

**BOARD ACTIVITY REPORT
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.14.1**



1 JANUARY – 30 SEPTEMBER 2019

BOARD ACTIVITY REPORT

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1. INDUSTRY DEVELOPMENTS

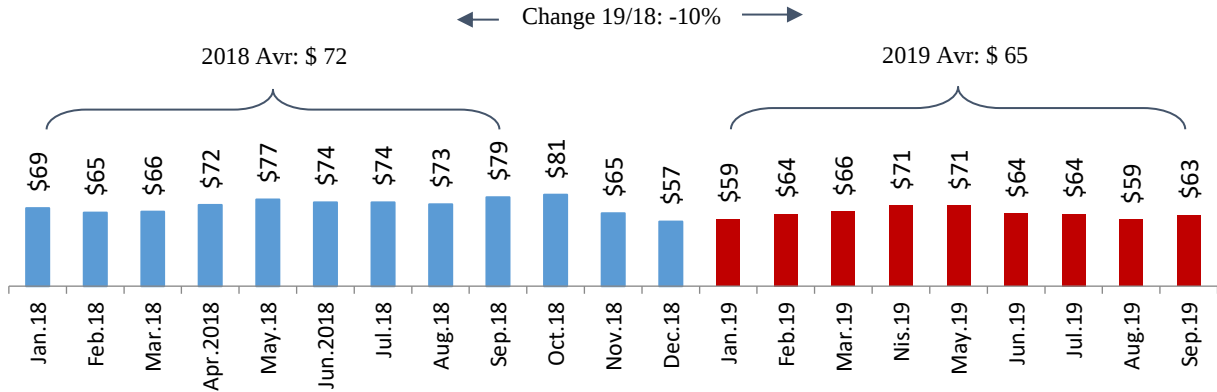
The increase in oil prices in third quarter of 2019 relived the global aviation sector. The Turkish aviation sector was affected positively by the exchange rate fluctuation in the third quarter of 2019. Due to depreciation in Turkish Lira, Turkey had become a more attractive vacation destination and consequently; during the the first nine months of 2019, the number of foreign tourists visiting Turkey increased by 14.5% compared to the first half of 2019. In the same period, the number of international passengers carried by Turkish Airlines increased by 2.4%.

Turkish Airlines continues its success on the passenger side on cargo transportation side as well. The Incorporation has achieved to maintain its strong growth trend in the cargo market over the last decade and consequently, cargo carried increased by 9.6% and cargo revenue increased by 2.4% during the first nine months of 2019. Turkish Airlines increases the importance of cargo transportation each passing day and plans to expand the cargo fleet in proportionate to passenger fleet. Accordingly, Turkish Airlines takes firm steps forward to be one of the largest air cargo carries in the world by increasing its market share in the global air cargo market with the addition of new cargo aircraft to the existing fleet.

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Oil Price per Barrel (Monthly Average)



Source: U.S. Energy Information Administration

The table below sets out the fuel price analysis of the Incorporation.

FUEL PRICE ANALYSIS	2015	2016	2017	2018	9M'18	9M'19
Fuel Expenses (Million \$)	2,997	2,673	2,866	3,768	2,785	2,899
Fuel Consumption (000 Tons)	4,272	4,693	4,847	5,278	3,980	4,143
Average Unit Cost (\$/Tons)	701	570	591	714	700	700
Average Change of Unit Cost (%)	-30%	-19%	4%	20.7%	20%	-
Fuel Expense Rate in Operational Expenses (%)	30%	26%	28%	32%	32%	31%

2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES

Türk Hava Yolları Anonim Ortaklığı (the “Incorporation” or “THY”) was founded in Turkey in 1933. The Company’s main fields of activity are all types of domestic and international passenger and cargo air transportation.

The Incorporation is registered in Istanbul, Turkey (Reg. No: 75184) and its head office address is Türk Hava Yolları A.O. Genel Yönetim Binası, Yeşilköy Mah. Havaalanı Cad. No:3/1 34149 Bakırköy, İstanbul/Türkiye. Detailed information about the Incorporation can be reached via Investor Relations Website. (<http://investor.turkishairlines.com/en>)

The authorized capital of the Incorporation is 5,000,000,000 (five billion) Turkish Lira, while the issued share capital is 1,380,000,000 (one billion three hundred and eighty million) Turkish Lira divided into 138,000,000,000

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(one hundred thirty eight billion) shares, each with the nominal value of 1 Kuruş (one kuruş) and is completely paid.

Shares are divided into two groups, the distribution of share groups of the issued capital is as follows:

Shareholder	Amount of Nominal Shares (TL)	Ownership (%)	Amount of Shares (#)	Rate of Voting Right (%)
Turkey Wealth Fund (Group A)	677,884,849	49.12	67,788,484,857	49.12
The Republic of Turkey Ministry of Treasury and Finance Privatization Administration (Group C)	0.01		1	
Open for Public (Group A)	702,115,151	50.88	70,211,515,142	50.88
TOTAL	1,380,000,000	100.00	138,000,000,000	100.00

Group C share belongs to the The Republic of Turkey Ministry of Treasury and Finance Privatization Administration and privileges granted to Group C share are defined in the Articles of Association of the Incorporation.

