

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



WIDEN YOUR WORLD



1 JANUARY – 31 DECEMBER 2017

BOARD ACTIVITY REPORT

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

TABLE OF CONTENTS

1. INDUSTRY DEVELOPMENTS	3
2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES	4
3. ORGANIZATIONAL STRUCTURE.....	8
4. BOARD OF DIRECTORS AND COMMITTEES.....	10
5. SENIOR MANAGEMENT	11
6. HUMAN RESOURCES	11
7. DEVELOPMENTS WITHIN THE INCORPORATION.....	12
8. TRAFFIC RESULTS	14
9. FLEET.....	16
10. FINANCIAL SITUATION	17
11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES.....	19
12. PROJECTIONS ABOUT THE COMPANY	20

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

1. INDUSTRY DEVELOPMENTS

The terrorist incidents happened in 2016 and increasing security issues had a negative effect on passenger traffic in Europe and Turkey. In order to alleviate the impact of these negative events, Turkish Airlines has started a cost-cutting program and an active capacity management in the second half of 2016 and planning to maintain these initiatives through 2017. At the same time, decreasing security concern and global tourism development have stimulated passenger demand. In 2017, the number of foreigners visiting Turkey rose 28% compared to 2016. At the result of these facts, Turkish Airlines load factor has reached record rates successively and ended the year 79,1% load factor. Despite rising prices of fuel at the second half of the year, positive passenger demand environment and active capacity management have an positive impact on profitability and Turkish Airlines ended the year with record EBITDAR margin of 27,5%

The capacity increase and competition in the sector started in 2016, still continues. Despite the negative events in Middle East and Europe, with the help of positive demand environment, during the period of January-December 2017 the global traffic has increased by 7.6%.

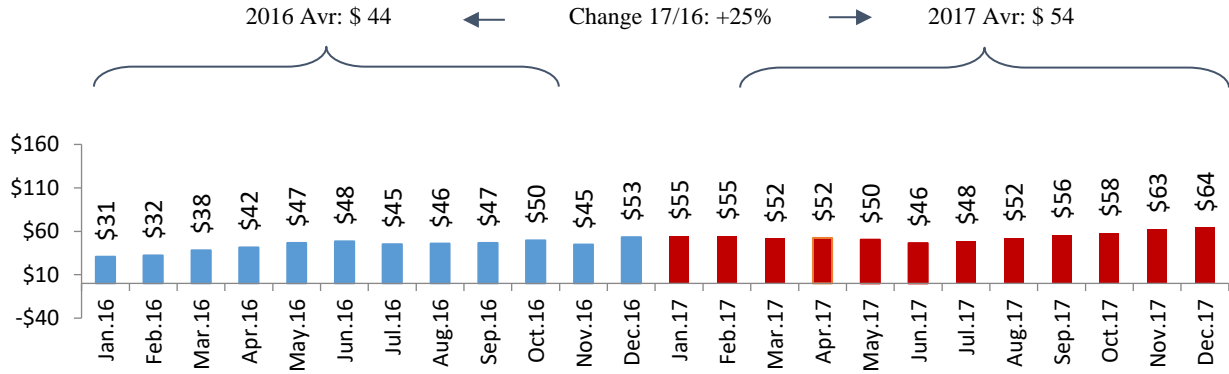
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017(*)</u>	<u>2018(*)</u>
<u>Aviation Industry Revenue/Expense</u>						
REVENUES (\$ billion)	720	767	721	709	754	824
Passenger Revenue	539	541	514	502	532	581
Cargo Revenue	60.7	62.4	52.3	47.5	54.5	59.2
Traffic						
Passenger Km Growth (RPK) %	5,2	5,7	7,3	7,4	7,5	6,0
Cargo Km Growth (FTK) %	0.6	4.8	1.5	3.8	9.3	4.5
OPERATIONAL EXPENSES (\$ billion)	695	725	661	644	691	757
Fuel	230	224	174	132	130	156
% of expenses	33.2	30.9	26.4	20.6	18.8	20.5
Non-fuel expenses	464	501	486	511	561	602
OPERATING PROFIT (\$ billion)	25.3	41.7	59.8	65.2	62.6	66.9
% margin	3.5	5.4	8.3	9.2	8.3	8.1
NET PROFIT(\$ billion)	10.7	13.7	35.9	35.3	34.5	38.4
% margin	1.5	1.8	5.0	5.0	4.6	4.7

