report are considered to be made consistent with the transactions of previous years and at-arm's length when compared with market conditions.

STATEMENT OF RESPONSIBILITY

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS AT
AND FOR THE YEAR ENDED 31 DECEMBER 2018
WITH INDEPENDENT AUDITOR'S REPORT

RESOLUTION NUMBER : TK2019037099
SUBJECT : Statement of Responsibility Prepared in
Accordance with Article 9 of the II-14.1. Principles of
Financial Reporting in Capital Markets Communiqué
by the Capital Markets Board

ISTANBUL
04.03.2019

ISTANBUL STOCK EXCHANGE
34467 Emirgan/Istanbul

The consolidated financial statement, the board of directors' annual report, Corporate Governance Compliance Report and Corporate Governance Information Form issued on December 31, 2018 and approved by the Board's resolution dated 04.03.2019, numbered 73 are provided attached. Accordingly, we hereby declare that:

- The financial statements, annual report, Corporate Governance Compliance Report and Corporate Governance Information Form were reviewed by us,
- 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;
- 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 Incorporation as well as its financial state 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 Incorporation as well as the financial state of the Incorporation, including significant risks and uncertainties encountered by the Incorporation, to the best of our knowledge with respect to our duties and responsibilities;

Sincerely,

TURKISH AIRLINES A.O.

Dr. Zekeriya DEMİR
SVP, Accounting and
Financial Control

Assoc. Prof. Murat ŞEKER, Ph.D.
Chief Financial Officer

Bilal EKŞİ
Deputy Chairman and
Chief Executive Officer



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Independent Auditors' Report

To the Shareholders of Türk Hava Yolları Anonim Ortaklığı

Report on the Audit of the Consolidated Financial Statements

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 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated 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.

The recognition of the revenue, passenger liability and the Frequent Flyer Program

Refer to the note respectively, 2.3.1; 2.3.1 and 2.3.21 for "Revenue", "Passenger Liability" and "Frequent Flyer Program" for the relevant accounting policies, discussions and assumptions of significant accounting estimates.

Key Audit Matter

The major part of the Group's revenue consists of the passenger revenue. The passenger revenue is recognized when the transportation service is completed. Unused tickets are recognized as passenger flight liabilities.

The timing of revenue recognition for unused tickets requires significant management judgment.

Group makes estimated computations for unredeemed tickets using assumptions historical statistics and data. Total estimated unredeemed tickets are recognized as passenger revenue in consolidated financial statements.

The determination of the amount of passenger revenue to be recognised for each flight includes complex internal information technology systems and involves the exchange of information and high volume of transactions.

Since timing of revenue recognition for unused tickets requires significant management judgment and recognition of passenger revenue accurately through the complex internal information technology (IT) systems and involves the exchange of high volume of transactions, the passenger revenue and the passenger flight liability have been determined as key audit matters.

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 as a liability is measured based on the current sales price of the awarded miles. The current sales price is measured on the basis of the value of the awards for which they could be redeemed.

Management uses estimates to determine the sales price of the awards for which the miles will be redeemed. These estimates are based on historical redemption patterns.

An estimate is made of the number of miles that will expire without use based on historical expiry patterns and the anticipated impact of changes to the programme.

Revenue is recognised when Miles and Smiles members fly, or when it is assessed that the miles awarded will expire without use.

The accounting of frequent flyer program has been identified as one of the key audit matter, as accounting policies and estimates to determination of the breakage amount to which unused tickets, are complex and include some judgments and estimates.

How the matter was addressed in our audit

Our audit procedures performed related to this matter are listed below:

- For the revenue recognition of passenger revenue;
 - We have tested the effectiveness and appropriateness of IT systems and internal control that are designed to account passenger revenue. Additionally, we have tested key manual controls to ensure of effectiveness and appropriateness of internal control. During these tests, our IT specialists were involved.
 - We have tested application controls of the systems configured systems to recognize passenger revenues.
 - The selected application controls tested included those relating to the completeness of transfers of data between systems, the existence of a ticket verification. and price specification regarding to each all flight throughout
 - We have performed expectation analysis with external market data and traffic data tested by IT specialists.
- For the revenue recognition of unused tickets;
 - We have tested their sale date, recording area/period and validity by using sample size determinations. Moreover, we have tested consistency and mathematical accuracy of applied methods in order to determine price flight attributing to unused tickets with historical data and estimation.
 - We have evaluated the assumptions in the mathematical models that are used in order to determine fair values of Miles and Smiles rewards.
 - We have verified the revenue amount of usage and derived parametres and assumption concluded from that for purpose of evaluation appropriateness of Miles liability in computed mile programs as of balance sheet date.
 - We have also involved IT specialists. With IT specialist's contribution, we have tested the internal controls, the effectiveness and the appropriateness of IT systems founded for accounting miles liabilities. Additionally, we have tested effectiveness and appropriateness of manual key internal controls.
 - We have aimed to test calculation of bonus (payoff) value by comparing statistical redemption model, history and observable market price. We tested controls that applied in models. We have also tested the accuracy of the miles amount that are going to lose its validity with respect to the historical experience and statistical mile-usage history.
 - Among the application controls that are identified to tests comprise the completeness of data transfer between systems, miles verifying to detect data errors and gained/ used miles statements for each flight.
 - Key manual controls were also tested in order to ensure whether processing exceptions are in proper way.



The Component Accounting of Aircrafts

Refer to the note 2.3.3 for the assumptions, accounting policies and considerations about the component accounting of aircrafts.

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The accounting of aircrafts has a material impact for the Group due to the value of aircrafts and their long useful lives. | Our audit procedures performed related to this matter are listed below: |
| Significant key assumptions and judgment are listed below: | |
| — Identifying residual values and useful lives of aircrafts with respect to physical, economic and commercial environments. | — We have compared the estimations of useful lives, residual values with the group's future fleet plan, the purchasing transactions of the aircraft and contractual rights. |
| — Determining the components of aircrafts. | — We have compared the useful lives of the components of aircrafts with the sector benchmark |
| — Reviewing of carrying values of aircraft allocated to different parts of the business that use the aircraft (cash generating units (CGUs)). | — We have analyzed the Group's depreciation policies, predictive useful lives, residual value of aircrafts and purchasing and disposal future, flight plan. |
| 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. | — We have compared useful lives of aircraft components with average sector range. — We have recalculated the aircraft depreciation expenses based on previously determined useful lives. |

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 IFRS, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities 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 auditors' 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 Group'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 Group'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 Group 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Gökhan Atılğan
Partner
4 March 2019
Istanbul, Turkey

CONSOLIDATED FINANCIAL RESULTS

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

| ASSETS | Notes | 31 December 2018 | 31 December 2017 |
|--|-------|---------------------|---------------------|
| Non-Current Assets | | | |
| Financial Investments | 6 | 86 | 51 |
| Other Receivables | | | |
| - Third Parties | 12 | 1,004 | 619 |
| Investments Accounted by Using Equity Method | 3 | 358 | 320 |
| Property and Equipment | 15 | 13,918 | 13,002 |
| Intangible Assets | | | |
| - Other Intangible Assets | 16 | 82 | 66 |
| - Goodwill | 17 | 12 | 12 |
| Prepaid Expenses | 14 | 767 | 496 |
| TOTAL NON-CURRENT ASSETS | | 16,227 | 14,566 |
| Current Assets | | | |
| Cash and Cash Equivalents | 5 | 1,636 | 1,891 |
| Financial Investments | 6 | 519 | 195 |
| Trade Receivables | | | |
| -Related Parties | 9 | 2 | 2 |
| -Third Parties | 10 | 568 | 590 |
| Other Receivables | | | |
| -Related Parties | 9 | 3 | - |
| -Third Parties | 12 | 1,178 | 319 |
| Derivative Financial Instruments | 34 | 57 | 203 |
| Inventories | 13 | 190 | 193 |
| Prepaid Expenses | 14 | 192 | 119 |
| Current Income Tax Assets | 32 | 61 | 32 |
| Other Current Assets | 24 | 99 | 87 |
| TOTAL CURRENT ASSETS | | 4,505 | 3,631 |
| TOTAL ASSETS | | 20,732 | 18,197 |

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

| LIABILITIES | Notes | 31 December 2018 | 31 December 2017 |
|---|----------|---------------------|---------------------|
| Equity | | | |
| Share Capital | 25 | 1,597 | 1,597 |
| Items That Will Not Be Reclassified to Profit or Loss | | | |
| - Actuarial (Losses) on Retirement Pay Obligation | 25 | (35) | (15) |
| Items That Are or May Be Reclassified to Profit or Loss | | | |
| - Foreign Currency Translation Differences | 25 | (160) | (108) |
| - Fair Value Gains on Hedging Instruments Entered into for Cash Flow Hedges | 25 | - | 61 |
| - Gains on Remeasuring FVOCI | 25 | (6) | 1 |
| Restricted Profit Reserves | 25 | 36 | 36 |
| Previous Years Profit | 25 | 3,760 | 3,551 |
| Net Profit for the Year | | 753 | 223 |
| Equity of the Parent | | 5,945 | 5,346 |
| Non-Controlling Interests ^(*) | | - | - |
| TOTAL EQUITY | | 5,945 | 5,346 |
| Non-Current Liabilities | | | |
| Long-Term Borrowings | 7 and 18 | 8,239 | 7,339 |
| Other Payables | | | |
| -Third Parties | 12 | 36 | 83 |
| Deferred Income | 14 | 60 | 42 |
| Long-Term Provisions | | | |
| -Provisions for Employee Benefits | 22 | 130 | 128 |
| Deferred Tax Liability | 32 | 1,138 | 962 |
| TOTAL NON-CURRENT LIABILITIES | | 9,603 | 8,554 |
| Current Liabilities | | | |
| Short Term Borrowings | 7 | 1,099 | 744 |
| Short-Term Portion of Long-Term Borrowings | 7 and 18 | 1,270 | 983 |
| Other Financial Liabilities | 8 | 6 | 16 |
| Trade Payables | | | |
| -Related Parties | 9 | 231 | 168 |
| -Third Parties | 10 | 791 | 687 |
| Payables Related to Employee Benefits | 11 | 199 | 200 |
| Other Payables | | | |
| -Related Parties | 9 | - | 7 |
| -Third Parties | 12 | 78 | 65 |
| Derivative Financial Instruments | 34 | 196 | 128 |
| Deferred Income | 14 | 1,052 | 1,016 |
| Current Tax Provision | 32 | - | 12 |
| Short-Term Provisions | | | |
| -Provisions for Employee Benefits | 20 | 39 | 41 |
| -Other Provisions | 20 | 16 | 22 |
| Other Current Liabilities | 24 | 207 | 208 |
| TOTAL CURRENT LIABILITIES | | 5,184 | 4,297 |
| TOTAL LIABILITIES AND EQUITY | | 20,732 | 18,197 |

^(*) The non-controlling share in the assets and results of subsidiaries for the year are separately classified as "non-controlling interest" in the consolidated statements of financial position and consolidated statements of profit or loss.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL RESULTS

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

| | Notes | 31 December 2018 | 31 December 2017 |
|--|-------|---------------------|---------------------|
| PROFIT OR LOSS | | | |
| Revenue | 26 | 12,855 | 10,958 |
| Cost of Sales (-) | 27 | (10,136) | (8,762) |
| GROSS PROFIT | | 2,719 | 2,196 |
| General Administrative Expenses (-) | 28 | (260) | (275) |
| Marketing and Sales Expenses (-) | 28 | (1,290) | (1,127) |
| Other Operating Income | 29 | 165 | 264 |
| Other Operating Expenses (-) | 29 | (143) | (36) |
| OPERATING PROFIT BEFORE INVESTMENT ACTIVITIES | | 1,191 | 1,022 |
| Income from Investment Activities | 30 | 101 | 178 |
| Expenses from Investment Activities | 30 | (2) | (1) |
| Share of Investments' Profit Accounted by Using The Equity Method | 3 | 123 | 102 |
| OPERATING PROFIT | | 1,413 | 1,301 |
| Financial Income | 31 | 129 | 56 |
| Financial Expenses (-) | 31 | (588) | (1,078) |
| PROFIT BEFORE TAX | | 954 | 279 |
| Tax Expense | | (201) | (56) |
| Current Tax Expense | 32 | (40) | (49) |
| Deferred Tax Expense | 32 | (161) | (7) |
| NET PROFIT FOR THE YEAR | | 753 | 223 |
| OTHER COMPREHENSIVE INCOME | | | |
| Items That May Be Reclassified Subsequently To Profit or Loss | | (120) | 40 |
| Currency Translation Adjustment | | (52) | (2) |
| (Losses) / Gains on Remeasuring FVOCI | | (9) | 1 |
| Fair Value (Losses) / Gains on Hedging Instruments Entered into for Cash Flow Hedges | | (86) | 65 |
| Fair Value Gains / (Losses) Hedging Instruments of Investment Accounted by Using the Equity Method Entered into for Cash Flow Hedges | | 3 | (12) |
| Related Tax of Other Comprehensive Income | | 24 | (12) |
| Items That Will Not Be Reclassified Subsequently To Profit or Loss | | (20) | (4) |
| Actuarial Gains on Retirement Pay Obligation | | (25) | (5) |
| Related Tax of Other Comprehensive Income | | 5 | 1 |
| OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR | | (140) | 36 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 613 | 259 |
| Basic Gain Per Share (Full US Cents) | 33 | 0.55 | 0.16 |
| Diluted Gain Per Share (Full US Cents) | 33 | 0.55 | 0.16 |

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

| | Share Capital | Items That May Be Reclassified Subsequently To Profit or Loss | | | Retained Earnings | | Equity Holders of the Parent | Non-controlling Interests | Total Equity |
|--|---------------|---|--|---|---------------------------------------|----------------------------|------------------------------|---------------------------|--------------|
| | | Actuarial (Losses) Retirement Pay Obligation | Foreign Currency Translation Differences | Fair Value Gains on Hedging Instruments Entered into For Cash Flow Hedges | Gains / (Losses) on Remeasuring FVOCI | Restricted Profit Reserves | | | |
| As of 1 January 2018 | 1,597 | (15) | (108) | 61 | 1 | 36 | 3,551 | 223 | 5,346 |
| Adjustment on initial application of IFRS 15 | - | - | - | - | - | - | (7) | - | (7) |
| Adjustment on initial application of IFRS 9 | - | - | - | - | - | - | (7) | - | (7) |
| Restated As of 1 January 2018 | 1,597 | (15) | (108) | 61 | 1 | 36 | 3,537 | 223 | 5,332 |
| Transfers | - | - | - | - | - | 223 | (223) | - | - |
| Total comprehensive income | - | (20) | (52) | (61) | (7) | - | 753 | 613 | 613 |
| As of 31 December 2018 | 1,597 | (35) | (160) | - | (6) | 36 | 3,760 | 753 | 5,945 |