The Group has 5 subsidiaries as of 30 September 2019. The table below sets out the consolidated subsidiaries and participation rate of the Group in these:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Country of Registration</u>
THY Teknik A.Ş. (Turkish Technic)	Aircraft Maintenance Service	100%	Turkey
THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.	Airport Operations	100%	Turkey
THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş.	Investment & Airport Operations	100%	Turkey
THY Uluslararası Yatırım ve Taşımacılık A.Ş.	Transportation and Investment	100%	Turkey
Cornea Havacılık Sistemleri San. Ve Tic. A.Ş.	In-Flight Entertainment Systems and Internet Service	80%	Turkey

THY Teknik A.Ş. (Turkish Technic)

Established on 23 May 2006, the Company is a wholly owned subsidiary of Turkish Airlines. Turkish Technic conducts its activities with the goal of becoming an important regional air transport technical maintenance base by supplying the full range of maintenance, repair, and technical and infrastructure support the aviation industry requires. Until 2013, Turkish Technic operated out of four hangars in Istanbul and Ankara. In June 2015, Turkish Technic merged with Turkish HABOM, which was also a fully owned subsidiary of Turkish Airlines and which

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has a total MRO capacity to provide simultaneous maintenance, repair and overhaul services for 30 narrow body aircraft and 10 wide body aircraft. As of 30 September 2019, Turkish Technic has 8,859 employees.

THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.

The Company was established on 21 June 2012 as a wholly owned subsidiary of Turkish Airlines. Yet to commence operations, it was established to operate Aydın Çıldır Airport, provide aviation training, organize sports-training flights and conduct all activities related to the transportation of passengers with aircraft types appropriate to prevailing runway length. The airport is used as a base for Turkish Airlines Flight Academy and since the first half of 2013 provides flight training for Turkish Airlines Pilot Nominees. As of 30 September 2019, Company has 66 employees. Name of the company has been changed from THY Aydın Çıldır Havalimanı İşletme A.Ş. to THY Uçuş Eğitim ve Havalimanı İşletme A.Ş. (TAFA) on 12 June 2017.

THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş

The Company, which is wholly owned by our Incorporation, was established on 15 November 2017 with the cash capital of 50.000 TRY in order to operate principally in the fields of airport operations and investments and also according to the fields of other activity that is specified in the Articles of Association of the Company.

THY Uluslararası Yatırım ve Taşımacılık A.Ş

The Company, which is wholly owned by the Incorporation, was established on 25 September 2017 with the cash capital of 10.000.000 TRY in order to invest at abroad and domestically, principally in the fields of cargo and courier transportation and in the fields that is specified in the Articles of Association of the Company.

Cornea Havacılık Sistemleri San. Ve Tic. A.Ş.

On 11 October 2018, Cornea Havacılık Sistemleri Sanayi ve Ticaret A.Ş. was established in order to operate principally in the fields of "In-Flight Entertainment Systems and Internet Service" and also according to the fields of other activity that is specified in the Articles of Association of the Company. Stakes of 80% and 20% are held respectively by THY Teknik A.Ş. and Havelsan Hava Elektronik Sanayi ve Ticaret A.Ş. As of 30 September 2019, Company has 1 employee.

The Group has 11 joint ventures. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

The table below sets out consolidated joint ventures and indicates the proportion of ownership interest of the Incorporation in these joint ventures as of 30 September 2019:

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<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Indirect Participation Rate</u>	<u>Country of Registration</u>
Sun Express Turkey	Aircraft Transportation	50%	-	Turkey
Turkish DO&CO	Catering Services	50%	-	Turkey
Turkish Ground Services	Ground Services	50%	-	Turkey
Turkish Opet Aviation Fuels	Aviation Fuel	50%	-	Turkey
Aircraft Seat Manufacturing Industry & Trade, Inc.	Cabin Interior	45%	5%	Turkey
Turkish Cabin Interior Systems Industries, Inc.	Cabin Interior	30%	20%	Turkey
Pratt Whitney THY Turkish Engine Center (TEC)	Maintenance	-	49%	Turkey
Goodrich Turkish Airlines Technical Service Center	Maintenance	-	40%	Turkey
Tax Free Zone, Inc. (Tax Refund)	VAT Return and Consultancy	30%	-	Turkey
Air Albania	Aircraft Transportation	49%	-	Albania
We World Express Ltd.	Cargo and Courier Transportation	45%	-	Hong Kong

Sun Express - Turkey

Founded in 1989, SunExpress is a joint venture of Turkish Airlines and Lufthansa, in which each holds a 50% stake. The Company has a fleet of 21 aircraft for AnadoluJet operations of THY and with a fleet of 33 aircraft serves its customers in both charter and scheduled business with 3,283 employees as of 30 September 2019. SunExpress flies to 27 domestic and 144 international destinations, which brings the total number to 171 destinations. In 2011, SunExpress Germany was founded as a joint venture of Stiftung and SunExpress, in which each holds %50-50 stake. SunExpress Germany conducts operations to 104 international destinations with its 20 passenger aircraft. As of 30 September 2019, 1,165 employees are working for the Company.

Turkish DO&CO

Founded in September 2006, commencing operations in 2007, Turkish DO&CO is a joint venture of Turkish Airlines and DO&CO Restaurants & Catering AG (Austria based), in which each holds a 50% stake. The Company provides inflight catering services to Turkish Airlines and other domestic and international airlines. As of 30 September 2019, 6,110 employees are working for the Company.