(*) Annual forecast published by IATA

Source: IATA Airline Industry Economic Performance, December 2017)

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

Oil Price per Barrel (Montly Average)



Source: U.S. Energy Information Administration

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

FUEL PRICE ANALYSIS	2014	2015	2016	2017
Fuel Expenses (Million \$)	3,806	2,997	2,673	2,866
Fuel Consumption (000 Tons)	3,801	4,272	4,693	4,847
Average Unit Cost (\$/Tons)	1,001	701	570	591
Average Change of Unit Cost (%)	-6%	-30%	-19%	4%
Fuel Expense Rate in Operational Expenses (%)	36%	30%	26%	28%

2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES

Türk Hava Yolları Anonim Ortaklığı (the “Company” 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>)

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

As of 31 December 2017, the shareholders and their respective shareholdings in the Incorporation are as follows:

	<u>31 December 2017</u>
Turkey Wealth Fund	% 49.12
Other (publicly held)	<u>% 50.88</u>
Total	% 100.00

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 (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 (%)
Sovereign Wealth Fund of Turkey (Group A)	677,884,849	49.12	67,788,484,857	49.12
The Republic of Turkey Prime Ministry 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 Republic of Turkey Prime Ministry Privatization Administration and privileges granted to Group C share are defined in the Articles of Association of the Incorporation.

The table below sets out the consolidated subsidiaries and participation rate of the Group in these as of 31 December 2017:

Name of the Company

Principal Activity

THY Teknik A.Ş. (Turkish Technic)

Aircraft Maintenance Service

THY Uçuş Eğitim ve Havalimanı İşletme A.Ş.

Training & Airport Operations

THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş.

Investment & Airport Operations

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 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 December 2017, Turkish Technic has 6,916 employees.

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

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 31 December 2017, Company has 27 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.

THY Havaalanı Gayrimenkul Yatırım ve İşletme A.Ş

The Incorporation has decided to establish, THY Havaalanı Gayrimenkul Yatırım ve İşletme Anonim Şirketi", 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. The aforementioned Company, which is wholly-owned by Türk Hava Yolları A.O, has been registered by Istanbul Trade Registry Office on 15 November 2017 and is established with the cash capital of 50.000 TRY. (Fifty thousand Turkish Lira).

The Group has nine 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 31 December 2017:

<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

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

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 19 aircraft for AnadoluJet operations of THY and with a fleet of 31 aircraft serves its customers in both charter and scheduled business with 3,965 employees as of 31 December 2017. SunExpress flies to 26 domestic and 64 international destinations, which brings the total number to 90 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 11 destinations in Germany and 37 international destinations with its 11 Boeing 737-800 and 8 A330 passenger aircraft. As of 31 December 2017, 1,264 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 31 December 2017, 4,530 employees are working for the Company.

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 10,049 personnel as of 31 December 2017.

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 31 December 2017, the Incorporation has 462 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 31 December 2017, 81 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 31 December 2017, the Company has 163 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 335 employees as of 31 December 2017.

Goodrich Turkish Airlines Technical Service Center

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

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 31 December 2017, the Company has 39 employees.

Tax Free Zone, Inc. (Tax Refund)

The Company is 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 31 December 2017, 19 employees are working for the company.