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
 (ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

| | 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 | |
|----------------------------|--|--|---|---|----------------------------|-----------------------|--------------|-------------------------|
| | Share Capital | 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 1 January 2017 | 1,597 | (11) | (106) | 20 | - | 3,628 | (77) | 5,087 |
| Transfers | - | - | - | - | - | (77) | 77 | - |
| Total comprehensive income | - | (4) | (2) | 41 | 1 | - | 223 | 259 |
| As of 31 December 2017 | 1,597 | (15) | (108) | 61 | 1 | 3,551 | 223 | 5,346 |

The accompanying notes are an integral part of these consolidated financial statements.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

| | Notes | 31 December 2018 | 31 December 2017 |
|---|-----------|------------------|------------------|
| Net Profit for the year | | 753 | 223 |
| Adjustments to Reconcile Profit / (Loss) | | | |
| Adjustments for Depreciation and Amortisation Expense | 15 and 16 | 1,087 | 1,066 |
| Adjustments for Provisions Related with Employee Benefits | 20 and 22 | 23 | 21 |
| Adjustments for Provisions for Payables | 20 | 2 | 5 |
| Adjustments for Reversal of Probable Risks | 35 | (7) | (1) |
| Adjustments for Interest Income | 30 and 31 | (123) | (113) |
| Adjustments for Interest Expense | 22 and 31 | 265 | 221 |
| Adjustments For Unrealised Foreign Exchange Losses | | (98) | 656 |
| Adjustments for Manufacturers' Credits | 14 | 1 | 3 |
| Adjustments for Fair Value (Gains) / Losses on Derivative Financial Instruments | 31 | (36) | 39 |
| Adjustments for Undistributed Profits of Associates | 3 | (123) | (102) |
| Adjustments for Tax Income | 32 | 201 | 56 |
| Adjustments for Gains Arised From Sale of Tangible Assets | 30 | (5) | (49) |
| Adjustments for Losses Arised from Sale of Other Non-Current Assets | 15 | 29 | 31 |
| Operating Profit Before Changes in Working Capital | | 1,969 | 2,056 |
| Increase in Trade Receivables from Non Related Parties | 10 | 27 | (212) |
| Increase in Other Non-Related Party Receivables Related with Operations | 12 | (272) | (10) |
| Adjustments for Decrease in Inventories | 13 | 3 | 24 |
| Adjustments for (Increase)/ Decrease in Prepaid Expenses | 14 | (344) | 1 |
| Increase in Trade Payables to Related Parties | 9 | 63 | 39 |
| Increase in Trade Payables to Non-Related Parties | 10 | 104 | 200 |
| Adjustments for Decrease in Payables Due to Employee Benefits | 11 | (1) | 57 |
| (Decrease) / Increase in Other Operating Payables to Non-Related Parties | 12 | (42) | 48 |
| Increase in Deferred Income | 14 | 53 | 249 |
| Increase in Other Assets Related with Operations | 24 | (12) | (61) |
| Cash Flows From Operations | | 1,548 | 2,391 |
| Payments for Provisions Related with Employee Benefits | 22 | (10) | (14) |
| Income taxes paid | 32 | (81) | (9) |
| Net Cash From Operating Activities | | 1,457 | 2,368 |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | | |
| Cash Receipts Proceed From Sales of Property, Plant and Equipment | | 13 | 941 |
| Cash Payments From Purchasing of Property, Plant and Equipment ^(*) | 15 and 16 | (1,242) | (848) |
| Cash Payments From Purchasing of Other Long-term Assets | 6 | (359) | 150 |
| Other Cash Advances and Loans | 12 | (969) | 439 |
| Dividends Received | | 31 | 21 |
| Interest Received | 30 and 31 | 123 | 113 |
| Net Cash Flows / (Used In) Investing Activities | | (2,403) | 816 |
| CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES | | | |
| Proceeds From Loans | 7 | 3,055 | 2,175 |
| Payments of Loans | | (1,228) | (2,936) |
| Payments of Finance Lease Liabilities | 7 | (906) | (1,806) |
| Interest Paid | | (220) | (204) |
| Other (Outflows) / Inflows of Cash | 8 | (10) | 12 |
| Net Cash Used in Financing Activities | | 691 | (2,759) |
| Net Change in Cash and Cash Equivalents | | (255) | 425 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 1,891 | 1,466 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 5 | 1,636 | 1,891 |

^(*) USD 817 portion of property and equipment and intangible assets purchases in total of USD 2,059 for the period ended 31 December 2018 was financed through finance leases. (31 December 2017: USD 660 portion of property and equipment and intangible assets purchases in total of USD 1,508 was financed through finance leases.)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL RESULTS

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

1. GROUP ORGANIZATION AND ITS OPERATIONS

Türk Hava Yolları Anonim Ortaklığı (the "Company" or "THY") was incorporated in Turkey in 1933. As of 31 December 2018 and 2017, the shareholders and their respective shareholdings in the Group are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Turkey Wealth Fund ^(*) | 49.12 % | 49.12 % |
| Republic of Turkey Treasury and Finance Ministry Privatization Administration ^(*) | - | - |
| Other (publicly held) | 50.88 % | 50.88 % |
| Total | 100.00 % | 100.00 % |

^(*) The name of Republic of Turkey Prime Ministry Privatization is amended as Republic of Turkey Treasury and Finance Ministry Privatization Administration in 2017. 49.12% of the share capital of the Company that used to be owned by Republic of Turkey Treasury and Finance Ministry Privatization Administration has been transferred to Turkey Wealth Fund on 3 February 2017. Turkey Wealth Fund, of which capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatization Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer has not led to any change on the current management structure, business strategy, policies and commercial decisions of the Company.

The number of employees working for the Group as of 31 December 2018 is 35,205 (31 December 2017: 31,510). The average number of employees working for the Group for the period ended 31 December 2018 and 2017 are 33,034 and 30,719 respectively. The Group 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 Group's equity securities 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 2018 and 2017:

| Name of the Company | Principal Activity | Ownership Rate | | Country of Registration |
|---|--------------------------------------|------------------|------------------|-------------------------|
| | | 31 December 2018 | 31 December 2017 | |
| THY Teknik A.Ş. (THY Teknik) | Aircraft Maintenance Services | 100% | 100% | Turkey |
| THY Uçuş Eğitim ve Havalimanı İşletme A.Ş. | Training & Airport Operations | 100% | 100% | Turkey |
| THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş. | Airport Investment | 100% | 100% | Turkey |
| THY Uluslararası Yatırım ve Taşımacılık A.Ş. ^(*) | Cargo and Courier Transportation | 100% | - | Turkey |
| Cornea Havacılık Sistemleri San. Ve Tic. A.Ş. ^(**) | Software System Maintenance Services | 80% | - | Turkey |

^(*) The association was established in September 2018 to operate in the fields of cargo and courier transportation by the Board of Directors.

^(**) The association was established in October 2018 to operate in the fields of software system maintenance by the Board of Directors.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

1. GROUP ORGANIZATION AND ITS OPERATIONS (cont'd)

Subsidiaries and Joint Ventures (cont'd)

The table below sets out joint ventures of the Group as of 31 December 2018 and 2017:

| 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 İçi Sistemleri San ve Tic. A.Ş. (TCI) | Turkey | 50% | 50% | Cabin Interior Products |
| Vergi İade Aracılık A.Ş. | Turkey | 30% | 30% | VAT Return and Consultancy |
| Air Albania | Albania | 49% | 49% | Aircraft Transportation |

The Group owns 49%, 49%, 40% and 30% equity shares of TEC, Air Albania, 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..

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 2018 on 4 March 2019. General Assembly and the related regulatory bodies have the authority to modify the statutory financial statements.

Basis of Preparation

The consolidated financial statements, except for 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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

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 functional currency of the Group.

Although the currency of the country in which the Group is domiciled is Turkish Lira (TL), the Group'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 Group and reflects the economic substance of the underlying events and circumstances relevant to the Group. Therefore, the Group uses the US Dollar in measuring items in its financial statements and as the functional 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 remeasured 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 nine 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 Group'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 Group has incurred legal or constructive obligations on behalf of the joint venture.
- c. The non-controlling share in the assets and results of subsidiaries for the year are separately classified as "non-controlling interest" in the consolidated statements of financial position and consolidated statements of profit or loss.

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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(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 (cont'd)

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 2018 are same with those used in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The financial statements of the Group are prepared comparatively with the prior period in order to enable the determination of the financial situation and performance trends. In order to comply with the presentation of the current period financial statements, comparative information is reclassified when necessary and significant differences are disclosed. The Group has made the following reclassifications in the prior period financial statements in order to comply with the presentation of the current period financial statements.

-Trade receivables from non-related parties amounting to USD 2 included for the year 1 January- 31 December 2017 is classified to trade receivables from related parties.

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 recognized as operating revenue when the transportation service is provided. Tickets sold but not used (unflown) yet are recognized as passenger flight liabilities in deferred income as a contract liability in accordance with IFRS 15 Revenue from Contracts with Customers. IFRS 15 does not have a material effect on the Group's financial statements and accounting policies.

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.

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

Rendering of services (cont'd):

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.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 *Construction Contracts* and related interpretation.

The Group has adopted IFRS 15 with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method – by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information presented for 2017 has not been restated and continues to be as previously reported under IAS 18 and IAS 11 and related interpretations.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's services are set out below.

a) Expired Ticket Revenue

Tickets for which the passenger is not expected to exercise their rights under the ticket contract with the Group will expire. Tickets that expire unused represent unexercised passenger rights and are often referred to as passenger ticket breakage. The Group recognizes breakage (or unexercised rights) as revenue. Since the break date of these specific tickets can not be identified ultimately, the Group estimates and recognizes the expected breakage amount by using historical data and trends. The data used for the estimation for the amount of unredeemed tickets is revised under the IFRS 15 and provisional ticket breakage revenue is calculated with the tickets not flown on their scheduled flight date. The impacts of the changes over the breakage calculation method are an increase in the liabilities and a decrease in the revenue and equity.

b) Ticket Reissue Revenue

Each fare type that the Group issues will have its own conditions attached, which may include it being restricted, non-upgradeable or non-refundable. This means that if passengers need to make a change to their booking, cancel flights or buy replacement tickets then a change fee may apply. Under previous standards the Group recognizes change fees as revenue when a passenger request a change and pays the fee. With the adoption of IFRS 15 the change service is not considered distinctly because the customer cannot benefit from it without taking the flight. Although the change service is provided in advance of the flight, the benefit from it is not provided until the customer takes the flight. As a result, the change fee is recognized as revenue together with the original ticket sale on the date of travel. The impacts of the changes are an increase in the liabilities and a decrease in the revenue and equity.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.1 Revenue (cont'd)

b) Ticket Reissue Revenue (cont'd)

Dividend and interest income:

Dividend income generated from equity investments is recognized as shareholders gain the dividend rights.

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.

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.

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.

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.

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.

CONSOLIDATED FINANCIAL RESULTS

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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)

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 | 25 | 10% |
| - Cargo Aircraft and Engines | 25 | 10% |
| - Overhaul Maintenance for Airframe | 6 | - |
| - Overhaul Maintenance for Engines | 3-8 | - |
| - Overhaul Maintenance for Spare Engines | 3-13 | - |
| - Components | 7 | - |
| - Repairable Spare Parts | 3 and 7 | - |
| - Simulators | 25 | 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.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.4 Leases (cont'd)

Group management has recognized various sale and leaseback transactions for its aircraft and engines in accordance with IAS 17 "Leases". If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. Sales proceeds over the carrying amount excess is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

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.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

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.

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.

A financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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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

A debt investment is measured FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized for the FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

| | |
|---|--|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. |

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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)**

The corporate debt securities categorized as available-for-sale under IAS 39 are held by the Group's treasury unit in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The corporate debt securities mature in one to two years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of USD 7 in the allowance for impairment over these receivables was recognized in opening retained earnings at 1 January 2018 on transition to IFRS 9.

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.

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.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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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 (cont'd)**

The Group measures loss allowances at an amount equal to lifetime ECLs. The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held).

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss and OCI. As a result, the Group reclassified impairment gains amounting to USD 5, recognized under IAS 39, from 'other operating expenses and other operating income' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the year ended 31 December 2018.

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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

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.

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.

As of 2018, financial lease liabilities for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues.

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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)

Derivative financial instruments and hedge accounting (cont'd)

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.

The closing and average US Dollar-TL exchange rates as at 31 December 2018, 2017 and 2016 are as follows:

| | <u>Closing Rate</u> | <u>Average Rate</u> |
|-----------------------------|---------------------|---------------------|
| Year ended 31 December 2018 | 5.2609 | 4.8301 |
| Year ended 31 December 2017 | 3.7719 | 3.6445 |
| Year ended 31 December 2016 | 3.5192 | 3.0181 |
| | <u>Closing Rate</u> | <u>Average Rate</u> |
| Year ended 31 December 2018 | 1/ 1.1458 | 1/ 1.1757 |
| Year ended 31 December 2017 | 1/ 1.1971 | 1/ 1.1294 |
| Year ended 31 December 2016 | 1/ 1.0542 | 1/ 1.1059 |

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

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.

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 Group 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.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

2.3.14 Investment Property (cont'd)

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.

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.

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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)***

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.

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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 Group 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 (FFP) 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.

IFRS 9 Financial Instruments and IFRS 15 Revenue From Contracts With Customers

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018.

The effect of initially applying these standards is mainly attributed to the following:

- recognition of ticket breakage revenue after the scheduled flight date;
- recognition of ticket reissue revenue with the scheduled flight date;
- an increase in impairment losses recognized on financial assets.

CONSOLIDATED FINANCIAL RESULTS

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 15 Revenue From Contracts With Customers

The following table summarizes the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

| | Notes | Impact of adopting IFRS 15 at 1 Jan 2018 |
|------------------------------------|-------|--|
| Retained Earnings | | |
| Decrease of Expired Ticket Revenue | (a) | 7 |
| Decrease of Ticket Reissue Revenue | (b) | 2 |
| Related Tax | | (2) |
| Impact at 1 January 2018 | | 7 |

The following tables summarize the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss. There was no material impact on the Group's interim statement of cash flows and OCI for the year ended 31 December 2018.