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Turkish Ground Services (TGS)

The Company was established on 26 August 2008 as a wholly owned subsidiary of Turkish Airlines, in order to provide ground-handling services. By signing the articles of association in the framework of the Board Decision dated on 19.12.2008, 50% of shares was transferred to HAVAŞ Havaalanları Yer Hizmetleri A.Ş. On 1 January 2010, the Company began to provide services to Turkish Airlines. The Company provides ground services for Turkish Airlines in 8 airports in Turkey. TGS is employing 15,595 personnel as of 30 September 2019.

Turkish Opet Aviation Fuels

Turkish Opet Aviation Fuels, established in 2009, engages in the domestic and international sale, importation, exportation, distribution, and transport of various petroleum products, chemicals, lubricants, and paints for all kinds of aircraft. The Company commenced operations on 1 July 2010. Kuzey Tankercilik A.Ş. and Güney Tankercilik A.Ş., were established on 1 November 2012, as wholly owned subsidiaries of THY Opet Havacılık Yakıtları A.Ş. in order to provide transportation of petroleum and petroleum products. As of 30 September 2019, the Company has 496 employees.

TSI Aviation Seats

Founded in 2011, the Company was set up to design and manufacture airline seats, and to make, modify, market, and sell spare parts to Turkish Airlines and other international airline companies. Stakes of 50%, 45%, 5% are respectively held by Assan Hanil Group, Turkish Airlines, and Turkish Tecnic. As of 30 September 2019, 124 employees are working for the company.

Turkish Cabin Interior Systems Industries, Inc.

Established in December 2010, TCI's objective is to undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components. Stakes of 30%, 20% and 50% are held respectively by Turkish Airlines, Turkish Technic and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ – TAI). As of 30 September 2019, the Company has 213 employees.

Pratt Whitney THY Turkish Engine Center (TEC)

The Company provides aircraft engine maintenance, repair, and overhaul services to customers in Turkey and its hinterland. Established on 10 October 2008, stakes of %49 and %51 are held respectively by United Technologies, a subsidiary of Pratt&Whitney, and Turkish Airlines. Operating out of a maintenance center with an area of around 25,000 m² at Istanbul Sabiha Gökçen International Airport, the company has 437 employees as of 30 September 2019.

Goodrich Turkish Airlines Technical Service Center

Established in 2010, the Goodrich Turkish Airlines Technical Service Center is a joint venture of Turkish Technic (40%) and TSA-Rina Holdings (60%), the latter a subsidiary of Goodrich Corporation. Services for maintenance and repair of nacelles, thrust reversers, related parts and rotatable support is provided. As of 30 September 2019, the Company has 60 employees.

Tax Free Zone, Inc. (Tax Refund)

The Company was established on 1 September 2014 as a joint venture of THY (30%), Maslak Oto (45%) and VK Holding (25%) to carry out brokerage operations of value added tax return regarding the goods bought in Turkey by non-residents. As of 30 September 2019, 19 employees are working for the company.

Air Albania

The Incorporation established a Republic of Albanian based Joint Venture Company, in order to operate in the field of passenger and cargo transportation. Established on 12 September 2018, the stakes of 49%, 41% and 10% is being held respectively by Turkish Airlines, MDN Investment SHPK, and Albcontrol, which manages Albanian

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airspace and air traffic, representing Government of Albania. As of 30 September 2019, 49 employees are working for the company.

We World Express Ltd.

Hong Kong based We World Express Limited was established as a joint venture of THY Uluslararası Yatırım ve Taşımacılık A.Ş. (Turkish Airlines' 100% subsidiary), ZTO Express (Hong Kong) Limited and PAL Air (Hong Kong) Limited owning 45%, 45% and 10% respective stakes with the purpose of becoming a global door to door cargo/courier service provider which is focusing e-commerce market. As of 30 September 2019, 15 employees are working for the company.