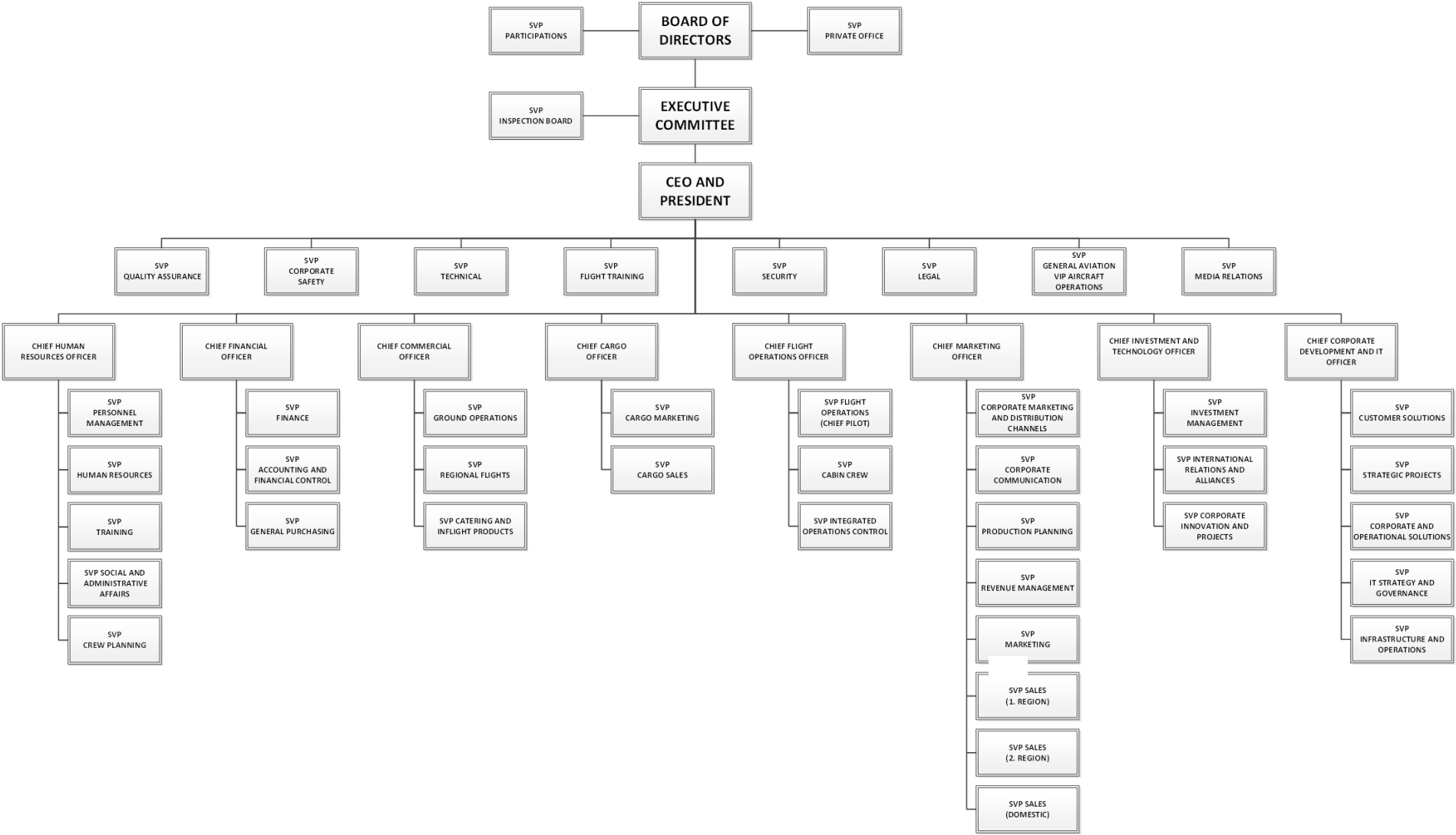
The Incorporation is responsible for the full and joint control over subsidiaries and affiliates through Board of Directors. In addition, operations of subsidiaries and affiliates are monitored by Senior Vice President of Subsidiaries located within the means of the Parent Company. The internal audit 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 31 December 2017, the number of countries served has reached to 120.

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 31 December 2017 is shown on the next page.

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



**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

4. BOARD OF DIRECTORS AND COMMITTEES

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 31 December 2017 are listed below:

M. İlker AYCI	: Chairman of the Board and the Executive Committee
Bilal EKŞİ	: Vice Chairman of the Board and the Executive Committee, General Manager
İsmail Cenk DİLBEROĞLU	: Member of the Board and the Executive Committee
İsmail GERÇEK	: Member of the Board
Prof. Dr. Mecit EŞ	: Member of the Board
Orhan Birdal	: Member of the Board
Ogün ŞANLIER	: Independent Board Member
Arzu AKALIN	: Independent Board Member
M. Muzaffer AKPINAR	: Independent Board Member

Brief resumes of our Board of Directors 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: Arzu Akalın

Member: Orhan Birdal, İsmail Gerçek, Kadir Coşkun (Investor Relations Manager)

Early Identification of Risks Committee

Chairman: Ogün Şanlıer

Member: M. Muzaffer Akpınar

BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1
5. SENIOR MANAGEMENT

Information about the Senior Management of the Incorporation are presented below (as of 31 December 2017):