Impact on the consolidated statement of financial position

| 31 December 2018 | Notes | As Reported | Adjustment | Amounts without adoption of IFRS 15 |
|-------------------------------------|----------|---------------|-------------|-------------------------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | 4,505 | - | 4,505 |
| NON-CURRENT ASSETS | | 16,227 | - | 16,227 |
| TOTAL ASSETS | | 20,732 | - | 20,732 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | 5,184 | 17 | 5,167 |
| Deferred Income | (a), (b) | 1,052 | 17 | 1,035 |
| NON-CURRENT LIABILITIES | | 9,603 | - | 9,603 |
| EQUITY | | 5,945 | (17) | 5,962 |
| Previous Years Profit | (a), (b) | 3,760 | (7) | 3,767 |
| Net Profit / (Loss) for the Year | (a), (b) | 753 | (10) | 763 |
| TOTAL LIABILITIES AND EQUITY | | 20,732 | - | 20,732 |

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 15 Revenue From Contracts With Customers (cont'd)

Impact on the consolidated statement of profit or loss

| 31 December 2018 | Notes | As Reported | Adjustment | Amounts without adoption of IFRS 15 |
|---|----------|--------------|-------------|-------------------------------------|
| PROFIT OR LOSS | | | | |
| Revenue | (a), (b) | 12,855 | (8) | 12,863 |
| GROSS PROFIT | | 2,719 | (8) | 2,727 |
| OPERATING PROFIT / (LOSS) BEFORE INVESTMENT ACTIVITIES | | 1,191 | - | 1,191 |
| OPERATING PROFIT / (LOSS) | | 1,413 | - | 1,413 |
| PROFIT / (LOSS) BEFORE TAX | | 954 | (8) | 962 |
| Tax Expense | | (201) | (2) | (199) |
| Deferred Tax (Expense) / Income | (a), (b) | (161) | (2) | (159) |
| NET PROFIT / (LOSS) FOR THE YEAR | | 753 | (10) | 763 |

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: *Recognition and Measurement*.

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings.

| | Impact of adopting IFRS 9 on opening balance |
|--|--|
| Retained Earnings | |
| Recognition of expected credit losses under IFRS 9 | 9 |
| Related tax | (2) |
| Impact at 1 January 2018 | 7 |

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

IFRS 9 Financial Instruments (cont'd)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 31 December 2018.

| Financial Assets | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|--|--------------------------------------|---------------------------------|---------------------------------------|----------------------------------|
| Trade and other receivables | Loans and receivables | Amortized cost | 2,759 | 2,755 |
| Cash and cash equivalents | Loans and receivables | Amortized cost | 1,957 | 1,956 |
| Corporate debt securities | Available for sale | FVOCI-debt instrument | 66 | 66 |
| Government debt securities | Available for sale | FVOCI-debt instrument | 135 | 135 |
| Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate | Cash Flow – hedging instrument | Cash Flow – hedging instrument | (34) | (34) |
| Forward fuel purchase contracts for hedging against cash flow risk of fuel prices | Cash Flow – hedging instrument | Cash Flow – hedging instrument | - | - |
| Collar contracts for hedging against cash flow risk of fuel prices | Cash Flow – hedging instrument | Cash Flow – hedging instrument | (85) | (85) |
| Forward currency contracts for hedging purposes | Cash Flow – hedging instrument | Cash Flow – hedging instrument | (30) | (30) |
| Cross-currency swap contracts not subject to hedge accounting | Mandatorily at FVTPL | Mandatorily at FVTPL | 12 | 12 |
| Interest rate swap contracts not subject to hedge accounting | Mandatorily at FVTPL | Mandatorily at FVTPL | (5) | (5) |
| Forward currency contracts not for hedging purposes | Mandatorily at FVTPL | Mandatorily at FVTPL | 3 | 3 |
| Total Financial Assets | | | 4,778 | 4,773 |

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

| | |
|---|-----------|
| Loss allowance as at 31 December 2017 under IAS 39 | 75 |
| Additional impairment recognized at 1 January 2018 on; | |
| Trade and other receivables as at 31 December 2017 | 8 |
| Cash and cash equivalents as at 31 December 2017 | 1 |
| Loss allowance as at 31 December 2017 under IFRS 9 | 84 |

Trade Receivables and Contract Assets

The following analysis provides further detail about the calculation of ECLs related to trade receivables and contract assets on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past two years. The Group performed the calculation of ECL rates separately for trade and other receivables.

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, delinquency status, geographic region, age of relationship.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

| Maturity Ranges As of 31.12.2018 | Weighted Average Lost Rate | Gross Carrying Amount | Impairment Loss Allowance |
|----------------------------------|----------------------------|-----------------------|---------------------------|
| Current | 0.12% | 514 | 1 |
| 1-30 days past due | 0.53% | 55 | - |
| 30-90 days past due | 5.89% | 3 | - |
| 90-360 days past due | 2.56% | 19 | - |
| More than 1 year past due | 59.21% | 2 | 1 |
| | | 593 | 2 |

The following table provides information about the exposure to credit risk and ECLs for time deposits, other receivables and debt to securities as at 31 December 2018.

| Equivalent to External Credit Rating | Weighted Average Lost Rate | Gross Carrying Amount | Impairment Loss Allowance |
|--------------------------------------|----------------------------|-----------------------|---------------------------|
| AA2 | 0.02% | 1,673 | - |
| BA3 | 0.05% | 2,105 | 1 |
| B2 | 1.5% | 132 | 2 |
| | | 3,910 | 3 |

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Summary of Significant Accounting Policies (cont'd)

Transition

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Non-Derivative Financial Instruments and Hedge Accounting

As of 2018, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against foreign exchange rate risk due to highly probable future foreign currency revenues. Unrealized foreign exchange differences arising from the financial lease liabilities are recognized in other comprehensive income.

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.

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 residual 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.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements (cont'd)

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 has right to benefit from some incentives in "Investment Incentive System" due to airline cargo and passenger transportation activities. As a result of the applications within this scope, Investment Incentive Certificates are obtained for supply of aircraft and ground handling services. The information on the Investment Incentive Certificates that may have an impact on the current or future financial reports of the Incorporation and the incentives utilized are listed below:

| Date of Cabinet Decree | Number of Cabinet Decree | Date of Inv. Incentive Certificate | Investment Status | Tax Reduction | Total Amount of Investment USD: ^(*) | Utilized Contribution Amount of Investment USD: ^(**) |
|------------------------|--------------------------|------------------------------------|-------------------|---|--|---|
| 14.07.2009 | 2009/15199 | 28.12.2010 | Completed | Tax Reduction %50 / Contribution rate to Investment %20 | 25,220 | 3 |
| 15.06.2012 | 2012/3305 | 18.12.2014 | Continue | Tax Reduction %50 / Contribution rate to Investment %15 | 3,225 | - |
| 20.01.2018 | 2017/11133 | 9.08.2018 | Continue | Tax Reduction %90 / Contribution rate to Investment %50 | 936 | - |
| 20.01.2018 | 2017/11133 | 11.09.2018 | Continue | Tax Reduction %50 / Contribution rate to Investment %25 | 479 | - |
| 15.06.2012 | 2012/3305 | 1.03.2018 | Continue | Tax Reduction %50 / Contribution rate to Investment %15 | 68 | 20 |
| 15.06.2012 | 2012/3305 | 11.07.2017 | Continue | Tax Reduction %50 / Contribution rate to Investment %15 | - | - |
| 15.06.2012 | 2012/3305 | 18.09.2017 | Continue | General Investment Incentive | - | - |

^(*) Because the investments are realized in foreign currency and revisions made on investments, the amount of investment at the time of application and the amount of investment at the time of completion may vary.

^(**) The contribution amount of investment, which is not utilizable when there is no tax base, is transferrable by indexing with revaluation rate in accordance with the provisions of the relevant legislation.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Important Accounting Estimates, Assumptions and Key Accounting Judgements (cont'd)

Corporate Tax Law 32/A and the effects of Resolution issued on "Government Assistance for Investments" by the Council of Ministers (cont'd):

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.

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 16 Leases

On 13 January 2016, IASB issued 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 changes to IAS 40 Investment Properties. IFRS 16 Leases 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. IFRS 16 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 assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 23 Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 New and Revised Standards and Interpretations (cont'd)

The Revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 New and Revised Standards and Interpretations (cont'd)

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015-2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits - i.e. in profit or loss, other comprehensive income (OCI) or equity.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)

2.5 New and Revised Standards and Interpretations (cont'd)

Annual Improvements to IFRSs 2015-2017 Cycle (cont'd)

Improvements to IFRSs (cont'd)

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale - or any non-qualifying assets - are included in that general pool.

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).

3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD

The joint ventures accounted for using the equity method are as follows:

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|------------------|------------------|
| Sun Express | 136 | 105 |
| TEC | 62 | 56 |
| THY Opet | 58 | 54 |
| Turkish DO&CO | 53 | 60 |
| TGS | 39 | 36 |
| Uçak Koltuk | 5 | 4 |
| TCI | 3 | 3 |
| Goodrich | 2 | 2 |
| Vergi İade Aracılık ^(*) | - | - |
| | 358 | 320 |

^(*) The Group's share in the shareholders' equity of Vergi İade Aracılık is less than USD 1.

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3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Share of investments' profit / (loss) accounted by using the equity method are as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------|---------------------------------|---------------------------------|
| Sun Express | 33 | 28 |
| TEC | 11 | 12 |
| THY Opet | 45 | 39 |
| Turkish DO&CO | 12 | 12 |
| TGS | 21 | 12 |
| Uçak Koltuk | 1 | (1) |
| TCI | - | - |
| Goodrich | - | - |
| Vergi İade | - | - |
| | <u>123</u> | <u>102</u> |

Financial information for Sun Express as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total assets | 1,350 | 1,439 |
| Total liabilities | 1,079 | 1,229 |
| Shareholders'equity | 271 | 210 |
| Group's share in joint venture's shareholders' equity | 136 | 105 |
| | <u>1 January - 31 December 2018</u> | <u>1 January - 31 December 2017</u> |
| Revenue | 1,479 | 1,288 |
| Profit for the year | 67 | 55 |
| Group's share in joint venture's profit for the year | 33 | 28 |

Financial information for TEC as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total assets | 189 | 163 |
| Total liabilities | 62 | 49 |
| Shareholders'equity | 127 | 114 |
| Group's share in joint venture's shareholders' equity | 62 | 56 |
| | <u>1 January - 31 December 2018</u> | <u>1 January - 31 December 2017</u> |
| Revenue | 542 | 526 |
| Profit for the year | 22 | 25 |
| Group's share in joint venture's profit for the year | 11 | 12 |

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3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for THY Opet as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total assets | 621 | 616 |
| Total liabilities | 504 | 509 |
| Shareholders'equity | 117 | 107 |
| Group's share in joint venture's shareholders' equity | 58 | 54 |
| | <u>1 January - 31 December 2018</u> | <u>1 January - 31 December 2017</u> |
| Revenue | 2,291 | 1,619 |
| Profit for the year | 90 | 78 |
| Group's share in joint venture's profit for the year | 45 | 39 |

Financial information for Turkish DO&CO as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total assets | 168 | 180 |
| Total liabilities | 62 | 60 |
| Shareholders'equity | 106 | 120 |
| Group's share in joint venture's shareholders' equity | 53 | 60 |
| | <u>1 January - 31 December 2018</u> | <u>1 January - 31 December 2017</u> |
| Revenue | 285 | 279 |
| Profit for the year | 24 | 24 |
| Group's share in joint venture's profit for the year | 12 | 12 |

Financial information for TGS as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total assets | 130 | 127 |
| Total liabilities | 52 | 55 |
| Shareholders'equity | 78 | 72 |
| Group's share in joint venture's shareholders' equity | 39 | 36 |
| | <u>1 January - 31 December 2018</u> | <u>1 January - 31 December 2017</u> |
| Revenue | 286 | 258 |
| Profit for the year | 42 | 23 |
| Group's share in joint venture's profit for the year | 21 | 12 |

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3. INVESTMENTS ACCOUNTED BY USING THE EQUITY METHOD (cont'd)

Financial information for Uçak Koltuk as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Total assets | 25 | 16 |
| Total liabilities | 15 | 8 |
| Shareholders'equity | 10 | 8 |
| Group's share in joint venture's shareholders' equity | 5 | 4 |
| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
| Revenue | 14 | 11 |
| Profit / (Loss) for the year | 1 | (2) |
| Group's share in joint venture's profit / (loss) for the year | 1 | (1) |

Financial information for TCI as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Total assets | 17 | 10 |
| Total liabilities | 11 | 4 |
| Shareholders'equity | 6 | 6 |
| Group's share in joint venture's shareholders' equity | 3 | 3 |
| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
| Revenue | 9 | 7 |
| Profit for the year | - | 1 |
| Group's share in joint venture's profit / (loss) for the year | - | - |

Financial information for Goodrich as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Total assets | 10 | 7 |
| Total liabilities | 5 | 3 |
| Shareholders'equity | 5 | 4 |
| Group's share in joint venture's shareholders' equity | 2 | 2 |
| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
| Revenue | 18 | 15 |
| Profit for the year | 1 | 1 |
| Group's share in joint venture's profit / (loss) for the year | - | - |

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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 26.