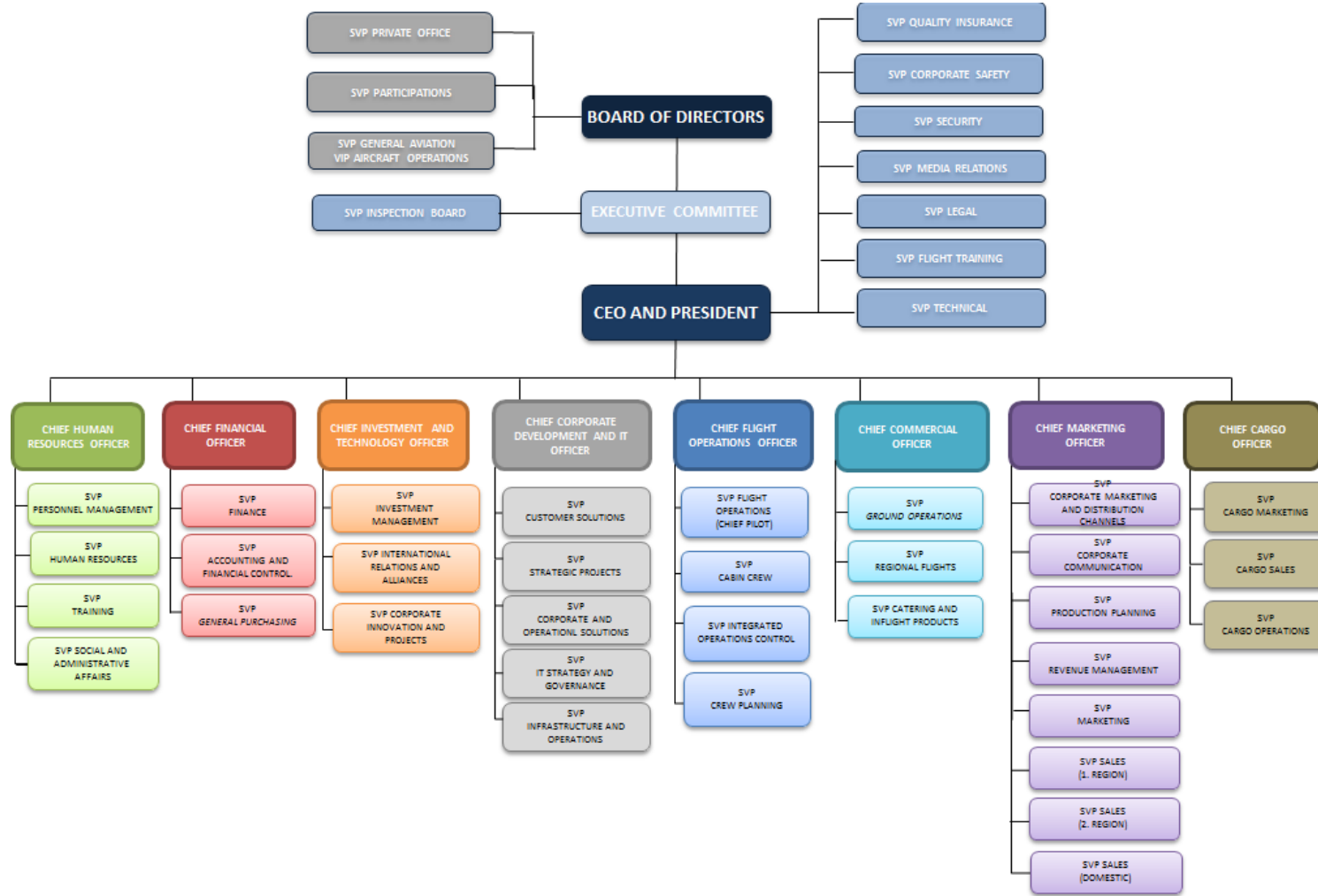
The Incorporation is responsible for the full and joint control over subsidiaries and affiliates through Board of Directors. In addition, operations of subsidiaries and affiliates are monitored by Senior Vice President of Subsidiaries located within the means of the Parent Company. The internal audit and control functions in the Incorporation are carried out by SVP of Inspection Board, SVP of Quality Assurance and other relevant expertise and financial departments.

3. ORGANIZATIONAL STRUCTURE

As of 30 September 2019, the number of countries served has reached to 126.

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 30 September 2019 is shown on the next page.

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4. BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

The Board of Directors is comprised of nine members, out of 3 independent, elected by the General Assembly. The Board of Directors shall approve the strategic targets, continuously and effectively monitor these targets, as well as the activities of the Incorporation and its' past performance. In doing so, the Board shall strive to ensure compliance with international standards, and whenever necessary, take preemptive action to potential problems.

Members of the Board who were on duty as of 30 September 2019 are listed below:

M. İlker AYCI	: Chairman of the Board and the Executive Committee
Prof. Dr. Mecit EŞ	: Deputy Chairman of the Board and the Executive Committee
Salim Arda ERMUT	: Member of the Board and the Executive Committee
Bilal EKŞİ	: Member of the Board and General Manager
Mithat Görkem AKSOY	: Member of the Board
Orhan Birdal	: Member of the Board
Ogün ŞANLIER	: Independent Board Member
Dr. Fatmanur ALTUN	: Independent Board Member
M. Muzaffer AKPINAR	: Independent Board Member

Brief resumes of our Board of Directors and their duties outside of the company are reachable via Turkish Airlines Investor Relations Website. (<http://investor.turkishairlines.com/en/governance/board-of-directors>)

COMMITTEES

Audit Committee

Chairman: M. Muzaffer Akpınar

Member: Ogün Şanlıer

Corporate Governance Committee

Chairman: Fatmanur Altun

Member: Orhan Birdal, Mithat Görkem Aksoy, Kadir Coşkun (Investor Relations Manager)

Early Identification of Risks Committee

Chairman: Ogün Şanlıer

Member: M. Muzaffer Akpınar

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5. SENIOR MANAGEMENT

Information about the Senior Management of the Incorporation are presented below (as of 30 September 2019):

Name	Title	Starting Date of Position	Profession
Bilal Ekşi	Chief Executive Officer	24.10.2016	Electronics and Communications Engineer
Assoc. Prof. Murat Şeker, Ph.D.	Chief Financial Officer	26.07.2016	Industrial Engineer
Ahmet Olmuşur	Chief Marketing Officer	30.04.2014	Business Management, Manager
Mehmet Akif Konar	Chief Commercial Officer	16.04.2013	Operating Engineer
Ahmet Bolat, Ph.D.	Chief Investment and Technology Officer	23.01.2012	Industrial Engineer
Abdulkemir Çay	Chief Human Resources Officer	21.04.2015	Business Management, Manager
Ali Serdar Yakut	Chief Corporate Development and IT Officer	01.06.2015	Computer Engineer
Aykut Alpa	Chief Flight Operations Officer	25.05.2018	Pilot
Turhan Özen	Chief Cargo Officer	12.12.2016	Business Management, Manager

6. HUMAN RESOURCES

Number of personnel increased by 15% to 29,344 during the period of January-September 2019 from 25,568 for the period of January-September 2018. Personnel numbers according to classes are as follows:

	31.12.2018	30.09.2018	30.09.2019	Change(%)
Cockpit Personnel	5,213	4,650	5,674	22%
Cabin Personnel	10,593	10,442	12,237	17%
Aircraft Maintenance Tech.	69	68	69	1%
Staff Abroad	3,385	3,321	3,487	5%
Domestic Staff	7,479	7,087	7,877	11%
TOTAL	26,739	25,568	29,344	15%

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7. DEVELOPMENTS WITHIN THE INCORPORATION

I. Developments During the Period

New International Routes

In the first nine months of 2019, our scheduled flights to Sharjah of United Arab Emirates, Marrakesh of Morocco, Strasbourg of France, Port Harcourt of Nigeria, Denpasar of Indonesia, Cancun and Mexico City of Mexico and Luxor of Egypt have started.