Name	Title	Starting Date of Position	Profession
Bilal Ekşi	Chief Executive Officer	24.10.2016	Electronics and Communications Engineer
Murat Şeker, Ph.D.	Chief Financial Officer	26.07.2016	Industrial Engineer
Ahmet Olmuştur	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
Abdulkerim 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
Levent Yılmaz	Chief Flight Operations Officer	30.11.2015	Air Force Academy, Pilot
Turhan Özen	Chief Cargo Officer	12.12.2016	Business Management, Manager

6. HUMAN RESOURCES

Number of personnel decreased by 0.2% to 24,075 during the period of January-December 2017 from 24,124 for the period of January-December 2016. Personnel numbers according to classes are as follows:

	31.12.2016	31.12.2017	Değişim(%)
Cockpit Personnel	4,468	4,509	1%
Cabin Personnel	9,974	9,798	-2%
Aircraft Maintenance Tech.	80	71	-11%
Staff Abroad	3,233	3,191	-1%
Domestic Staff	6,369	6,506	2%
TOTAL	24,124	24,075	-0.2%

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

7. DEVELOPMENTS WITHIN THE INCORPORATION

Cargo Aircraft Purchase

The Incorporation has decided to purchase 3 B777-200LRF cargo aircraft from Boeing, to be delivered in September, October and December of 2018

Establishing Company

The Incorporation has decided to establish, “THY Havaalanı Gayrimenkul Yatırım ve İşletme Anonim Şirketi”, 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. The aforementioned Company, which is wholly-owned by Türk Hava Yolları A.O, has been registered by Istanbul Trade Registry Office and is established with the cash capital of 50.000 TRY. (Fifty thousand Turkish Lira)

Memorandum Of Agreement

Turkish Airlines has started negotiations regarding the procurement of catering services at Istanbul third airport applicable upon transfer of its operations thereto. In this respect Turkish Airlines has entered into a memorandum of agreement (MoA) with SATS Investments Pte. Ltd. ("SIPL"), a subsidiary of SATS Ltd (SATS). Upon fulfillment of the conditions precedents in the MoA including legal, governmental and regulatory approvals; the investment into catering services could be undertaken by the relevant party. The material developments will be announced.

Wide Body Aircraft Purchase Intention

Turkish Airlines expressed an intention to order 20+20, a total of 40 Boeing 787-9 Dreamliner to the aircraft manufacturer to be delivered between 2019 and 2023. This intention was raised by wide body aircraft needs of Turkish Airlines resulting from the firm narrow body aircraft orders that were previously placed. These new generation aircrafts will strengthen the fleet and significantly increase customer satisfaction. With this intention of purchase, negotiations are continuing with Boeing.

2017 Guidance Revision

The revised guidance regarding the Company targets and expectations for the year 2017 is as follows:

Traffic Development

-Total number of passengers carried is targeted to reach 69 million including 31 million on domestic routes, 38 million on international routes.

-Passenger load factor is expected to be 77%-78%. Total Available Seat Kilometers (ASK) will reach to 175 billion with an increase of 2% compared to 2016.

-In 2017, cargo/mail carried will increase by 23% reaching 1,100 thousand tonnes.

Financial Development (Unconsolidated)

-In 2017, jet fuel consumption is expected to increase by 2% compared to 2016.

-Average jet fuel (including fuel hedge) is expected to be 570\$/ton.

-Revenue is expected to be 10,3-10,5 Billion USD.

-Targeted CASK decrease is between 4%-6%.

-Targeted EBITDAR margin is between 21%-23%.

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

Aircraft Purchase

The Incorporation has decided to purchase one ACJ318 aircraft to be used in VIP service.

2016 Ordinary General Assembly Meeting of our Incorporation

The Regular General Assembly Meeting was held on June 9, 2017. All documents regarding the Meeting are accessible via the Incorporation's Investor Relations Web Site.

(<http://investor.turkishairlines.com/en/governance/general-assembly/1/2017>)

Some of the Significant Resolutions taken at the Regular General Assembly Meeting are stated below:

Board Member Appointment

The Incorporation has decided to appoint:

Mr. Mehmet İlker Aycı as the Chairman, Mr. Bilal Ekşi as the Deputy Chairman, Mr. Mecit Eş, Mr. İsmail Gerçek, Mr. İsmail Cenk Dilberoğlu as the Member of the Board, Ms. Arzu Akalın, Mr. Mehmet Muzaffer Akpınar and Mr. Ogün Şanlıer as the Independent Member of the Board.