4.1 Total Assets and Liabilities

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Total Assets | | |
| Aviation | 20,638 | 18,085 |
| Technical | 1,326 | 1,256 |
| Total | 21,964 | 19,341 |
| Less: Eliminations due to consolidation | (1,232) | (1,144) |
| Total assets in consolidated financial statements | <u>20,732</u> | <u>18,197</u> |
| Total Liabilities | | |
| Aviation | 14,883 | 12,874 |
| Technical | 291 | 363 |
| Total | 15,174 | 13,237 |
| Less: Eliminations due to consolidation | (387) | (386) |
| Total liabilities in consolidated financial statements | <u>14,787</u> | <u>12,851</u> |

CONSOLIDATED FINANCIAL RESULTS

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4. SEGMENTAL REPORTING (cont'd)

4.2 Profit / (Loss) before Tax

Segment Results:

| 1 January - 31 December 2018 | Aviation | Technic | Inter-segment elimination | Total |
|---|----------|---------|---------------------------|----------|
| Sales to External Customers | 12,629 | 226 | - | 12,855 |
| Inter-Segment Sales | 49 | 991 | (1,040) | - |
| Revenue | 12,678 | 1,217 | (1,040) | 12,855 |
| Cost of Sales (-) | (10,238) | (938) | 1,040 | (10,136) |
| Gross Profit | 2,440 | 279 | - | 2,719 |
| Administrative Expenses (-) | (181) | (82) | 3 | (260) |
| Marketing and Sales Expenses (-) | (1,283) | (9) | 2 | (1,290) |
| Other Operating Income | 189 | 10 | (34) | 165 |
| Other Operating Expenses (-) | (159) | (13) | 29 | (143) |
| Operating Profit Before Investment Activities | 1,006 | 185 | - | 1,191 |
| Income from Investment Activities | 101 | - | - | 101 |
| Expenses from Investment Activities | (2) | - | - | (2) |
| Share of Investments' Profit Accounted by Using The Equity Method | 112 | 11 | - | 123 |
| Operating Profit | 1,217 | 196 | - | 1,413 |
| Financial Income | 132 | - | (3) | 129 |
| Financial Expense (-) | (614) | 23 | 3 | (588) |
| Profit Before Tax | 735 | 219 | - | 954 |

| 1 January - 31 December 2017 | Aviation | Technic | Inter-segment elimination | Total |
|---|----------|---------|---------------------------|---------|
| Sales to External Customers | 10,785 | 173 | - | 10,958 |
| Inter-Segment Sales | 44 | 936 | (980) | - |
| Revenue | 10,829 | 1,109 | (980) | 10,958 |
| Cost of Sales (-) | (8,897) | (845) | 980 | (8,762) |
| Gross Profit | 1,932 | 264 | - | 2,196 |
| Administrative Expenses (-) | (193) | (89) | 7 | (275) |
| Marketing and Sales Expenses (-) | (1,123) | (5) | 1 | (1,127) |
| Other Operating Income | 272 | 35 | (43) | 264 |
| Other Operating Expenses (-) | (41) | (30) | 35 | (36) |
| Operating (Loss) / Profit Before Investment Activities | 847 | 175 | - | 1,022 |
| Income from Investment Activities | 178 | - | - | 178 |
| Expenses from Investment Activities | (1) | - | - | (1) |
| Share of Investments' Loss Accounted by Using The Equity Method | 90 | 12 | - | 102 |
| Operating (Loss) / Profit | 1,114 | 187 | - | 1,301 |
| Financial Income | 58 | 6 | (8) | 56 |
| Financial Expense (-) | (1,075) | (11) | 8 | (1,078) |
| Profit Before Tax | 97 | 182 | - | 279 |

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4. SEGMENTAL REPORTING (cont'd)

4.3 Investment Operations

| 1 January - 31 December 2018 | Aviation | Technic | Inter-segment elimination | Total |
|--|----------|---------|---------------------------|-------|
| Purchase of property and equipment and intangible assets | 1,827 | 232 | - | 2,059 |
| Current period depreciation and amortization charge | 939 | 148 | - | 1,087 |
| Investments accounted by using equity method | 293 | 65 | - | 358 |

| 1 January - 31 December 2017 | Aviation | Technic | Inter-segment elimination | Total |
|--|----------|---------|---------------------------|-------|
| Purchase of property and equipment and intangible assets | 1,366 | 142 | - | 1,508 |
| Current period depreciation and amortization charge | 883 | 183 | - | 1,066 |
| Investments accounted by using equity method | 261 | 59 | - | 320 |

5. CASH AND CASH EQUIVALENTS

| | 31 December 2018 | 31 December 2017 |
|-------------------------|------------------|------------------|
| Cash | 2 | 2 |
| Banks – Time deposits | 1,570 | 1,768 |
| Banks – Demand deposits | 64 | 116 |
| Other liquid assets | - | 5 |
| | <u>1,636</u> | <u>1,891</u> |

Details of the time deposits as of 31 December 2018 are as follows:

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2018 |
|--------|----------|-------------------------|--------------|------------------|
| 1,718 | TL | 19.98% - 24.70% | March 2019 | 335 |
| 232 | USD | 3.57% - 5.92% | January 2019 | 233 |
| 871 | EUR | 2.54% - 3.60% | March 2019 | 1,002 |
| | | | | <u>1,570</u> |

Details of the time deposits as of 31 December 2017 are as follows:

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2017 |
|--------|----------|-------------------------|--------------|------------------|
| 153 | TL | 11.41% - 12.58% | January 2018 | 41 |
| 141 | USD | 2.87% - 3.53% | March 2018 | 142 |
| 1,322 | EUR | 1.60% - 2.34% | March 2018 | 1,585 |
| | | | | <u>1,768</u> |

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6. FINANCIAL INVESTMENTS

Short-term financial investments are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| FVOCI | | |
| - Government debt securities | 90 | - |
| - Corporate debt securities | 26 | - |
| FVTPL | | |
| - Equity securities | 17 | - |
| Time deposits with maturity more than 3 months | 386 | 195 |
| | <u>519</u> | <u>195</u> |

Time deposit with maturity more than 3 months as of 31 December 2018 is as follows:

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2018 |
|--------|----------|-------------------------|------------|------------------|
| 500 | TRY | 23.28% - 23.99% | April 2019 | 98 |
| 251 | EUR | 3.28% - 3.08% | April 2019 | 288 |
| | | | | <u>386</u> |

Time deposit with maturity more than 3 months as of 31 December 2017 is as follows:

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2017 |
|--------|----------|-------------------------|----------|------------------|
| 162 | EUR | 1.68% - 1.93% | May 2018 | 195 |

Long-term financial investments are as follows:

| | 31 December 2018 | 31 December 2017 |
|------------------------------|------------------|------------------|
| FVOCI | | |
| - Government debt securities | 45 | 17 |
| - Corporate debt securities | 40 | 33 |
| Other | 1 | 1 |
| | <u>86</u> | <u>51</u> |

Period remaining to contractual maturity dates for FVOCI as of 31 December 2018 and 2017 is as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------|-------------------------|-------------------------|
| Less than 1 year | 116 | - |
| 1 to 5 years | 8 | - |
| Over 5 years | 77 | 50 |
| | <u>201</u> | <u>50</u> |
| | <u>31 December 2018</u> | <u>31 December 2017</u> |
| FVTPL | | |
| - Equity securities | 17 | - |

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7. BORROWINGS

Short-term borrowings are as follows:

| | 31 December 2018 | 31 December 2017 |
|-----------------|------------------|------------------|
| Bank borrowings | <u>1,099</u> | <u>744</u> |

Short-term borrowings as of 31 December 2018 is as follows:

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2018 |
|--------|----------|-------------------------|---------------|------------------|
| 959 | EUR | 0.40% - 0.75% | December 2019 | <u>1,099</u> |

Short-term borrowings as of 31 December 2017 is as follows:

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2017 |
|--------|----------|-------------------------|---------------|------------------|
| 400 | USD | 1.64% - 2.30% | October 2018 | 400 |
| 288 | EUR | 0.40% - 0.75% | December 2018 | 344 |
| | | | | <u>744</u> |

Short-term portions of long-term borrowings are as follows:

| | 31 December 2018 | 31 December 2017 |
|--------------------------------------|------------------|------------------|
| Finance lease obligations (Note: 18) | 980 | 954 |
| Bank borrowings | 290 | 29 |
| | <u>1,270</u> | <u>983</u> |

Long-term borrowings are as follows:

| | 31 December 2018 | 31 December 2017 |
|--------------------------------------|------------------|------------------|
| Finance lease obligations (Note: 18) | 7,006 | 7,259 |
| Bank borrowings | 1,233 | 80 |
| | <u>8,239</u> | <u>7,339</u> |

Details of bank borrowings as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------|------------------|------------------|
| Less than 1 year | 290 | 29 |
| Between 1 - 5 years | 1,233 | 80 |
| | <u>1,523</u> | <u>109</u> |

| Amount | Currency | Interest Rate Type | Effective Interest Rate | Payment Period | 31 December 2018 |
|--------|----------|--------------------|-----------------------------------|------------------|------------------|
| 623 | EUR | Fixed | 4.00% - 4.60% | May'19 - June'23 | 714 |
| 706 | EUR | Floating | Euribor + 2.45% - Euribor + 3.50% | Jan'19 - July'23 | 809 |
| | | | | | <u>1,523</u> |

| Amount | Currency | Interest Rate Type | Effective Interest Rate | Payment Period | 31 December 2017 |
|--------|----------|--------------------|-------------------------|----------------|------------------|
| 91 | EUR | Floating | Euribor + 2.45% | Feb'18-Sep' 21 | 109 |

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7. BORROWINGS (cont'd)

Reconciliation of liabilities arising from financing activities:

| | 2017 | Payment | Non-cash Changes | Proceeds From | 2018 |
|-------------------|--------------|----------------|---------------------|------------------|---------------|
| Lease Liabilities | 8,213 | (1,086) | 43 | 816 | 7,986 |
| Bank Borrowings | 853 | (1,268) | (20) | 3,057 | 2,622 |
| | <u>9,066</u> | <u>(2,354)</u> | <u>23</u> | <u>3,873</u> | <u>10,608</u> |

8. OTHER FINANCIAL LIABILITIES

Short-term other financial liabilities of the Group are as follows:

| | 31 December 2018 | 31 December 2017 |
|-----------------------------|------------------|------------------|
| Other financial liabilities | <u>6</u> | <u>16</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 PARTIES

Short-term trade receivables from related parties are as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------------------------|------------------|------------------|
| Posta ve Telgraf Teşkilatı A.Ş. (PTT) | 1 | 1 |
| Other ^(*) | 1 | 1 |
| | <u>2</u> | <u>2</u> |

^(*) Related parties of which amounts are less than USD 1 are classified as other.

Other short-term receivables from related parties are as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------|------------------|------------------|
| Turkish DO&CO | 2 | - |
| TCI | 1 | - |
| | <u>3</u> | <u>-</u> |

Other short-term payables from related parties are as follows:

| | 31 December 2018 | 31 December 2017 |
|----------|------------------|------------------|
| THY Opet | - | 7 |

Short-term trade payables to related parties that are accounted by using the equity method are as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------|------------------|------------------|
| THY Opet | 95 | 77 |
| TEC | 60 | 36 |
| Turkish DO&CO | 35 | 28 |
| Sun Express | 19 | 8 |
| TGS | 19 | 16 |
| Goodrich | 2 | 1 |
| TCI | 1 | 2 |
| | <u>231</u> | <u>168</u> |

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9. RELATED PARTIES (cont'd)

Transactions with related parties for the year ended 31 December 2018 and 2017 are as follows:

a) Sales to related parties:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Sun Express | 42 | 24 |
| TEC | 27 | 13 |
| PTT | 9 | 8 |
| TGS | 4 | 6 |
| Uçak Koltuk | 2 | - |
| Turkish DO&CO | 1 | 1 |
| Goodrich | 1 | - |
| Türk Telekomünikasyon A.Ş. (Türk Telekom) | - | 1 |
| | <u>86</u> | <u>53</u> |

b) Purchases from related parties:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------|---------------------------------|---------------------------------|
| THY Opet | 1,889 | 1,388 |
| TEC | 317 | 288 |
| Turkish DO&CO | 274 | 240 |
| TGS | 266 | 241 |
| Sun Express | 169 | 158 |
| Goodrich | 14 | 9 |
| Uçak Koltuk | 3 | 2 |
| TCI | 2 | 1 |
| PTT | 2 | 1 |
| Türk Telekom | 1 | 1 |
| | <u>2,937</u> | <u>2,329</u> |

Details of the financial assets for related parties as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|-------------------------|------------------|------------------|
| Financial investments | 1,529 | 928 |
| Letter of credit | 862 | 434 |
| Bank credit | 115 | - |
| Debt securities | 25 | - |
| Equity share | 4 | - |
| Banks - Demand deposits | 2 | 3 |
| | <u>2,537</u> | <u>1,365</u> |

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9. RELATED PARTIES (cont'd)

Details of the time deposits deposited at related parties as of 31 December 2018 and 2017 are as follows (cont'd):

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2018 |
|--------|----------|-------------------------|------------|------------------|
| 1,310 | TL | 23.28% - 24.70% | April 2019 | 297 |
| 1,072 | EUR | 2.54% - 3.62% | May 2019 | 1,232 |
| | | | | <u>1,529</u> |

| Amount | Currency | Effective Interest Rate | Maturity | 31 December 2018 |
|--------|----------|-------------------------|--------------|------------------|
| 147 | TL | 12.58% | January 2018 | 39 |
| 34 | USD | 3.53% | March 2018 | 34 |
| 713 | EUR | 1.68% - 2.34% | April 2018 | 855 |
| | | | | <u>928</u> |

Interest income from related parties:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------------------|---------------------------------|---------------------------------|
| Türkiye Halk Bankası A.Ş. | 57 | 28 |
| Ziraat Bankası A.Ş. | 3 | 1 |
| | <u>60</u> | <u>29</u> |

Interest expense from related parties:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------------|---------------------------------|---------------------------------|
| Ziraat Bankası A.Ş. | 4 | 6 |

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, seat sales operations and maintenance services; transactions between the Group and TGS are related to ground services; transactions between the Group and TEC are related to engine maintenance services; transactions between the Group and PTT are related to cargo transportation; transactions between the Group and Halk Bankası and Ziraat Bankası are related to banking services and transactions between the Group and Türk Telekom are related to advertising and telecommunication 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 2017: USD 4).

10. TRADE RECEIVABLES AND PAYABLES

Trade receivables from third parties as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|------------------|------------------|
| Trade receivables | 638 | 665 |
| Allowance for doubtful receivables | (70) | (75) |
| | <u>568</u> | <u>590</u> |

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10. TRADE RECEIVABLES AND PAYABLES (cont'd)

Provision for doubtful receivables has been determined based on past experience for uncollectible receivables, and also ECL calculation in accordance with IFRS 9. Details for credit risk, foreign currency risk and impairment for trade receivables are explained in Note 35.

Trade payables to third parties as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------|------------------|------------------|
| Trade payables | 791 | 686 |
| Other trade payables | - | 1 |
| | <u>791</u> | <u>687</u> |

The Group currency risk assessment has been explained in Note 35.

11. PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables related to employee benefits as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|------------------|------------------|
| Salary accruals | 115 | 108 |
| Social security premiums payable | 43 | 40 |
| Bonus accruals | 33 | 41 |
| Due to Personnel | 8 | 11 |
| | <u>199</u> | <u>200</u> |

Changes in the provisions for bonus for the years ended 31 December 2018 and 2017 are set out below:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Provisions at the beginning of the year | 41 | - |
| Provisions for the current year | 33 | 41 |
| Provisions released | (41) | - |
| Provisions at the end of the year | <u>33</u> | <u>41</u> |

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12. OTHER RECEIVABLES AND PAYABLES

Other short-term receivables from third parties as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Predelivery payments made for aircrafts | 809 | 117 |
| Value added tax receivables | 134 | 54 |
| Receivables from technical purchases | 118 | 71 |
| Bank deposits with transfer limitations ^(*) | 90 | 55 |
| Receivables from pilots for flight training | 19 | 16 |
| Others | 8 | 6 |
| | <u>1,178</u> | <u>319</u> |

^(*)As of 31 December 2018, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Republic of Sudan, Gabon, Somalia, Benin, Republic of Kenya, Republic of Zimbabwe and Iran. (As of 31 December 2017, the balance of this account includes bank deposits in Morocco, Ethiopia, Bangladesh, Egypt, Algeria, Nigeria, Senegal, Niger, Mali, Republic of Cote D'ivoire, Burkina Faso, Eritrea, Mozambique, Bolivarian Republic of Venezuela, Republic of Cameroon, Republic of Chad, Gabon and Benin.)