New Domestic Route Announcement

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to Zonguldak Airport in Turkey.

New International Route Announcement

The Incorporation has decided to start operating scheduled flights, based on market conditions, to the cities Pointe-Noire of Republic of the Congo and Xian of China.

Joint Venture Company

Hong Kong based We World Express Limited was established as a joint venture of THY Uluslararası Yatırım ve Taşımacılık A.Ş. (Turkish Airlines' 100% subsidiary), ZTO Express (Hong Kong) Limited and PAL Air (Hong Kong) Limited owning 45%, 45% and 10% respective stakes with the purpose of becoming a global door to door cargo/courier service provider which is focusing e-commerce market.

2019 Guidance Revision

The revised guidance that has been approved by the Board of Directors of our Incorporation regarding the targets and expectations for the year 2019 is as follows:

Traffic Development

- Total number of passengers carried is targeted to reach 76 million including 31 million on domestic routes, 45 million on international routes.
- In 2019, cargo/mail carried is expected to increase by 7% reaching around 1.5 million tonnes.
- While passenger load factor is expected to be in the band of 81% and 82%, total Available Seat Kilometers (ASK) will increase of 4% compared to 2018.

Financial Development (Consolidated)

- In 2019, jet fuel consumption is expected to increase by 6% compared to 2018.
- Average jet fuel (including fuel hedge) is expected to be 690\$/ton in 2019.
- The Incorporation is targeting to generate 13.4 billion USD of consolidated sales revenue.
- Cost per available seat kilometer (CASK), excluding fuel is expected to increase by 7%-9%.
- Consolidated EBITDAR margin is targeted to be in the band of 22% and 23%.

Notification of Joint Venture

Within the scope of fuel activities carried out at Istanbul Airport, negotiations have started for IGA Istanbul Havalimanı Akaryakıt Hizmetleri A.Ş., which is responsible for the operation of fuel supply facilities, to become a 25% shareholder through capital increase.

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Appointment of Committees

Independent Board Member Mr. Mehmet Muzafer Akpınar has been assigned as the Chairman and Mr. Oğün Şanlıer as the Member of the Audit Committee;

Independent Board Member Ms. Fatmanur Altun as the Committee Chairman, Board Members Mr. Mithat Görkem and Mr. Orhan Birdal and Investor Relations Manager Mr. Kadir Coşkun, in compliance with the Capital Market Board's Communique on Corporate Governance (II-17.1), as the members of the Corporate Governance Committee;

Independent Board Member Mr. Oğün Şanlıer as the Chairman and Mr. Mehmet Muzafer Akpınar, as the Member of the Early Identification of Risks Committee;

Chairman of the Board Mr. Mehmet İlker Aycı as the Chairman of the Executive Committee, Deputy Chairman of the Board Mr. Mecit Eş as the Deputy Chairman of the Executive Committee, Mr. Salim Arda Ermut as the Member of the Executive Committee.

Appointment of the Board Members

At today's Ordinary General Assembly Meeting, the following members have been assigned to the Board of Directors.

Chairman of the Board: Mr. Mehmet İlker Aycı

Deputy Chairman of the Board: Mr. Mecit Eş

Members of the Board:

Mr. Bilal EKŞİ

Mr. Mehmet Muzafer AKPINAR

Mr. Oğün ŞANLIER

Mr. Orhan BİRDAL

Ms. Fatmanur ALTUN

Mr. Mithat Görkem AKSOY

Mr. Salim Arda ERMUT

Credit Rating

International credit rating agency Moody's Investor Service lowered Government of Turkey's long-term issue rating and Turkey's foreign currency bond ceiling to B1. Since Turkish Airlines' credit rating aligned to the foreign currency bond ceiling, Moody's has downgraded the corporate family ratings of Turkish Airlines to B1 negative from Ba3 negative.

Along with this, issue ratings of Turkish Airlines' Enhanced Equipment Trust Certificates (EETCs), which have been issued in 2015, have also been reviewed, and as a result, they were lowered to Ba3 from Ba1.

General Assembly Meeting

Ordinary General Assembly Meeting of Türk Hava Yolları Anonim Ortaklığı was held on 28th of June 2019, Friday, at 14:30 p.m. at its Headquarter, in the Conference Hall located at Yeşilköy Mahallesi, Havaalanı Cad. No:3/1 Bakırköy.

Catering Services

Ref: Public Disclosure dated 19.07.2018

As a result of the negotiations to continue our partnership with DO & CO, in THY DO & CO İkram Hizmetleri A.Ş., which is a subsidiary of our Incorporation, it has been decided to sign a catering contract for a duration of 15 years

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for all domestic, international and charter flights of Turkish Airlines from airports in Turkey. Furthermore, the agreement provides for the sale of the hotel in Istanbul from THY DO & CO İkam Hizmetleri A.Ş to our Incorporation.