Mr. Orhan Birdal has been appointed as the Member of the Board, in order to replace the open position, due to the leave of Member of the Board, Mr. Mehmet Büyükeksi.

Appointment of Committees

The Incorporation has decided to appoint;

Independent Board Members Mr. Mehmet Muzaffer Akpınar as the Committee Chairman and Mr. Ogün Şanlıer as the member of the Audit Committee;

Independent Board Member Ms. Arzu Akalın as the Committee Chairman, Board Members Mr. İsmail Gerçek 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 Members Mr. Ogün Şanlıer as the Committee Chairman and Mr. Mehmet Muzaffer 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 and General Manager Mr. Bilal Ekşi as the Deputy Chairman of the Executive Committee and Board Member Mr. İsmail Cenk Dilberoğlu as the Member of the Executive Committee.

Phuket is the 300th Flight Point of Turkish Airlines

Turkish Airlines, flying to most countries and international destinations in the world, has started operating scheduled flight to Phuket as of 17 July 2017. Flag carrier airline's flights to Phuket will be four flights per week.

Share Transfer

49.12% A group share of Turkish Airlines owned by Republic of Turkey Prime Ministry Privatisation Administry has been transferred to Sovereign Wealth Fund of Turkey as of February 3rd, 2017.

Miles & Smiles Contract Renewal

BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1

The Company has decided to renew Turkish Airlines Frequent Flyer Program (FFP) Miles & Smiles Co-Branded Credit Card Collaboration agreement expiring on 01.04.2017. For this purpose it has been decided to collaborate with the current contractor party, T. Garanti Bankası A.Ş. to issue FFP Co-branded credit card for the FFP members of Turkish Airlines for 01.04.2017-31.03.2018 period.

Depreciation Accounting Change

The Board of Directors has decided to change the accounting estimation regarding depreciation time of aircraft engines and airframes from 20 years to 25 years, based on the economical & technological factors, peer airlines & lessor companies' practices and expert opinions. The change will be valid starting from 2017.

8. TRAFFIC RESULTS

January-December traffic results are shown below:

	TOTAL		
	2016	2017	Change (%)
Number of Landing	464,247	469,552	1.1%
Available Seat Km ('000)	170,415,860	173,072,949	1.6%
Revenue Passenger Km ('000)	126,903,034	136,946,520	7.9%
Passenger Load Factor (%)	74.5%	79.1%	4.7 pt
Passengers Carried	62,790,605	68,616,740	9.3%
Int-to-Int Transfer Passengers Carried	20,930,936	21,669,976	3.5%
Cargo and Mail (Tons)	894,304	1,122,697	25.5%
Fleet	334	329	-1.5%
Seat Capacity	65,993	65,688	-0.5%
Number of Destinations	295	300	1.7%
Km Flown ('000)	918,719	929,936	1.2%
Hours Flown	1,361,646	1,360,643	-0.1%
Utilization*	11:54	11:43	-1.5%

* Based on 311 aircraft for 2016, 317 aircraft for 2017.

	DOMESTIC		
	2016	2017	Change (%)
Number of Landing	195,473	207,425	6.1%
Available Seat Km ('000)	20,751,008	22,361,394	7.8%
Revenue Passenger Km ('000)	17,036,941	18,798,102	10.3%
Passenger Load Factor (%)	82.1%	84.1%	2.0 pt
Passengers Carried	27,299,314	30,129,896	10.4%
Cargo and Mail (Tons)	56,531	70,671	25.0%
Km Flown ('000)	121,269	130,965	8.0%

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

	INTERNATIONAL		
	2016	2017	Change (%)
Number of Landing	268,774	262,127	-2.5%
Available Seat Km ('000)	149,664,852	150,711,555	0.7%
Revenue Passenger Km ('000)	109,866,094	118,148,418	7.5%
Passenger Load Factor (%)	73.4%	78.4%	5.0 pt
Passengers Carried	35,491,291	38,486,844	8.4%
Cargo and Mail (Tons)	837,773	1,052,026	25.6%
Km Flown ('000)	797,450	798,971	0.2%

I. Scheduled Domestic Flights:

During January-December 2017, the Incorporation didn't start operating any new domestic scheduled flights with TK main brand.