Other long-term receivables from third parties as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Predelivery payments made for aircrafts | 505 | 247 |
| Receivables related to investment certificates | 238 | 256 |
| Receivables from pilots for flight training | 114 | 101 |
| Interest and commodity swap agreement deposits | 94 | - |
| Deposits and guarentees given | 47 | 9 |
| Bank deposits with transfer limitations ^(**) | 6 | 6 |
| | <u>1,004</u> | <u>619</u> |

^(**) As of 31 December 2018, the balance of this account includes bank deposits in Syria.

Other short-term payables to third parties are as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|------------------|------------------|
| Taxes and funds payable | 52 | 43 |
| Deposits and guarantees received | 12 | 10 |
| Payables to lessors | 10 | 10 |
| Other liabilities | 4 | 2 |
| | <u>78</u> | <u>65</u> |

Other long-term payables to third parties are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Payables to lessors | 20 | 30 |
| Deposits and guarantees received | 16 | 15 |
| Interest and commodity swap agreement deposits | - | 38 |
| | <u>36</u> | <u>83</u> |

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13. INVENTORIES

| | 31 December 2018 | 31 December 2017 |
|------------------------------|------------------|------------------|
| Spare parts | 139 | 145 |
| Other inventories | 73 | 73 |
| | <u>212</u> | <u>218</u> |
| Provision for impairment (-) | (22) | (25) |
| | <u>190</u> | <u>193</u> |

The change in the value of provision for impairment for the years ended 31 December 2018 and 2017 is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Provision at the beginning of the year | 25 | 19 |
| Charges during the year | (3) | 6 |
| Provision at the end of the year | <u>22</u> | <u>25</u> |

14. PREPAID EXPENSES AND DEFERRED INCOME

Short-term prepaid expenses are as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|------------------|------------------|
| Advances given for purchases | 79 | 25 |
| Prepaid operating lease expenses | 20 | 20 |
| Prepaid advertising expenses | 19 | 13 |
| Prepaid sales commissions | 15 | 13 |
| Other prepaid expenses | 59 | 48 |
| | <u>192</u> | <u>119</u> |

Long-term prepaid expenses are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Prepaid engine maintenance expenses | 609 | 435 |
| Advances given for property and equipment purchases | 109 | 8 |
| Prepaid aircraft financing expenses | 43 | 47 |
| Other prepaid expenses | 6 | 6 |
| | <u>767</u> | <u>496</u> |

Deferred income is as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|------------------|------------------|
| Passenger flight liabilities | 1,002 | 1,000 |
| Other short-term deferred income | 50 | 16 |
| | <u>1,052</u> | <u>1,016</u> |

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14. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

Passenger flight liability is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Flight liability generating from ticket sales | 741 | 763 |
| Flight liability generating from frequent flyer program | 261 | 237 |
| | <u>1,002</u> | <u>1,000</u> |

Other short-term deferred income is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Advances received | 29 | 10 |
| Deferred finance income | 11 | 5 |
| Unearned bank protocol revenue accruals | 10 | 1 |
| | <u>50</u> | <u>16</u> |

Long-term deferred income is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Deferred finance income | 47 | 40 |
| Gross manufacturer's credits | 31 | 31 |
| Accumulated depreciation of manufacturer's credit | (30) | (29) |
| Unearned bank protocol revenue accruals | 12 | - |
| | <u>60</u> | <u>42</u> |

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15. PROPERTY AND EQUIPMENT

| | 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 |
|-------------------------------------|---------------------------------------|--|--------------------------------|-----------|---------------|---------------------------------------|------------------------|--------------------------|--------|
| Cost | | | | | | | | | |
| Opening balance at 1 January 2018 | 222 | 376 | 187 | 16,398 | 648 | 551 | 520 | 334 | 19,236 |
| Additions | 63 | 67 | 30 | 1,204 | 87 | 130 | 16 | 437 | 2,034 |
| Transfer ^(c) | 18 | 1 | - | 10 | 8 | - | 14 | (53) | (2) |
| Disposals | - | (15) | (3) | (121) | (5) | (98) | (19) | - | (261) |
| Closing balance at 31 December 2018 | 303 | 429 | 214 | 17,491 | 738 | 583 | 531 | 718 | 21,007 |
| Accumulated Depreciation | | | | | | | | | |
| Opening balance at 1 January 2018 | 78 | 204 | 132 | 5,138 | 225 | 285 | 172 | - | 6,234 |
| Depreciation charge | 11 | 36 | 22 | 818 | 47 | 94 | 48 | - | 1,076 |
| Disposals | - | (5) | (3) | (121) | (5) | (69) | (18) | - | (221) |
| Closing balance at 31 December 2018 | 89 | 235 | 151 | 5,835 | 267 | 310 | 202 | - | 7,089 |
| Net book value at 31 December 2018 | 214 | 194 | 63 | 11,656 | 471 | 273 | 329 | 718 | 13,918 |
| Net book value at 31 December 2017 | 144 | 172 | 55 | 11,260 | 423 | 266 | 348 | 334 | 13,002 |

^(c) Construction in progress amounting to USD 2 has been transferred to intangible assets.

As of 31 December 2018, carrying value of the aircrafts and spare engines acquired through finance leases is USD 10,892 (31 December 2017: USD 10,826)

Depreciation and amortization expenses are recognized in cost of sales is amounting to USD 1,038 (31 December 2017: USD 1,009), general administrative expenses is amounting to USD 43 (31 December 2017: USD 51) and marketing and sales expenses is amounting to USD 6 (31 December 2017: USD 6).

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15. PROPERTY AND EQUIPMENT (cont'd)

| | 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 |
|-------------------------------------|---------------------------------|--|--------------------------------|-----------|---------------|---------------------------------------|------------------------|--------------------------|---------|
| Cost | | | | | | | | | |
| Opening balance at 1 January 2017 | 218 | 367 | 176 | 16,279 | 608 | 539 | 500 | 235 | 18,922 |
| Additions | - | 15 | 11 | 1,138 | 92 | 94 | 20 | 131 | 1,501 |
| Transfer | 4 | 1 | 3 | 23 | - | - | - | (32) | (1) |
| Disposals | - | (7) | (3) | (1,042) | (52) | (82) | - | - | (1,186) |
| Closing balance at 31 December 2017 | 222 | 376 | 187 | 16,398 | 648 | 551 | 520 | 334 | 19,236 |
| Accumulated Depreciation | | | | | | | | | |
| Opening balance at 1 January 2017 | 66 | 177 | 112 | 4,549 | 204 | 203 | 135 | - | 5,446 |
| Depreciation charge | 12 | 30 | 23 | 772 | 44 | 133 | 37 | - | 1,051 |
| Disposals | - | (3) | (3) | (183) | (23) | (51) | - | - | (263) |
| Closing balance at 31 December 2017 | 78 | 204 | 132 | 5,138 | 225 | 285 | 172 | - | 6,234 |
| Net book value at 31 December 2017 | 144 | 172 | 55 | 11,260 | 423 | 266 | 348 | 334 | 13,002 |
| Net book value at 31 December 2016 | 152 | 190 | 64 | 11,730 | 404 | 336 | 365 | 235 | 13,476 |

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16. OTHER INTANGIBLE ASSETS

| | Slot Rights and Acquired Technical Licenses | Other Rights | Other Intangible Assets | Total |
|-------------------------------------|---|--------------|-------------------------|-------|
| Cost | | | | |
| Opening balance at 1 January 2018 | 44 | 148 | 5 | 197 |
| Additions | - | 25 | - | 25 |
| Transfers | - | 2 | - | 2 |
| Closing balance at 31 December 2018 | 44 | 175 | 5 | 224 |
| Accumulated Amortization | | | | |
| Opening balance at 1 January 2018 | - | 130 | 1 | 131 |
| Amortization charge | - | 11 | - | 11 |
| Closing balance at 31 December 2018 | - | 141 | 1 | 142 |
| Net book value at 31 December 2018 | 44 | 34 | 4 | 82 |
| Net book value at 31 December 2017 | 44 | 18 | 4 | 66 |
| Cost | | | | |
| Opening balance at 1 January 2017 | 44 | 140 | 5 | 189 |
| Additions | - | 7 | - | 7 |
| Transfers | - | 1 | - | 1 |
| Closing balance at 31 December 2017 | 44 | 148 | 5 | 197 |
| Accumulated Amortization | | | | |
| Opening balance at 1 January 2017 | - | 115 | 1 | 116 |
| Amortization charge | - | 15 | - | 15 |
| Closing balance at 31 December 2017 | - | 130 | 1 | 131 |
| Net book value at 31 December 2017 | 44 | 18 | 4 | 66 |
| Net book value at 31 December 2016 | 44 | 25 | 4 | 73 |

The Group considers slot rights and licenses received through the acquisition of MNG Teknik and accounted such assets as intangible assets at an amount of USD 10 with indefinite useful lives as these assets do not have any expiry date and are usable in the foreseeable future.

17. GOODWILL

The goodwill amounting to 12 USD is recognized from the acquisition of MNG Teknik has been recognized in the consolidated financial statements.

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18. LEASING TRANSACTIONS

Maturities of finance lease obligations are as follows:

| | Future Minimum Lease Payments | | Interest | | Present Values of Minimum Lease Payments | |
|---------------------|-------------------------------|------------------|------------------|------------------|--|------------------|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| Less than 1 year | 1,127 | 1,105 | (147) | (155) | 980 | 950 |
| Between 1 – 5 years | 3,741 | 3,718 | (359) | (431) | 3,382 | 3,287 |
| Over 5 years | 3,733 | 4,189 | (109) | (213) | 3,624 | 3,976 |
| | <u>8,601</u> | <u>9,012</u> | <u>(615)</u> | <u>(799)</u> | <u>7,986</u> | <u>8,213</u> |

| | 31 December 2018 | 31 December 2017 |
|---------------------------|------------------|------------------|
| Interest Range: | | |
| Floating rate obligations | 5,020 | 4,979 |
| Fixed rate obligations | 2,966 | 3,234 |
| | <u>7,986</u> | <u>8,213</u> |

The Group acquired certain portion of its aircrafts and spare engines through finance leases. The lease terms are between 10 to 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 2018, the US Dollars, Euro, JPY and Swiss Franc denominated lease obligations' weighted average interest rates are 2.66% (31 December 2017: 2.77%) for the fixed rate obligations and 1.56% (31 December 2017: 1.48%) for the floating rate obligations.

19. GOVERNMENT GRANTS AND INCENTIVES

Incentive certificates dated, 28.12.2010, 18.12.2014, 11.07.2017, 18.09.2017, 1.03.2018, 09.08.2018 and 11.09.2018 were obtained from Ministry of Industry and Technology for investment of aircrafts. These certificates provide the Group with certain advantages on 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 these investment certificates.

20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions as of 31 December 2018 and 31 December 2017 are as follows:

Short-term provision for employee benefits is as follows:

| | 31 December 2018 | 31 December 2017 |
|--------------------------------|------------------|------------------|
| Provisions for unused vacation | <u>39</u> | <u>41</u> |

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20. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Changes in the provisions for the years ended 31 December 2018 and 2017 are set out below:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|------------------------------|------------------------------|
| Provisions at the beginning of the year | 41 | 44 |
| Provisions for the current year | 98 | (1) |
| Provisions released | (88) | - |
| Foreign currency translation differences | (12) | (2) |
| Provisions at the end of the year | <u>39</u> | <u>41</u> |

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 2018 | 31 December 2017 |
|-----------------------------|------------------|------------------|
| Provisions for legal claims | <u>16</u> | <u>22</u> |

Changes in the provisions for legal claims for the years ended 31 December 2018 and 2017 are set out below:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|------------------------------|------------------------------|
| Provisions at the beginning of the year | 22 | 17 |
| Provisions for the current year | 4 | 7 |
| Provisions released | (2) | (2) |
| Foreign currency translation differences | (8) | - |
| Provisions at the end of the year | <u>16</u> | <u>22</u> |

The Group provides with provisions for lawsuits initiated against itself due to its operations. The lawsuits initiated against the Group are usually reemployment lawsuits by former employees or related to damaged luggage or cargo. The estimates have been made on the basis of the legal advices. It is expected that provision amount will be paid within one year.

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21. COMMITMENTS

a) Guarantees/Pledges/Mortgages ("GPM") given by the Group: Amount of letters of guarantees given as of 31 December 2018 is USD 1,179 (31 December 2017: USD 859).

| | 31 December 2018 | | 31 December 2017 | |
|---|--------------------------------|-------------------|--------------------------------|-------------------|
| | Original currency amount | USD equivalent | Original currency amount | USD equivalent |
| A. Total amounts of GPM given on the behalf of its own legal entity | - | 1,179 | - | 859 |
| -Collaterals | | | | |
| TL | 38 | 7 | 34 | 9 |
| EUR | 976 | 1,118 | 326 | 391 |
| USD | 45 | 45 | 451 | 451 |
| Other | - | 9 | - | 8 |
| 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>1,179</u> | | <u>859</u> |

The ratio of other GPM ("D") given by the group to its equity is 0% as of 31 December 2018 (31 December 2017: 0%)

b) Operational lease liabilities: The breakdown of operational lease liabilities related to aircrafts is as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------|------------------|------------------|
| Less than 1 year | 337 | 359 |
| Between 1 – 5 years | 809 | 950 |
| More than 5 years | 608 | 757 |
| | <u>1,754</u> | <u>2,066</u> |

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21. COMMITMENTS (cont'd)

c) Other operational lease liabilities :

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 2018 | 31 December 2017 |
|---------------------|------------------|------------------|
| Less than 1 year | 4 | 4 |
| Between 1 – 5 years | 20 | 20 |
| More than 5 years | 17 | 23 |
| | <u>41</u> | <u>47</u> |

d) Aircraft purchase commitments:

To be delivered between the years 2018-2023, the Group signed an agreement for 230 aircrafts, (220 of aircrafts are contractual and 10 of them are optional) with a list price value of 37,400 US Dollars. 12 of these aircrafts were delivered in 2018. The Group has made an advance payment of 1,349 US Dollars relevant to these purchases as of 31 December 2018.

22. EMPLOYEE BENEFITS

Provisions for retirement pay liability as of 31 December 2018 and 2017 is comprised of the following:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Provision for retirement pay liability | <u>130</u> | <u>128</u> |

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 assumptions and calculations are changed in line with the revise made on 8 May 2008, which altered age of retirement.

Retirement pay liability is subject to an upper limit of monthly US Dollar 1,144 (full) (equivalent of TL 6,018 (full) and 5,002 (full) as 31 December 2018 and 2017 respectively) as of 31 December 2018. (31 December 2017: US Dollar 1,326 (full)).

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.