The finalization of these transactions is subject to several conditions precedent, in particular the clearance by the competent competition authorities.

Related Party Transactions

The conclusion section of the "Common and Continuous Related Party Transactions Report" prepared by the Board of Directors as per Article 10 of the Capital Markets Board's Communiqué No.II-17.1 on Corporate Governance is provided below for the information of our shareholders.

Conclusion Section of the Report on Related Party Transactions:

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.

Notification Regarding Dividend Payment

According to the consolidated financial statements belonging to the accounting period of 01.01.2018-31.12.2018 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 KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., net profit for the period is TL 4.045.000.000. On the other hand, according to the legal books (under the provisions of Turkish Tax Procedure Law, due to the differences between Turkish Accounting standards and IFRS standards) the net loss of the period is TL 8.115.218.355 and previous years' loss account has a balance of TL 10.055.207.776. The following resolution will be submitted to the approval of the General Assembly:

The loss amount according to the legal books will be transferred to previous years' loss account. As there will not be any distributable profit (according to the legal books), the net profit of TL 4.045.000.000 (according to IFRS) will be transferred to the previous years' profit account. Attached you may find the 2018 Profit Distribution Table.

26th Contract Period

As a result of the negotiations held between Turkish Airlines Inc. and Hava-İş Union, 26th Collective Bargaining Agreement has been signed, covering 3 years period starting from January 1st, 2019.

According to the Agreement, the wage increase for the first half of 2019 will be 12.19% which is calculated by adding 2% to 10.19%, Consumer Price Index change between period of June 2018 and December 2018. 1.5%, 2%, 1.5%, 1%, and 1% will be added to related periods CPI change for the second half of 2019, for the first half of 2020, for the second half of 2020, for the first half of 2021 and for the second half of 2021, respectively. Apart from the wage increases the monthly-paid social aid will increase from 750.-TL to 865.-TL for the first year, from 865.-TL to 955.-TL for the second year and from 955.-TL to 1,050.-TL for the third year. A onetime net payment of 5,000.-TL will be made to the unionized staff.

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26th Contract Period Negotiations

Negotiations between our Incorporation and Hava-Is Labor Union, regarding the 26th Collective Bargaining Agreement began with the first meeting on January 3, 2019 at Turkish Airlines Headquarters.

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II. Subsequent Events

Notification About B737 NG aircrafts

The Federal Aviation Administration (FAA) released an airworthiness directive on 3rd of October about periodic control of pickle fork cracks regarding B737NG aircraft that exceeded a certain number of landings. Our technical team completed the controls of about 20 aircrafts within the scope of the mentioned airworthiness directive. Only one aircraft has been sent to maintenance upon the completion of these controls. Other aircrafts in our B737NG fleet do not require any technical maintenance within the scope of this airworthiness directive. Developments are followed with Boeing by weekly meetings and announcements released by FAA. Our Incorporation continues to work closely with manufacturers and aviation authorities with the safety first approach.

New International Route Announcement

The Incorporation has decided to start operating scheduled flights, based on market conditions, to Vancouver of Canada.

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8. TRAFFIC RESULTS

January-September 2019 traffic results are shown below:

	TOTAL		
	2018	2019	Change (%)
Number of Landing (Passenger Flights)	377.264	370.713	-1,7%
Available Seat Km ('000)	138.204.554	140.659.883	1,8%
Revenue Passenger Km ('000)	113.321.453	114.509.746	1,0%
Passenger Load Factor (%)	82,0%	81,4%	-0,6 pt
Passengers Carried	57.556.246	56.414.500	-2,0%
Int-to-Int Transfer Passengers Carried	17.556.165	18.239.076	3,9%
Cargo and Mail (Tons)	1.021.013	1.119.245	9,6%
Fleet	330	344	4,2%
Seat Capacity	65.432	67.589	3,3%
Number of Destinations	304	316	3,9%
Km Flown ('000)	656.549	679.680	3,5%
Hours Flown	1.084.851	1.124.254	3,6%
Utilization*	12:22	12:41	2,6%

* Based on 320 aircraft for 2018, 323 aircraft for 2019.

	DOMESTIC		
	2018	2019	Change (%)
Number of Landing (Passenger Flights)	168.997	153.023	-9,5%
Available Seat Km ('000)	18.402.589	17.099.398	-7,1%
Revenue Passenger Km ('000)	15.729.857	14.780.627	-6,0%
Passenger Load Factor (%)	85,5%	86,4%	1,0 pt
Passengers Carried	25.337.148	23.420.090	-7,6%
Cargo and Mail (Tons)	53.217	51.455	-3,3%
Km Flown ('000)	104.064	95.547	-8,2%

	INTERNATIONAL		
	2018	2019	Change (%)
Number of Landing (Passenger Flights)	208.267	217.690	4,5%
Available Seat Km ('000)	119.801.965	123.560.485	3,1%
Revenue Passenger Km ('000)	97.591.596	99.729.119	2,2%
Passenger Load Factor (%)	81,5%	80,7%	-0,7 pt
Passengers Carried	32.219.098	32.994.410	2,4%
Excl. Int-to-Int Transfer Passenger	14.662.933	14.755.334	0,6%
Cargo and Mail (Tons)	967.795	1.067.789	10,3%
Km Flown ('000)	552.485	584.133	5,7%