II. Scheduled International Flights:

During January- December 2017, the Incorporation started operating scheduled flights with TK main brand to new international destinations stated below:

<u>Flight Destination</u>	<u>Flight Inaugural Date</u>
CONAKRY - Guinea	30.01.2017
KHARKIV - Ukraine	30.03.2017
VORONEZH - Russia	04.04.2017
SAMARA - Russia	11.04.2017
PHUKET - Thailand	17.07.2017

III. Additional, Charter and Hajj-Umrah Flights

During January- December 2017, 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	1,309	1,530	550,334
Charter	1,321	6,463	1,348,352
Hajj-Umrah	-	4,593	574,548

BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1

IV. AnadoluJet Flights:

Scheduled and Additional Flights	2016	2017	Change (%)
Revenue Passenger (000)	11,776	13,698	16%
Avaliable Seats*Km (Millions)	9,483	10,628	12%
Passenger Load Factor (%)	81.9	83.2	+1.3 pt

- AnadoluJet has been pursuing its operations with 19 aircraft (wetlease) from SunExpress and 18 aircraft from TK fleet.(A total of 37 B737-800)
- As of December 2017, 19 aircraft is based in Ankara Esenboğa and 14 in İstanbul Sabiha Gökçen.
- As of December 2017, AnadoluJet flies to a total of 45 destinations.(Esenboğa based 34, Sabiha Gökçen based 32, point to point (cross) flights 5)
- As of December 2017, Sabiha Gökçen and Ankara Esenboğa based ASK has increased by 12% and 19%, respectively. (Total rate of ASK increase 12%)
- As of December 2017, the load factor is 83.2%

9. FLEET

31.12.2017	Type	Total	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Year End Fleet*					
								2018	2019	2020	2021	2022	2023
Wide Body	A330-200	16	2	3	11	4.122	10,3	18	16	13	13	8	5
	A330-300	37		29	8	10.807	3,9	37	37	37	37	36	29
	A340-300	4	4			1.332	19,7	4	4	4	4	4	4
	B777-3ER	33		27	6	11.670	4,1	33	32	30	30	30	30
	Total	90	6	59	25	27.931	5,8	92	89	84	84	78	68
Narrow Body	B737-900ER	15		15		2.355	4,6	15	15	15	15	15	15
	B737-9 MAX								5	10	10	10	10
	B737-800	88	25	42	21	14.392	9,5	82	82	80	80	80	78
	B737-700	1			1	124	11,9	1	1				
	B737-8 MAX							7	19	38	53	65	65
	A321 NEO							3	21	39	59	77	92
	A319-100	7		6	1	924	7,2	7	6	6	6	6	6
	A320-200	24	5	7	12	3.822	11,0	19	12	12	12	12	12
	A321-200	68		62	6	12.360	5,5	68	68	66	64	64	64
	A320-200 WL												
	B737-800 WL	20			20	3.780	12,4	17	14	8	6	2	
	Total	223	30	132	61	37.757	8,3	219	243	274	305	331	342
Cargo	A330-200F	9		9			4,0	9	9	9	9	9	9
	B777F	2		2			0,1	5	5	5	5	5	5
	Wet Lease	5			5		24,0						
	Total	16		11	5		9,8	14	14	14	14	14	14
GRAND TOTAL		329	36	202	91	65.688	7,7	325	346	372	403	423	424
Year End Seat Capacity :								65.545	68.722	72.308	77.631	80.407	79.543

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

10. FINANCIAL SITUATION**SUMMARY OF BALANCE SHEET (Mn TRY)**

	31 December 2017	31 December 2016
<u>ASSETS</u>		
Current Assets	13,699	12,673
Non-Current Assets	54,948	52,401
Total Assets	68,647	65,074
<u>LIABILITIES</u>		
Total Current Liabilities	16,209	15,832
Total Non-Current Liabilities	32,267	31,343
Total Equity	20,171	17,899
Total Liabilities and Equity	68,647	65,074
Debt to Assets Ratio	0.69	0.72
Equity Ratio	0.31	0.28

SUMMARY OF INCOME STATEMENT (TRY)