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22. EMPLOYEE BENEFITS (cont'd)

IAS 19 ("Employee Benefits") stipulates the progress of the Group'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 2018 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 10.00% annual inflation rate (31 December 2017: 7.00%) and 14.00% interest rate (31 December 2017: 12.00%). Estimated amount of non-paid retirement pay retained in the Group due to voluntary leaves is assumed as 2.63% (31 December 2017: 2.64%). Ceiling for retirement pay is revised semi-annually. Ceiling amount of US Dollar 1,144 (full) which is in effect since 31 December 2018 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 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Provision at the beginning of the year | 128 | 113 |
| Service charge for the year | 13 | 22 |
| Interest charges | 11 | 12 |
| Actuarial loss | 25 | 5 |
| Payments | (10) | (14) |
| Foreign currency translation difference | (37) | (10) |
| Provision at the end of the year | <u>130</u> | <u>128</u> |

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23. EXPENSES BY NATURE

Expenses by nature for the year ended 31 December 2018 and 2017 are as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Fuel expenses | 3,768 | 2,866 |
| Personnel expenses | 1,772 | 1,761 |
| Depreciation and amortisation charges | 1,087 | 1,066 |
| Aircraft maintenance expenses | 804 | 645 |
| Ground services expenses | 733 | 656 |
| Passenger services and catering expenses | 560 | 510 |
| Air traffic control expenses | 542 | 509 |
| Airport expenses | 514 | 469 |
| Commissions and incentives | 401 | 318 |
| Operating lease expenses | 336 | 324 |
| Wet lease expenses | 259 | 203 |
| Reservation systems expenses | 255 | 232 |
| Advertisement and promotion expenses | 189 | 165 |
| Service expenses | 73 | 71 |
| Rents | 68 | 68 |
| IT & communication expenses | 47 | 47 |
| Insurance expenses | 47 | 51 |
| Taxes and duties | 41 | 39 |
| Transportation expenses | 37 | 30 |
| Consultancy expenses | 27 | 14 |
| Systems use and associateship expenses | 11 | 9 |
| Other expenses | 115 | 111 |
| | <u>11,686</u> | <u>10,164</u> |

24. OTHER ASSETS AND LIABILITIES

Other current assets as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------------------|------------------|------------------|
| Deffered VAT | 92 | 83 |
| Personnel and business advances | 7 | 4 |
| | <u>99</u> | <u>87</u> |

Other short-term liabilities as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Accruals for maintenance expenses of aircraft under operating lease | 198 | 196 |
| Accruals for other expenses | 7 | 9 |
| Other liabilities | 2 | 3 |
| | <u>207</u> | <u>208</u> |

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25. SHAREHOLDERS' EQUITY

The ownership structure of the Group's share capital is as follows:

| (Millions of TL) | Class | % | 31 December 2018 | % | 31 December 2017 |
|--|-------|-------|------------------|-------|------------------|
| Turkey Wealth Fund ^(*) | A | 49.12 | 678 | 49.12 | 678 |
| Republic of Turkey Treasury and Finance Ministry Privatization Administration ^(*) | C | - | - | - | - |
| 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 |
| Share capital (Turkish Lira) | | | <u>2,504</u> | | <u>2,504</u> |
| Share capital (USD Equivalent) | | | <u>1,597</u> | | <u>1,597</u> |

^(*) 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 Company, approved by the decision of the Turkish Republic High Planning Board on 30 October 1990.

49.12% share of the Group owned by Republic of Turkey Treasury and Finance Ministry Privatisation Administration has been transferred to Turkey Wealth Fund as of 3 February 2017. Turkey Wealth Fund, whose capital fully belongs to the Republic of Turkey, Treasury and Finance Ministry Privatization Administration, is a state owned entity being affiliated to the Presidency of The Republic of Turkey. Aforementioned share transfer will not lead to any change on the current management structure, business strategy, policies and commercial decisions of the Group.

^(**) Inflation adjustment on share capital represents inflation uplift of historical capital payments based on inflation indices until 31 December 2004.

As of 31 December 2018, Registered paid-in share capital of the Company comprised 137,999,999,999 Class A shares and 1 Class C share, all with a par value of Kr 1 each. The Class C share belongs to the Republic of Turkey Treasury and Finance 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 of Directors are subject to the positive vote of the class C Shareholder:

a) Decisions that will negatively affect the Group's mission Defined in Article 3.1. of the Articles of Association,

b) Suggesting change in the Articles of Association at General Assembly,

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25. SHAREHOLDERS' EQUITY (cont'd)

- Articles of Association 14: The following decisions of the Board of Directors are subject to the positive vote of the class C Shareholder (cont'd):

c) Increasing share capital,

d) Approval of transfer of the shares issued to the name and their registration to the "Share Registry",

e) Every decision or action which directly or indirectly put the Group 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 Group's shares held by Turkish State decrease under 20%.)

f) Decisions relating to merges and liquidation,

g) 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 Group'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, provisions for unused vacation, legal claims and retirement pay liability 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 Group.

Actuarial Differences on Defined Benefit Plans

As a result of the adoption of IAS 19, all actuarial differences are recognized immediately in other comprehensive income.

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25. 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.

As of 2018, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %51 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

26. REVENUE

Breakdown of gross profit is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|-----------------------------------|---------------------------------|---------------------------------|
| Passenger revenue | | |
| Scheduled | 10,854 | 9,330 |
| Unscheduled | 64 | 73 |
| Total passenger revenue | 10,918 | 9,403 |
| Cargo revenue | | |
| Carried by passenger aircraft | 829 | 722 |
| Carried by cargo aircraft | 818 | 595 |
| Total cargo revenue | 1,647 | 1,317 |
| Total passenger and cargo revenue | 12,565 | 10,720 |
| Technical revenue | 226 | 173 |
| Other revenue | 64 | 65 |
| Net sales | 12,855 | 10,958 |
| Cost of sales (-) | (10,136) | (8,762) |
| Gross profit | 2,719 | 2,196 |

Breakdown of total passenger and cargo revenue by geography is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|-----------------------------------|---------------------------------|---------------------------------|
| International flights | | |
| - Europe | 3,730 | 3,113 |
| - Far East | 2,908 | 2,581 |
| - Middle East | 1,549 | 1,270 |
| - America | 1,797 | 1,429 |
| - Africa | 1,230 | 997 |
| Total | 11,214 | 9,390 |
| Domestic flights | 1,351 | 1,330 |
| Total passenger and cargo revenue | 12,565 | 10,720 |

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27. COST OF SALES

Breakdown of the cost of sales is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Fuel expenses | 3,768 | 2,866 |
| Personnel expenses | 1,379 | 1,369 |
| Depreciation and amortisation charges | 1,038 | 1,009 |
| Aircraft maintenance expenses | 804 | 645 |
| Ground services expenses | 733 | 656 |
| Passenger services and catering expenses | 560 | 510 |
| Air traffic control expenses | 542 | 509 |
| Airport expenses | 514 | 469 |
| Operating lease expenses | 336 | 324 |
| Wet lease expenses | 259 | 203 |
| Insurance expenses | 45 | 49 |
| Transportation expenses | 37 | 30 |
| Rents | 36 | 34 |
| Service expenses | 30 | 29 |
| Taxes and duties | 15 | 14 |
| IT & communication expenses | 5 | 6 |
| Other expenses | 35 | 40 |
| | 10,136 | 8,762 |

28. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES

Breakdown of general administrative expenses is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Personnel expenses | 95 | 112 |
| Depreciation and amortisation charges | 43 | 51 |
| IT & communication expenses | 35 | 34 |
| Service expenses | 30 | 31 |
| Consultancy expenses | 19 | 6 |
| Systems use and associateship expenses | 11 | 9 |
| Rents | 10 | 13 |
| Insurance expenses | 2 | 2 |
| Taxes and duties | 2 | 2 |
| Other general administrative expenses | 13 | 15 |
| | 260 | 275 |

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28. GENERAL ADMINISTRATIVE EXPENSES AND MARKETING AND SALES EXPENSES (cont'd)

Breakdown of marketing and sales expenses is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------------------------------|---------------------------------|---------------------------------|
| Commissions and incentives | 401 | 318 |
| Personnel expenses | 298 | 280 |
| Reservation systems expenses | 255 | 232 |
| Advertisement and promotion expenses | 189 | 165 |
| Taxes and duties | 24 | 23 |
| Rents | 22 | 21 |
| Service expenses | 13 | 11 |
| Consultancy expenses | 8 | 8 |
| IT & communication expenses | 7 | 7 |
| Depreciation and amortisation charges | 6 | 6 |
| Other marketing and sales expenses | 67 | 56 |
| | <u>1,290</u> | <u>1,127</u> |

29. OTHER OPERATING INCOME / EXPENSES

Breakdown of other operating income is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Manufacturers' credits | 79 | 46 |
| Insurance, indemnities, penalties income | 34 | 46 |
| Turnover premium from suppliers | 11 | 11 |
| Provisions released | 10 | 17 |
| Non- interest income from banks | 10 | 8 |
| Rediscount interest income | 5 | 1 |
| IFRS 9 Adjustment | 4 | - |
| Rent income | 3 | 8 |
| Delay interest income | 1 | 2 |
| Foreign exchange gains from operational activities, net | - | 119 |
| Other operating income | 8 | 6 |
| | <u>165</u> | <u>264</u> |

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29. OTHER OPERATING INCOME / EXPENSES (cont'd)

Breakdown of other operating expenses is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Foreign exchange losses from operational activities, net | 109 | - |
| Provisions | 9 | 21 |
| Indemnity and penalty expenses | 6 | 2 |
| Other operating expenses | 19 | 13 |
| | <u>143</u> | <u>36</u> |

30. INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

Breakdown of income from investment activities is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Income from investment incentives | 62 | 62 |
| Interest income from financial investment | 30 | 65 |
| Gain on sale of fixed assets | 7 | 50 |
| Gain on sale of financial investments | 2 | 1 |
| | <u>101</u> | <u>178</u> |

Breakdown of expense from investment activities is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|------------------------------|---------------------------------|---------------------------------|
| Loss on sale of fixed assets | 1 | 1 |
| Fair value losses | 1 | - |
| | <u>2</u> | <u>1</u> |

31. FINANCIAL INCOME/ EXPENSES

Breakdown of financial income is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Interest income | 93 | 48 |
| Fair value gains on derivative financial instruments, net | 36 | - |
| Other financial incomes | - | 8 |
| | <u>129</u> | <u>56</u> |

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31. FINANCIAL INCOME/ EXPENSES (cont'd)

Breakdown of financial expenses is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Foreign exchange losses on financial activities, net | 282 | 780 |
| Finance lease interest expenses | 235 | 209 |
| Aircraft financing expenses | 21 | 29 |
| Rediscount interest expense from repayments of aircrafts | 19 | - |
| Interest expenses on employee benefits | 11 | 12 |
| Fair value losses on derivative financial instruments, net | - | 39 |
| Other financial expenses | 20 | 9 |
| | <u>588</u> | <u>1,078</u> |

32. TAX ASSETS AND LIABILITIES

Breakdown of assets related to current tax is as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------|------------------|------------------|
| Prepaid taxes | <u>61</u> | <u>32</u> |

Tax liability is as follows:

| | 31 December 2018 | 31 December 2017 |
|------------------------------|------------------|------------------|
| Provisions for corporate tax | 40 | 49 |
| Prepaid taxes and funds | (40) | (37) |
| Corporate tax liability | <u>-</u> | <u>12</u> |

Tax expense is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--------------------------|---------------------------------|---------------------------------|
| Current year tax expense | 40 | 49 |
| Deferred tax expense | 161 | 7 |
| Tax expense | <u>201</u> | <u>56</u> |

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32. TAX ASSETS AND LIABILITIES (cont'd)

Tax effect related to other comprehensive income is as follows:

| | 1 January - 31 December 2018 | | | 1 January - 31 December 2017 | | |
|---|------------------------------|----------------|---------------------|------------------------------|----------------|---------------------|
| | Amount before tax | Tax expense | Amount after tax | Amount before tax | Tax expense | Amount after tax |
| Changes in foreign currency translation difference | (52) | - | (52) | (2) | - | (2) |
| Change in cash flow hedge reserve | (83) | 22 | (61) | 53 | (12) | 41 |
| Gains on Remeasuring FVOCI | (9) | 2 | (7) | 1 | - | 1 |
| Change in actuarial losses from retirement pay obligation | (25) | 5 | (20) | (5) | 1 | (4) |
| Other comprehensive income | <u>(169)</u> | <u>29</u> | <u>(140)</u> | <u>47</u> | <u>(11)</u> | <u>36</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 22%. In accordance with the Article 91 of regulation numbered 7061, published in Official Gazette on 5 December 2017, "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

The tax legislation provides for a temporary tax of 22% (2017: 20%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2018. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, tax rate for temporary tax is set to 22% for the years 2018, 2019 and 2020.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. However, losses cannot be carried back for offset against profits from previous periods. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of immovable properties and participation shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity until the end of the fifth year following the sale. The remaining 25% of such capital gains are subject to corporate tax. However, according to the amendments by Law numbered 7061, this rate is reduced from 75% to 50% with regard to immovable properties and tax declarations starting from 2018 will be calculated using 50% for immovable properties.

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32. TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

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 22% 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.

Breakdown of the deferred tax assets / (liabilities) is as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Fixed assets | (1,910) | (1,539) |
| Adjustments for passenger flight liabilities | (150) | (126) |
| Tax loss carried forward | 674 | 537 |
| Income and expense for future years | 92 | 74 |
| Accruals for expenses | 48 | 48 |
| Miles accruals | 35 | 35 |
| Change in fair value of derivative instruments | 31 | (17) |
| Provisions for employee benefits | 27 | 24 |
| Provisions for unused vacation | 8 | 1 |
| Other | 7 | 1 |
| Deferred tax liabilities | <u>(1,138)</u> | <u>(962)</u> |

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32. TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

The changes of deferred tax liability for the period ended 1 January – 31 December 2018 and 2017 are as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Opening balance at 1 January | 962 | 955 |
| Adjustments for changes in accounting policies | (4) | - |
| Restated deferred tax liability at the beginning of the year | 958 | 955 |
| Deferred tax expense | 161 | 7 |
| Foreign currency translation difference | 48 | (11) |
| Tax (income) / expense from hedging reserves | (22) | 12 |
| Tax income from FVOCI | (1) | - |
| Tax income of actuarial losses on retirement pay obligation | (6) | (1) |
| Deferred tax liability at the end of the year | <u>1,138</u> | <u>962</u> |

The redemption schedule of carry forward tax losses, which are considered in deferred tax calculation, is as follows:

| | 31 December 2018 | 31 December 2017 |
|--------------------|------------------|------------------|
| Expired as of 2020 | 75 | 105 |
| Expired as of 2021 | 1,225 | 1,709 |
| Expired as of 2022 | 579 | 789 |
| Expired as of 2023 | 1,488 | - |
| | <u>3,367</u> | <u>2,603</u> |

Reconciliation with current tax charge for year period 1 January – 31 December 2018 and 2017 are as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Reconciliation of effective tax charge | | |
| Profit from operations before tax | 954 | 279 |
| Domestic expense tax rate of 22% | (210) | (56) |
| Taxation effects on: | | |
| - deduction | 26 | - |
| - investments accounted by using the equity method | 25 | 20 |
| - expense from investment certificates | 12 | 12 |
| - investment incentive | 4 | - |
| - adjustment for prior year loss | 3 | (2) |
| - effect of the change in the deferred tax rate | - | 3 |
| - non deductible expenses | (15) | - |
| - foreign currency translation difference | (15) | (33) |
| - exception | (10) | - |
| - others | (21) | - |
| Tax charge in statement of loss | <u>(201)</u> | <u>(56)</u> |

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33. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated profit or loss and other comprehensive income is determined by dividing the net income by the weighted average number of shares that have been outstanding during the relevant period.