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I. Scheduled Domestic Flights:

During January - September 2019, the Incorporation started operating scheduled flights with TK main brand to new domestic destinations stated below:

Flight Destination	Flight Inaugural Date
Zonguldak	12.05.2019

II. Scheduled International Flights:

During January - September 2019, the Incorporation started operating scheduled flights with TK main brand to new international destinations stated below:

Flight Destination	Flight Inaugural Date
United Arab Emirates - Sharjah	04.04.2019
Morocco - Marrakesh	15.04.2019
France - Strasbourg	31.05.2019
Nigeria- Port Harcourt	25.06.2019
Indonesia - Denpasar	17.07.2019
Republic of the Congo - Pointe-Noire	30.07.2019
Mexico - Cancun	22.08.2019
Mexico - Mexico City	22.08.2019
Egypt - Luxor	23.09.2019

III. Additional, Charter and Hajj-Umrah Flights

During January - September 2019, number of additional, charter and Hajj-Umrah flights and number of passengers carried on these flights are stated on the table below:

	Number of Flights		Number of Passengers
	Domestic	International	
Additional	397	167	68,307
Charter	663	4,888	837,235
Hajj-Umrah	-	3,330	333,905

IV. AnadoluJet Flights:

Scheduled and Additional Flights	9M'18	9M'19	Change (%)
Revenue Passenger (000)	12,018	10,940	-9.0%
Available Seats Km (Millions)	8,952	8,087	-9.7%
Passenger Load Factor (%)	85.7	86.7	+1.0 pt

- In the period of January – September 2019, AnadoluJet has been pursuing its operations with 21 aircraft (wetlease) from SunExpress and 15 aircraft from TK fleet (Average number of 36 B737-800).
- As of September 2019, 15 aircraft is based in Ankara Esenboğa and 15 in İstanbul Sabiha Gökçen.
- As of September 2019, AnadoluJet flies to a total of 42 destinations. (Esenboğa based 33, Sabiha Gökçen based 32, point to point (cross) flights 14)

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- As of September 2019, Sabiha Gökçen and Ankara Esenboğa based ASK has decreased by 3% and 20%, respectively. (Total rate of ASK decrease 9.7%)
- As of September 2019, the load factor is 86.7%.

9. FLEET

30.09.2019	Type	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Total
Wide Body	A330-200	5		13	4.680	11,6	18
	A330-300		29	10	11.481	5,6	39
	B777-3ER		27	6	11.670	5,9	33
	B787-9		6		1.800	0,2	6
	Total	5	62	29	29.631	6,5	96
Narrow Body	B737-900ER		15		2.355	6,3	15
	B737-9 MAX		1		169	0,6	1
	B737-800	25	37	14	12.354	10,3	76
	B737-700			1	124	13,6	1
	B737-8 MAX		11		1.661	0,8	11
	A321 NEO		8		1.456	0,6	8
	A319-100		6		792	8,4	6
	A320-200	5	7	5	2.718	12,5	17
	A321-200	5	57	6	12.360	7,3	68
	B737-800 WL			21	3.969	15,2	21
	Total	35	142	47	37.958	8,9	224
Cargo	A330-200F	1	9			5,9	10
	B777F		6			1,1	6
	Wet Lease			8		23,2	8
	Total	1	14	8		10,5	24
	GRAND TOTAL	41	219	84	67.589	8,3	344

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10. FINANCIAL SITUATION

SUMMARY OF BALANCE SHEET (Mn TRY)

	30 September 2019	31 December 2018
<u>ASSETS</u>		
Current Assets	24,918	23,706
Non-Current Assets	110,585	85,370
Total Assets	135,503	109,076
<u>LIABILITIES</u>		
Total Current Liabilities	33,577	27,246
Total Non-Current Liabilities	64,398	50,546
Total Equity	37,528	31,284
Total Liabilities and Equity	135,503	109,076
Debt to Assets Ratio	0.72	0.71
Equity Ratio	0.28	0.29

SUMMARY OF INCOME STATEMENT (Mn TRY)

	1 Jan. – 30 Sep. 2019	1 Jan. – 30 Sep. 2018
Sales Revenue	56,151	46,367
Gross Profit	10,033	11,603
Operating Profit Before Investment Activities	3,079	5,949
Profit/Loss Before Tax	2,768	4,961
Profit/Loss for the Period	2,587	4,083
Earnings Per Share (Kr)	1.87	2.96

SUMMARY OF BALANCE SHEET (Mn USD)

	30 September 2019	31 December 2018
<u>ASSETS</u>		
Current Assets	4,404	4,505
Non-Current Assets	19,540	16,227
Total Assets	23,944	20,732
<u>LIABILITIES</u>		
Total Current Liabilities	5,934	5,179
Total Non-Current Liabilities	11,379	9,608
Total Equity	6,631	5,945
Total Liabilities and Equity	23,944	20,732
Debt to Assets Ratio	0.72	0.71
Equity Ratio	0.28	0.29

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SUMMARY OF INCOME STATEMENT (Mn USD)

	1 Jan. – 30 Sep. 2019	1 Jan. – 30 Sep. 2018
Sales Revenue	9,948	9,869
Gross Profit	1,774	2,368
Operating Profit/Loss Before Investment Activities	540	1,149
Profit/Loss Before Tax	482	903
Profit/Loss for the Period	452	755
Earnings Per Share (USc)	0.33	0.55
EBITDAR	2,214	2,773
EBITDA	1,817	2,127
EBIT	694	1,320
EBITDAR Margin	22.3%	28.1%
EBITDA Margin	18.3%	21.6%
EBIT Margin	7.0%	13.4%
Operating Profit Margin	5.4%	11.6%
Net Profit Margin	4.5%	7.7%

11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES

Within the scope of “2009-2023 Fleet Projection”, “2012-2020 Fleet Plan” and “2019-2023 Wide Body Fleet Plan” confirmed by the Board, number of aircraft and delivery years are stated on the following table.