	1 Jan. – 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Sales Revenue	39,779	29,468
Gross Profit	7,836	3,417
Operating Profit Before Investment Activities	3,568	(865)
Profit/Loss Before Tax	813	2
Profit/Loss for the Period	639	(47)
Earnings Per Share (Kr)	0.46	(0.03)

SUMMARY OF BALANCE SHEET (Mn USD)

	31 December 2017	31 December 2016
<u>ASSETS</u>		
Current Assets	3,631	3,601
Non-Current Assets	14,566	14,890
Total Assets	18,197	18,491
<u>LIABILITIES</u>		

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

Total Current Liabilities	4,297	4,497
Total Non-Current Liabilities	8,554	8,907
Total Equity	5,346	5,087
Total Liabilities and Equity	18,197	18,491
Debt to Assets Ratio	0.71	0.72
Equity Ratio	0.29	0.28

SUMMARY OF INCOME STATEMENT (USD)

	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Sales Revenue	10,958	9,792
Gross Profit	2,196	1,136
Operating Profit/Loss Before Investment Activities	1,022	(291)
(Loss) Before Tax	279	(59)
(Loss) for the Period	223	(77)
Earnings Per Share (USc)	0.16	(0.06)
EBITDAR	3,016	1.628
EBITDA	2,252	981
EBIT	1,186	(167)
EBITDAR Margin	%27.5	%16.6
EBITDA Margin	%20.55	%10.02
EBIT Margin	%10.8	(%1.7)
Operating Profit Margin	%9.3	(%3.0)
Net Profit Margin	%2.0	(%0.8)

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES

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

By the end of December 2017, number of wide body aircraft has reached 90, which makes up 27 % of the total fleet. Due to the effect of stage length and seat capacity, contribution of wide body aircraft to the production is more than 50%.

	31.12.2017 Type	2011-2023 Aircraft Purchases														
		Delivered							To Be Delivered							
		2011	2012	2013	2014	2015	2016	TOTAL	2017	2018	2019	2020	2021	2022	2023	TOTAL
Wide Body	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							
Narrow Body	B737-900ER	2	7	1		5			15							
	B737-9 MAX										5	5				10
	B737-800	2	2	6	10		20		40							
	B737-8 MAX									7	12	19	15	12		65
	A321	8	7	9		13	10		47							
	A321 NEO									3	18	18	20	18	15	92
	A319	6							6							
	Total	18	16	16	10	18	30		108	10	35	42	35	30	15	167
Cargo	A330-200F	1	1	2		1	2	1	8							
	B777F							2	2	3						3
	Total	1	1	2		1	2	3	10	3						3
GRAND TOTAL		29	20	20	20	33	43	4	169	13	35	42	35	30	15	170

Decree on State Aids for Investments

The incorporation had completed 13,267,897,367 TRY in total value of aircraft investments since 31.05.2010 in scope of the Investment Incentive Certificate obtained within the framework of “Decree on State Aids for Investments” put to force by the Cabinet on 14.07.2009. According to the incentive certificate, a 50% discounted corporate tax will be applied to the income generated by the related aircraft until the total amount of contributions invested of 20% of total investment is reached.

The incorporation has decided to terminate the aforementioned certificate and apply for a new certificate for the aircraft investment that is planned to be made as of 01.12.2014 within the framework of “Cabinet Decree on State Aids for Investments” put to force on 15.06.2012. According to this new certificate, a 50% discounted corporate tax will be applied to the income generated by the related aircraft, until this amount reaches 15% of total investment.

**BOARD OPERATIONAL REPORT
PURSUANT TO THE COMMNIQUE SERIAL II. NO.14.1**

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 and Luxor of Egypt, Krasnodar, Voronezh, Samara and Makhachkala of Russia, Samarkand of Uzbekistan, Krakow of Poland, La Coruna of Spain, Lenkeran of Azerbaijan, Luanda of Angola, Mexico City of Mexico, Nantes of France, Denpasar of Indonesia, Freetown of Sierra-Leone.

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

This is an English translation of the original Board Activity Report made by Türk Hava Yolları A.O. in Turkish, for information purposes only. In the event of any discrepancy between this translation and the original Turkish report, the original Turkish report shall prevail. Türk Hava Yolları A.O. makes no warranties or representations about the accuracy or completeness of the English translation and assumes no liability for any errors, omissions or inaccuracies that may arise from use of this translation.