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.

Number of total shares and calculation of earnings per share at 1 January – 31 December 2018 and 2017:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Number of shares outstanding at 1 January (in full) | 138,000,000,000 | 138,000,000,000 |
| 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 profit for the year | 753 | 223 |
| Basic profit per share (Full US Cents) ^(*) | 0.55 | 0.16 |
| Diluted profit per share (Full US Cents) ^(*) | 0.55 | 0.16 |

^(*) Basic and diluted (losses) per share are the same as there are no dilutive potential ordinary shares.

34. DERIVATIVE FINANCIAL INSTRUMENTS

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2018 and 2017 are as follows:

| <u>Derivative financial assets</u> | <u>31 December 2018</u> | <u>31 December 2017</u> |
|--|-------------------------|-------------------------|
| Derivative instruments for fuel prices cash flow hedge | 34 | 184 |
| Derivative instruments for cross currency rate cash flow hedge | 6 | 3 |
| Derivative instruments for interest rate cash flow hedge | - | 1 |
| Derivative instruments not subject to hedge accounting | 17 | 15 |
| | <u>57</u> | <u>203</u> |

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34. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Breakdown of derivative financial assets and liabilities of the Group as of 31 December 2018 and 2017 are as follows (cont'd):

| <u>Derivative financial liabilities</u> | <u>31 December 2018</u> | <u>31 December 2017</u> |
|--|-------------------------|-------------------------|
| Derivative instruments for fuel prices cash flow hedge | 118 | 4 |
| Derivative instruments for interest rate cash flow hedge | 34 | 35 |
| Derivative instruments for cross currency rate cash flow hedge | 36 | 41 |
| Derivative instruments not subject to hedge accounting | 8 | 48 |
| | <u>196</u> | <u>128</u> |

35. 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 7, 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 2017.

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|---|-------------------------|-------------------------|
| Total debts | 10,614 | 9,082 |
| Less: Cash and cash equivalents and time deposits with maturity of more than three months | (2,241) | (2,137) |
| Net debt (A) | 8,373 | 6,945 |
| Total shareholders' equity (B) | 5,945 | 5,346 |
| Total capital stock (A+B) | 14,318 | 12,291 |
| Net debt/total capital stock ratio | 0.58 | 0.57 |

(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.

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35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1.) Credit risk management

| 31 December 2018 | Receivables | | | | Deposits in Banks ^(*) | Derivative Instruments | Government Debt Securities | Corporate Debt Securities | Equity Securities |
|---|-------------------|-------------------|---------------|-------------|----------------------------------|------------------------|----------------------------|---------------------------|-------------------|
| | Trade receivables | Other receivables | | | | | | | |
| | Related Party | Third Party | Related Party | Third Party | | | | | |
| Maximum credit risk as of balance sheet date ^(*) | 2 | 509 | 3 | 2,182 | 2,020 | 57 | 135 | 66 | 17 |
| -The part of maximum credit risk under guarantee with collateral etc. ^(**) | - | (59) | - | - | - | - | - | - | - |
| A. Net book value of financial assets that are neither past due nor impaired | 2 | 360 | 3 | 2,182 | 2,020 | 57 | 135 | 66 | 17 |
| 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 | - | 79 | - | - | - | - | - | - | - |
| D. Net book value of impaired assets | - | - | - | - | - | - | - | - | - |
| -Past due (Gross carrying amount) | - | 70 | - | - | - | - | - | - | - |
| -Impairment(-) | - | (70) | - | - | - | - | - | - | - |
| -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.

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35. 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 2017 | Receivables | | | | Deposits in Banks ^(*) | Derivative Instruments | Government Debt Securities | Corporate Debt Securities | Equity Securities |
|---|-------------------|-------------------|---------------|-------------|----------------------------------|------------------------|----------------------------|---------------------------|-------------------|
| | Trade receivables | Other receivables | | | | | | | |
| | Related Party | Third Party | Related Party | Third Party | | | | | |
| Maximum credit risk as of balance sheet date ^(*) | 2 | 496 | - | 938 | 2,079 | 203 | 17 | 33 | - |
| -The part of maximum credit risk under guarantee with collateral etc. ^(**) | - | (94) | - | - | - | - | - | - | - |
| A. Net book value of financial assets that are neither past due nor impaired | 2 | 265 | - | 938 | 2,079 | 203 | 17 | 33 | - |
| 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 | - | 156 | - | - | - | - | - | - | - |
| D. Net book value of impaired assets | - | - | - | - | - | - | - | - | - |
| -Past due (Gross carrying amount) | - | 75 | - | - | - | - | - | - | - |
| -Impairment(-) | - | (75) | - | - | - | - | - | - | - |
| -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.

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35. 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 2018 are as follows:

| 31 December 2018 | Receivables | | | | Total |
|---|-------------------|-------------------|-------------------|------------------------|-------|
| | Trade Receivables | Other Receivables | Deposits in Banks | Derivative Instruments | |
| Past due 1-30 days | 55 | - | - | - | 55 |
| Past due 1-3 months | 3 | - | - | - | 3 |
| Past due 3-12 months | 19 | - | - | - | 19 |
| Past due 1-5 years | 72 | - | - | - | 72 |
| Total past due receivables | 149 | - | - | - | 149 |
| The part under guarantee with collateral etc. | 25 | - | - | - | 25 |

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35. 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 2017 are as follows:

| 31 December 2017 | Receivables | | | | Total |
|---|-------------------|-------------------|-------------------|------------------------|-------|
| | Trade Receivables | Other Receivables | Deposits in Banks | Derivative Instruments | |
| Past due 1-30 days | 46 | - | - | - | 46 |
| Past due 1-3 months | 35 | - | - | - | 35 |
| Past due 3-12 months | 109 | - | - | - | 109 |
| Past due 1-5 years | 41 | - | - | - | 41 |
| Total past due receivables | 231 | - | - | - | 231 |
| The part under guarantee with collateral etc. | 29 | - | - | - | 29 |

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35. NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (cont'd)

(b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

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 25 USD (31 December 2017: 29 USD).

As of the balance sheet date, the Group has no guarantee for past due receivables for which provisions were recognized.

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 2018 and 2017 are as follows:

| | 1 January - 31 December 2018 | 1 January -31 December 2017 |
|---------------------------------|---------------------------------|--------------------------------|
| Opening Balance | 75 | 76 |
| Charge for the year | 5 | 14 |
| Collections during the year | (8) | (15) |
| Ifrs 9 adjustment | (4) | - |
| Currency translation adjustment | 2 | - |
| Closing Balance | <u>70</u> | <u>75</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.

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35. 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 2018

| 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 | 2,622 | (2,744) | (308) | (1,126) | (1,310) | - |
| Finance lease obligations | 7,986 | (8,601) | (280) | (847) | (3,741) | (3,733) |
| Trade payables | 1,022 | (1,022) | (1,022) | - | - | - |
| Other payables | 30 | (30) | (3) | (7) | (20) | - |
| Other financial liabilities | 6 | (6) | (6) | - | - | - |
| Total | 11,666 | (12,403) | (1,619) | (1,980) | (5,071) | (3,733) |

31 December 2017

| 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 | 853 | (858) | (244) | (531) | (83) | - |
| Finance lease obligations | 8,213 | (9,012) | (276) | (829) | (3,718) | (4,189) |
| Trade payables | 855 | (855) | (855) | - | - | - |
| Other payables | 40 | (40) | (3) | (7) | (30) | - |
| Other financial liabilities | 16 | (16) | (16) | - | - | - |
| Total | 9,977 | (10,781) | (1,394) | (1,367) | (3,831) | (4,189) |

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35. 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 2018

| 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 | 57 | 27 | 8 | 6 | 13 | - |
| Derivative cash outflows | (196) | (167) | (33) | (77) | (30) | (27) |
| Derivative cash inflows/ outflows, net | (139) | (140) | (25) | (71) | (17) | (27) |

31 December 2017

| 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 | 203 | 197 | 64 | 100 | 33 | - |
| Derivative cash outflows | (128) | (120) | (42) | (26) | (21) | (31) |
| Derivative cash inflows/ outflows, net | 75 | 77 | 22 | 74 | 12 | (31) |

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.

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35. 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

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 2018 | | | | | |
|---|------------------|-------|---------|---------|-------|-------|
| | USD EQUIVALENT | TL | EUR | JPY | CHF | OTHER |
| 1.Trade Receivables | 485 | 70 | 122 | 4 | 9 | 280 |
| 2a.Monetary Financial Assets | 1,903 | 540 | 1,313 | 2 | 2 | 46 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 567 | 225 | 158 | 10 | 6 | 168 |
| 4.Current Assets (1+2+3) | 2,955 | 835 | 1,593 | 16 | 17 | 494 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | 302 | 302 | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 461 | 238 | 212 | - | - | 11 |
| 8.Non Current Assets (5+6+7) | 763 | 540 | 212 | - | - | 11 |
| 9.Total Assets (4+8) | 3,718 | 1,375 | 1,805 | 16 | 17 | 505 |
| 10.Trade Payables | 678 | 458 | 164 | - | 2 | 54 |
| 11.Financial Liabilities ^(*) | 2,209 | 1 | 1,956 | 232 | 20 | - |
| 12a.Other Liabilities, Monetary | 109 | 67 | 39 | 1 | - | 2 |
| 12b.Other Liabilities, Non Monetary | 89 | 89 | - | - | - | - |
| 13.Current Liabilities (10+11+12) | 3,085 | 615 | 2,159 | 233 | 22 | 56 |
| 14.Trade Payables | - | - | - | - | - | - |
| 15.Financial Liabilities ^(*) | 6,966 | - | 4,882 | 1,926 | 158 | - |
| 16a.Other Liabilities, Monetary | 12 | 6 | 4 | - | - | 2 |
| 16b.Other Liabilities, Non Monetary | 130 | 130 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 7,108 | 136 | 4,886 | 1,926 | 158 | 2 |
| 18.Total Liabilities (13+17) | 10,193 | 751 | 7,045 | 2,159 | 180 | 58 |
| 19.Net asset / liability position of off-balance sheet derivatives (19a-19b) | - | - | - | - | - | - |
| 19a.Off-balance sheet foreign currency derivative assets | - | - | - | - | - | - |
| 19b.Off-balance sheet foreign currency derivative liabilities | - | - | - | - | - | - |
| 20.Net foreign currency asset/(liability) position (9-18+19) | (6,475) | 624 | (5,240) | (2,143) | (163) | 447 |
| 21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a -14-15-16a) | (7,284) | 380 | (5,610) | (2,153) | (169) | 268 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | 168 | - | 168 | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

^(*) Net foreign exchange position of Group is mainly due to long term foreign currency borrowings denominated in Euro, Japanese Yen, Swiss Frank to funds its investments. Group uses these long term foreign currency borrowings to manage the risk of exchange differences with highly probable future foreign currency revenues. The USD equivalent of these borrowings amount to 6,853 USD as of 31 December 2018.

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35. 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 2017 | | | | | |
|--|-------------------|----------------|----------------|----------------|--------------|------------|
| | USD EQUIVALENT | TL | EUR | JPY | CHF | OTHER |
| 1.Trade Receivables | 567 | 125 | 114 | 3 | 7 | 318 |
| 2a.Monetary Financial Assets | 1,945 | 57 | 1,838 | 4 | 2 | 44 |
| 2b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 3.Other | 369 | 142 | 102 | 7 | 5 | 113 |
| 4.Current Assets (1+2+3) | 2,881 | 324 | 2,054 | 14 | 14 | 475 |
| 5.Trade Receivables | - | - | - | - | - | - |
| 6a.Monetary Financial Assets | - | - | - | - | - | - |
| 6b.Non Monetary Financial Assets | - | - | - | - | - | - |
| 7.Other | 107 | 4 | 94 | - | - | 9 |
| 8.Non Current Assets (5+6+7) | 107 | 4 | 94 | - | - | 9 |
| 9.Total Assets (4+8) | 2,988 | 328 | 2,148 | 14 | 14 | 484 |
| 10.Trade Payables | 538 | 363 | 138 | - | 2 | 35 |
| 11.Financial Liabilities | 721 | 16 | 478 | 207 | 20 | - |
| 12a.Other Liabilities, Monetary | 958 | 793 | 145 | 19 | 1 | - |
| 12b.Other Liabilities, Non Monetary | 63 | 63 | - | - | - | - |
| 13.Current Liabilities (10+11+12) | 2,280 | 1,235 | 761 | 226 | 23 | 35 |
| 14.Trade Payables | - | - | - | - | - | - |
| 15.Financial Liabilities | 5,818 | - | 3,543 | 2,096 | 179 | - |
| 16a.Other Liabilities, Monetary | 14 | 9 | 5 | - | - | - |
| 16b.Other Liabilities, Non Monetary | 128 | 128 | - | - | - | - |
| 17.Non Current Liabilities (14+15+16) | 5,960 | 137 | 3,548 | 2,096 | 179 | - |
| 18.Total Liabilities (13+17) | 8,240 | 1,372 | 4,309 | 2,322 | 202 | 35 |
| 19.Net asset / liability position of off-balance sheet derivatives (19a-19b) | - | - | - | - | - | - |
| 19a.Off-balance sheet foreign currency derivative assets | - | - | - | - | - | - |
| 19b.Off-balance sheet foreign currency derivative liabilities | - | - | - | - | - | - |
| 20.Net foreign currency asset/(liability) position (9-18+19) | (5,252) | (1,044) | (2,161) | (2,308) | (188) | 449 |
| 21.Net foreign currency asset / liability position of monetary items (IFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-15-16a) | (5,537) | (999) | (2,357) | (2,315) | (193) | 327 |
| 22.Fair value of foreign currency hedged financial assets | - | - | - | - | - | - |
| 23.Hedged foreign currency assets | - | - | - | - | - | - |
| 24.Hedged foreign currency liabilities | - | - | - | - | - | - |

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35. 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)