On March 9, 2018, in order to insure the need for wide body aircraft, the Incorporation has decided to purchase 50 firm and 10 optional aircraft, a total of 60 wide body aircraft to be delivered between 2019 and 2023. According to this, a total of 30 B787-9 aircraft, of which 25 firm and 5 optional, will be purchased from Boeing and a total of 30 A350-900 aircraft, of which 25 firm and 5 optional will be purchased from Boeing. One B787-9 aircraft of these order has been delivered in the third quarter of 2019. The rest of the purchase order is planned to be delivered until the end of 2023.

On March 15 and April 9, 2013, in order to insure the need for single-aisle passenger aircraft, the Incorporation had decided to purchase 92 A321 NEO and 75 B737 MAX aircraft from Airbus and Boeing. One A321 NEO aircraft of these order has been delivered in the third quarter of 2019. The rest of the purchase order is planned to be delivered until the end of 2023.

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By the end of September 2019, the operation has been carried out by 96 double-aisle passenger aircraft, 224 single-aisle passenger aircraft and 24 cargo aircraft. Double-aisle aircraft constitute about 27.9% of the total number of aircraft in fleet. Due to the effect of stage length and seat capacity, contribution of wide body aircraft to the production is more than 50%.

30.09.2019	Type	2011-2024 Aircraft Purchases														
		Delivered									Total Deliveries					
		2011	2012	2013	2014	2015	2016	2017	2018	TOTAL	2019	2020	2021	2022	2023	TOTAL
Wide Body	A350-900											5	4	8	8	25
	B787-9										6	9	6	4		25
	A330-300	3	3	2	6	7	5			26						
	B777-3ER	7			4	7	6	1		25						
	Total	10	3	2	10	14	11	1		51	6	14	10	12	8	50
Narrow Body	B737-900ER	2	7	1		5				15						
	B737-9 MAX										1	9				10
	B737-800	2	2	6	10		20			40						
	B737-8 MAX								7	7	4	27	15	12		58
	A321	8	7	9		13	10			47						
	A321 NEO								2	2	13	15	29	18	15	90
	A319	6								6						
	Total	18	16	16	10	18	30		9	117	18	51	44	30	15	158
Cargo	A330-200F	1	1	2		1	2	1		8						
	B777F							2	3	5	1	2				3
	Total	1	1	2		1	2	3	3	13	1	2				3
GRAND TOTAL		29	20	20	20	33	43	4	12	181	25	67	54	42	23	211
YEAR END FLEET		180	202	233	261	299	334	329	332		354	402	449	480	487	

Decree on State Aids for Investments

In our country, “Investment Incentive System” is implemented to aim targets such as:

- Increasing production and employment,
- Increasing international direct investment,
- Reducing the regional development disparities,
- Encouraging strategic investments with regional and large-scaled investment which has high research-development content to increase international competitiveness,
- Directing savings to high value added investments in line with targets, foreseen in annual programs and development plans,
- Supporting research and development activities with clustering and environmental protection investments,

This system provides support to taxpayers when they guarantee the achievement of aforementioned targets. These supports are:

- Customs Duty Exemption,
- Value Added Tax Exemption,
- Tax Reduction (reduce corporate tax)
- Income Tax Withholding Support,
- Insurance Premium Employer Contribution Support,
- Insurance Premium Employee Contribution Support,
- Interest Rate Support,

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- Investment Space Allocation,

Our Incorporation 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 TL: (*)	Utilized Contribution Amount of Investment TL: (**)
14.07.2009	2009/15199	28.12.2010	Completed	Tax Reduction %50 / Contribution rate to Investment %20	13,267,897,366	16,587,441
15.06.2012	2012/3305	18.12.2014	Continue	Tax Reduction %50 / Contribution rate to Investment %15	16,968,269,342	0
21.01.2018	2017/11133	9.08.2018	Continue	Tax Reduction %90 / Contribution rate to Investment %50	4,924,447,036	0
21.01.2018	2017/11133	11.09.2018	Continue	Tax Reduction %50 / Contribution rate to Investment %25	2,518,000,000	0

(*) 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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12. PROJECTIONS ABOUT THE COMPANY

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to the cities Abha of Saudi Arabia, Juba of South Sudan, Aswan of Egypt, Makhachkala of Russia, Krakow of Poland, La Coruna of Spain, Lenkeran of Azerbaijan, Luanda of Angola, Nantes of France, Palermo of Italy, Rovaniemi of Finland, Port Sudan of Sudan and Newark of United States of America.

Flying to more countries than any other airline in the world, the Incorporation aims to be among the leading airlines in the world by maintaining its steady growth in parallel to the growth in number of transfer passengers by providing wide-body fleet investments, capacity increases mainly in long-range flights and new routes. In addition, the Incorporation is targeting to increase unit revenue by increasing passenger revenue of Business Class through the improvement of service quality and the expansion of cargo operations.

DISCLAIMER

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