The Group is exposed to foreign exchange risk primarily from TL, EURO, JPY and CHF. The following table details the Group's sensitivity to a 10% increase and decrease in TL, EURO, JPY and CHF. 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 Group 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. The Group accounted investment loans in scope of cash flow hedge accounting and foreign exchange income/expense arising from these loans are recognized in equity. 10% increase and decrease effect of foreign exchange rates are calculated with the same method and the calculated foreign exchange gains/losses are presented as hedged portion in the foreign exchange sensitivity table. Furthermore, the hedged portion of foreign exchange gains/losses via forwards and cross currency swap transactions is classified as the amount hedged against USD in the statement of exchange rate sensitivity analysis.

| | 31 December 2018 | | | |
|--|---|---|---|---|
| | Profit / (Loss) | | Equity | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| 1- TL net asset / liability | 62 | (62) | - | - |
| 2- Part hedged from TL risk (-) | - | - | - | - |
| 3- TL net effect (1+2) | 62 | (62) | - | - |
| 4- Euro net asset / liability | 44 | (44) | (568) | 568 |
| 5- Part hedged from Euro risk (-) | (17) | 17 | - | - |
| 6- Euro net effect (4+5) | 27 | (27) | (568) | 568 |
| 7- JPY net asset / liability | (114) | 114 | (100) | 100 |
| 8- Part hedged from JPY risk (-) | - | - | - | - |
| 9- JPY net effect (7+8) | (114) | 114 | (100) | 100 |
| 10- CHF net asset / liability | 2 | (2) | (18) | 18 |
| 11- Part hedged from CHF risk (-) | - | - | - | - |
| 12- CHF net effect (10+11) | 2 | (2) | (18) | 18 |
| 13- Other foreign currency net asset / liability | 45 | (45) | - | - |
| 14- Part hedged other foreign currency risk (-) | - | - | - | - |
| 15- Other foreign currency net effect (13+14) | 45 | (45) | - | - |
| TOTAL (3 + 6 + 9 + 12 + 15) | 22 | (22) | (686) | 686 |

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35. 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 2017 | | | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Profit / (Loss) | | Equity | |
| | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % | If foreign currency appreciated 10 % | If foreign currency depreciated 10 % |
| 1- TL net asset / liability | (104) | 104 | - | - |
| 2- Part hedged from TL risk (-) | - | - | - | - |
| 3- TL net effect (1+2) | (104) | 104 | - | - |
| 4- Euro net asset / liability | (216) | 216 | - | - |
| 5- Part hedged from Euro risk (-) | - | - | - | - |
| 6- Euro net effect (4+5) | (216) | 216 | - | - |
| 7- JPY net asset / liability | (231) | 231 | - | - |
| 8- Part hedged from JPY risk (-) | - | - | - | - |
| 9- JPY net effect (7+8) | (231) | 231 | - | - |
| 10- CHF net asset / liability | (19) | 19 | - | - |
| 11- Part hedged from CHF risk (-) | - | - | - | - |
| 12- CHF net effect (10+11) | (19) | 19 | - | - |
| 13- Other foreign currency net asset / liability | 45 | (45) | - | - |
| 14- Part hedged other foreign currency risk (-) | - | - | - | - |
| 15- Other foreign currency net effect (13+14) | 45 | (45) | - | - |
| TOTAL (3 + 6 + 9 + 12 + 15) | (525) | 525 | - | - |

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.

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35. 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 2018 | 31 December 2017 |
|--|------------------|------------------|
| Instruments with fixed interest rate | | |
| Financial Liabilities | 2,966 | 3,234 |
| Financial Instruments with Variable Interest Rate | | |
| Financial Liabilities | 5,020 | 4,979 |
| Interest Swap Agreements Not Subject to Hedge Accounting (Net) | (5) | (8) |
| Interest Swap Agreements Subject to Hedge Accounting (Net) | (34) | (34) |

As indicated in Note 36, the Group fixed the interest rate for 3,352 USD of floating-interest-rated financial liabilities via an interest rate swap contracts as of 31 December 2018.

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 profit before tax of the Group for the year will decrease by USD 33 (For the year ended 31 December 2017 profit before tax will decrease by USD 29). In contrast, if Libor and Euribor interest rate decrease by 0.5%, profit before tax will increase 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 USD 34, excluding the deferred tax effect. (For the year ended 31 December 2017 the shareholders' equity of the Group will increase by USD 36, 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.

b.4.3) Fuel prices sensitivity

As explained in Note 36, 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 USD 60, excluding the deferred tax effect. (For the year ended 31 December 2017, the shareholders' equity of the Group will increase by USD 116 excluding deferred tax effect.)

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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35. 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 (cont'd)

In case of a 10% decrease in fuel prices, the shareholders' equity of the Group will decrease by USD 56, excluding the deferred tax effect. (For the year ended 31 December 2017, the shareholders' equity of the Group will decrease by USD 115, excluding deferred tax effect.)

36. 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.

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36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

| | Financial assets at amortized cost | Financial instruments at FVOCI | Financial instruments at FVTPL | Financial instruments at EVOCl at cost value | Financial liabilities at amortized cost | Book Value | Note |
|--|------------------------------------|--------------------------------|--------------------------------|--|---|------------|----------|
| 31 December 2018 Balance Sheet | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 1,636 | - | - | - | - | 1,636 | 5 |
| Financial investments and derivative financial instruments | 386 | 241 | 34 | 1 | - | 662 | 6 and 34 |
| Trade receivables | 570 | - | - | - | - | 570 | 9 and 10 |
| Other receivables | 2,185 | - | - | - | - | 2,185 | 9 and 12 |
| Financial Liabilities | | | | | | | |
| Bank borrowings | - | - | - | - | 2,622 | 2,622 | 7 and 18 |
| Finance lease obligations | - | - | - | - | 7,986 | 7,986 | 7 and 18 |
| Other financial liabilities and derivative financial instruments | - | 188 | 8 | - | 6 | 202 | 8 and 34 |
| Trade payables | - | - | - | - | 1,022 | 1,022 | 9 and 10 |

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

| 31 December 2017 Balance Sheet | Financial assets at amortized cost | Financial instruments at FVOCI | Financial instruments at FVTPL | Financial instruments at FVOCI at cost value | Financial liabilities at amortized cost | Book Value | Note |
|--|------------------------------------|--------------------------------|--------------------------------|--|---|------------|----------|
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 1,891 | - | - | - | - | 1,891 | 5 |
| Financial investments and derivative financial instruments | 195 | 238 | 15 | 1 | - | 449 | 6 and 34 |
| Trade receivables | 592 | - | - | - | - | 592 | 9 and 10 |
| Other receivables | 938 | - | - | - | - | 938 | 9 and 12 |
| Financial Liabilities | | | | | | | |
| Bank borrowings | - | - | - | - | 853 | 853 | 7 and 18 |
| Finance lease obligations | - | - | - | - | 8,213 | 8,213 | 7 and 18 |
| Other financial liabilities and derivative financial instruments | - | 80 | 48 | - | 16 | 144 | 8 and 34 |
| Trade payables | - | - | - | - | 855 | 855 | 9 and 10 |

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36. 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:

| | 31 December 2018 | Fair value level as of the reporting date | | |
|---|------------------|---|------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Financial assets | | USD | USD | USD |
| Financial assets on remeasuring FVOCI | 201 | 201 | - | - |
| Financial assets on remeasuring FVTPL | 17 | 17 | - | - |
| Derivative instruments at fair value through profit or loss | 17 | - | 17 | - |
| Derivative instruments accounted for hedge accounting | 40 | - | 40 | - |
| Total | 275 | 218 | 57 | - |
| Financial liabilities | | | | |
| Derivative instruments at fair value through profit or loss | 8 | - | 8 | - |
| Derivative instruments accounted for hedge accounting | 188 | - | 188 | - |
| Total | 196 | - | 196 | - |

CONSOLIDATED FINANCIAL RESULTS

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

36. FINANCIAL INSTRUMENTS (cont'd)

Fair Values of Financial Instruments (cont'd)

| | 31 December 2017 | Fair value level as of the reporting date | | |
|---|------------------------|---|------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| | | USD | USD | USD |
| Financial assets | | | | |
| Financial assets on remeasuring FVOCI | 50 | 50 | - | - |
| Derivative instruments at fair value through profit or loss | 15 | - | 15 | - |
| Derivative instruments accounted for hedge accounting | 188 | - | 188 | - |
| Total | 253 | 50 | 203 | - |
| Financial liabilities | | | | |
| Derivative instruments at fair value through profit or loss | 48 | - | 48 | - |
| Derivative instruments accounted for hedge accounting | 80 | - | 80 | - |
| Total | 128 | - | 128 | - |

Derivative Instruments and Hedging Transactions

In order to increase predictability of cash flow in the future, the Group uses derivative financial instruments such as currency forward contracts, foreign currency options, cross currency swap contracts, interest rate swap contracts, Brent options and swap contracts to hedge its risks associated with foreign currency, interest rate and jet fuel price fluctuation.

The floating-rate financial liabilities of the Group are explained in Note 35 b.4.2. In order to keep interest costs at an affordable level, the Group has hedged approximately 63% of floating rate USD, JPY and Euro denominated liabilities arising from financial leasing activities. Effective part of the 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 order to control risk arising from fluctuations in fuel price, the Group has begun to hedging activities, in 2009. The fuel hedge strategy, which launched in June 2009, has been updated over the years regarding market experience and requirements. In accordance with the Group's BOD resolution issued on 14 July 2017, hedging trades are decided to be done for up-to 60% of budgeted fuel consumption of maximum next 24 months, regarding market conditions. Also in the context of related change in strategy, premium paid options have also been added to the instrument alternatives, in addition to formerly used swap and zero-cost option structures. As a result of these changes, hedging strategy has become more flexible and accommodative to fuel market conditions with the optionality in tenor, hedge ratio and instrument. 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.

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36. FINANCIAL INSTRUMENTS (cont'd)

Derivative Instruments and Hedging Transactions (cont'd)

The currency mismatch between Group's income and expense causes the exchange rate risk. For this reason, FX risk hedging methodology was established for the first time in June, 2013 with the decision of the BOD and lastly updated in February 2015. Thus, it has been decided to hedge the Group's USD and TRY short positions with its EUR long position. According to the methodology, 30% of the forecasted monthly short position in TRY for the following 24 months is hedged by using forwards. Also, based on the market conditions, between 25% and 35% of the forecasted monthly short position in USD is hedged by using forwards or zero-cost collars in 24 month-period, similar to TRY. In this way, risk arising due to the exchange rate volatility is diminished and taken under control by either fixing the exchange rate at a predetermined level or controlling them in a range. The effective portion of fair value of currency 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.

As of 2018, financial lease liabilities in Japanese Yen, Swiss Frank and Euro for investment financing are designated as cash flow hedge against exchange rate risk due to highly probable future same foreign currency revenues. Group's revenue denominated in Euro and Swiss Frank covered borrowings of such foreign currency, Japanese Yen revenue covered %51 of borrowings. In this context, exchange differences arising from such these loans repayment are taken to equity and recognized in other comprehensive income.

Group's derivative instruments arising from transactions stated above and their balances as of 31 December 2018 and 2017 are as follows:

Derivative Instruments Stated in Assets and Liabilities

| | Positive fair value | Negative fair value | Total |
|--|------------------------|------------------------|--------------|
| 31 December 2018 | | | |
| Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate | - | (34) | (34) |
| Forward fuel purchase contracts for hedging against cash flow risk of fuel prices | - | - | - |
| Collar contracts for hedging against cash flow risk of fuel prices | 34 | (118) | (84) |
| Forward currency contracts for hedging purposes | 6 | (36) | (30) |
| Fair values of derivative instruments for hedging purposes | 40 | (188) | (148) |
| Cross-currency swap contracts not subject to hedge accounting | 11 | - | 11 |
| Interest rate swap contracts not subject to hedge accounting | 2 | (7) | (5) |
| Forward currency contracts not for hedging purposes | 4 | (1) | 3 |
| Fair values of derivative instruments not for hedging purposes | 17 | (8) | 9 |
| Total | 57 | (196) | (139) |

CONSOLIDATED FINANCIAL RESULTS

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(ALL AMOUNTS ARE EXPRESSED IN MILLION US DOLLARS (USD) UNLESS OTHERWISE STATED.)

36. 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 2018 and 2017 are as follows (cont'd):

Derivative Instruments Stated in Assets and Liabilities

| | Positive fair value | Negative fair value | Total |
|--|------------------------|------------------------|-------|
| 31 December 2017 | | | |
| Fixed-paid/floating received interest rate swap contracts for hedging against cash flow risks of interest rate | 1 | (35) | (34) |
| Forward fuel purchase contracts for hedging against cash flow risk of fuel prices | 22 | - | 22 |
| Collar contracts for hedging against cash flow risk of fuel prices | 162 | (4) | 158 |
| Forward currency contracts for hedging purposes | 3 | (41) | (38) |
| Fair values of derivative instruments for hedging purposes | 188 | (80) | 108 |
| Cross-currency swap contracts not subject to hedge accounting | 6 | - | 6 |
| Interest rate swap contracts not subject to hedge accounting | 4 | (12) | (8) |
| Forward currency contracts not for hedging purposes | 5 | (36) | (31) |
| Fair values of derivative instruments not for hedging purposes | 15 | (48) | (33) |
| Total | 203 | (128) | 75 |

Derivative Instruments Stated in the Equity

| | Hedging against fuel risk | Hedging against interest risk | Hedging against currency risk | Total |
|---|---------------------------------|--|--|-------|
| 31 December 2018 | | | | |
| Fair values of derivative instruments for hedging purposes | (84) | (34) | (33) | (151) |
| 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 | (20) | - | - | (20) |
| Inefficient part in the risk elimination of fair value of hedging gains of currency hedging derivative instrument to financial revenues | - | - | 166 | 166 |
| Total | (104) | (33) | 133 | (4) |
| Deferred tax | 23 | 7 | (26) | 4 |
| Hedge reserve as of 31 December 2017 | (81) | (26) | 107 | - |

TÜRK HAVA YOLLARI ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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36. 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 2018 and 2017 are as follows (cont'd):

Derivative Instruments Stated in the Equity

| | Hedging against fuel risk | Hedging against interest risk | Hedging against currency risk | Total |
|---|---------------------------------|--|--|-------|
| 31 December 2017 | | | | |
| Fair values of derivative instruments for hedging purposes | 181 | (34) | (45) | 102 |
| 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 | (24) | - | - | (24) |
| Foreign currency translation differences | - | - | - | - |
| Total | 157 | (33) | (45) | 79 |
| Deferred tax | (35) | 7 | 10 | (18) |
| Hedge reserve as of 31 December 2016 | 122 | (26) | (35) | 61 |

37. EVENTS AFTER THE BALANCE SHEET DATE

None.

**İSTANBUL'UN YENİ,
DÜNYANIN EN BÜYÜK
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