

**TURKISH AIRLINES' BASICS**

**CURRENT ISSUES OF CIVIL AVIATION AND GATEWAY AIRPORT INVESTMENTS**



## Disclaimer

This presentation is confidential and does not constitute or form part of, and should not be construed as, an offer or invitation to subscribe for, underwrite or otherwise acquire, any securities of Turkish Airlines A.O (the “Company”) or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group nor shall it or any part of it form the basis of or be relied on in connection with any contract, investment decision or commitment whatsoever. This presentation has been made to you solely for your information and background and is subject to amendment. This presentation (or any part of it) may not be reproduced or redistributed, passed on, or the contents otherwise divulged, directly or indirectly, to any other person (excluding the relevant person’s professional advisers) or published in whole or in part for any purpose without the prior written consent of the Company.

This presentation includes forward-looking statements. These forward-looking statements include all matters that are not historical facts, statements regarding the Company’s intentions, beliefs or current expectations concerning, among other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties, including, without limitation, the risks and uncertainties set forth in the Company’s Offering Memorandum, because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions you that forward-looking statements are not guarantees of future performance and that its actual results of operations, financial condition and liquidity and the development of the industry in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this presentation. In addition, even if the Company’s results of operations, financial condition and liquidity and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in future periods. The Company does not undertake any obligation to review or confirm analyst expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise after the date of this presentation.

## Speaker



*Dr. Candan Karlitekin,  
Chairman, Turkish Airlines*

- ›Board Member : April 2003-May2004
- ›Chairman of the Board of Directors Since May 2004
- ›Chairman of the Executive Committee Since November 2006
  
- ›B.A. Economics, Boğaziçi University, İstanbul July 1983
- ›M.A. in International Trade & Finance, State University of New York at Albany June 1984
- ›Ph.D. in International Trade & Finance, Macroeconomic Modelling, State University of New York at Albany June 1988
  
- ›Managing Partner, Özbakan Makina Ltd. İstanbul, Structural Steel Construction & HVAC

# Company Overview



## › Fleet Development

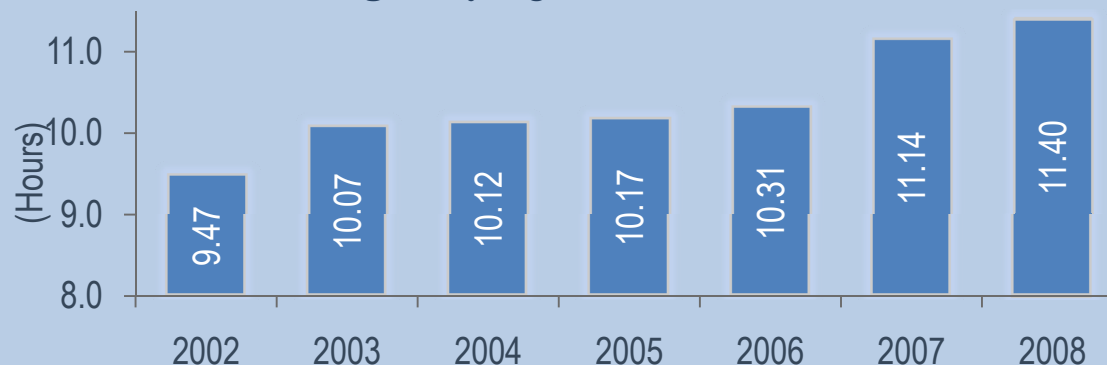
### Fleet as of March 2009

Type	Total	Owned	Financial Lease	Operational Lease
B737-800	51	-	38	13
B737-700	4	-	-	4
B737-400	5	-	-	5
A320-200	22	-	12	10
A321-200	21	-	15	6
A319-100	4	-	-	4
A330-200	7	-	5	2
A340	9	7	-	2
A310	2	2	-	-
A310 Cargo	4	3	-	1
B777	3	-	-	3
<b>Total</b>	<b>132</b>	<b>12</b>	<b>70</b>	<b>50</b>

- › As of March 2009, total seat capacity reached to 23,260 (92,5% increase since 2004), with an average age of 5,59 years.
- › The Fleet Plan for 2010-2018,
- › 25 +10 optional 35 Wide Body
- › 50+20 optional 70 Narrow Body
- › A total of 105 to be procured in 2009

Seat capacity increased by 26% in 2008, fleet age dropped below 6 years

### Average Daily Flight Utilization (hrs)



- › Aircraft utilization has been rising due to better fleet composition and a more dynamic scheduling process

Strong capacity growth and better flight utilization

# Company Overview



## > Destinations

### 115 International Lines

#### AMERICAS (3)

CHICAGO  
NEW YORK  
SAO PAULO

#### NORTH AFRICA (7)

ALGERS  
CARIO  
CASABLANCA  
KHARTOUM  
TRIPOLI  
TUNUS  
BENGAZI

#### MID- AFRICA (4)

ADISABABA  
LAGOS  
NAIROBI  
DAKAR

#### SOUTH AFRICA (2)

JOHENSBURG  
CAPETOWN

#### EUROPE (64)

AMSTERDAM	DÜSSELDORF	MADRID	SARAJEVO
ATHENS	FRANKFURT	MILAN	SIMFEROPOL
BAKU	GENEVA	MINSK	SKOPJE
BARCELONA	HAMBURG	MOSCOW	SOFIA
BASEL	HANNOVER	MUNICH	STOCKHOLM
BELGRAD	HELSINKI	NICE	STRASBOURG
BERLIN	KAZAN	NURNBERG	ST PETERSBURG
BIRMINGHAM	KIEV	ODESSA	STUTTGART
BRUSSELS	LEFKOSE	OSLO	TBILISI
BUCHAREST	LISBON	PARIS	TIRANA
BUDAPEST	LONDON	PRAG	VIENNA
CHISINAOU	LJUBLIANA	RIGA	ZAGREB
COLOGNE	LYON	ROME	WARSAW
COPENHAGEN	LVOV	ROSTOV	ZURICH
DUBLIN	MANCHESTER	PRISTINA	VENICE
DONETSK	DNEPREPETROVSK	UFA	YEKATERINBURG

#### FAR EAST (17)

ALMATY	KARACHI
ASKHABAT	MUMBAI
ASTANA	NEW DELHI
BANGKOK	SHANGAI
BEIJING	SEOUL
BISKEK	SINGAPORE
DUSANBE	TASHKENT
HONG KONG	TOKYO
	OSAKA

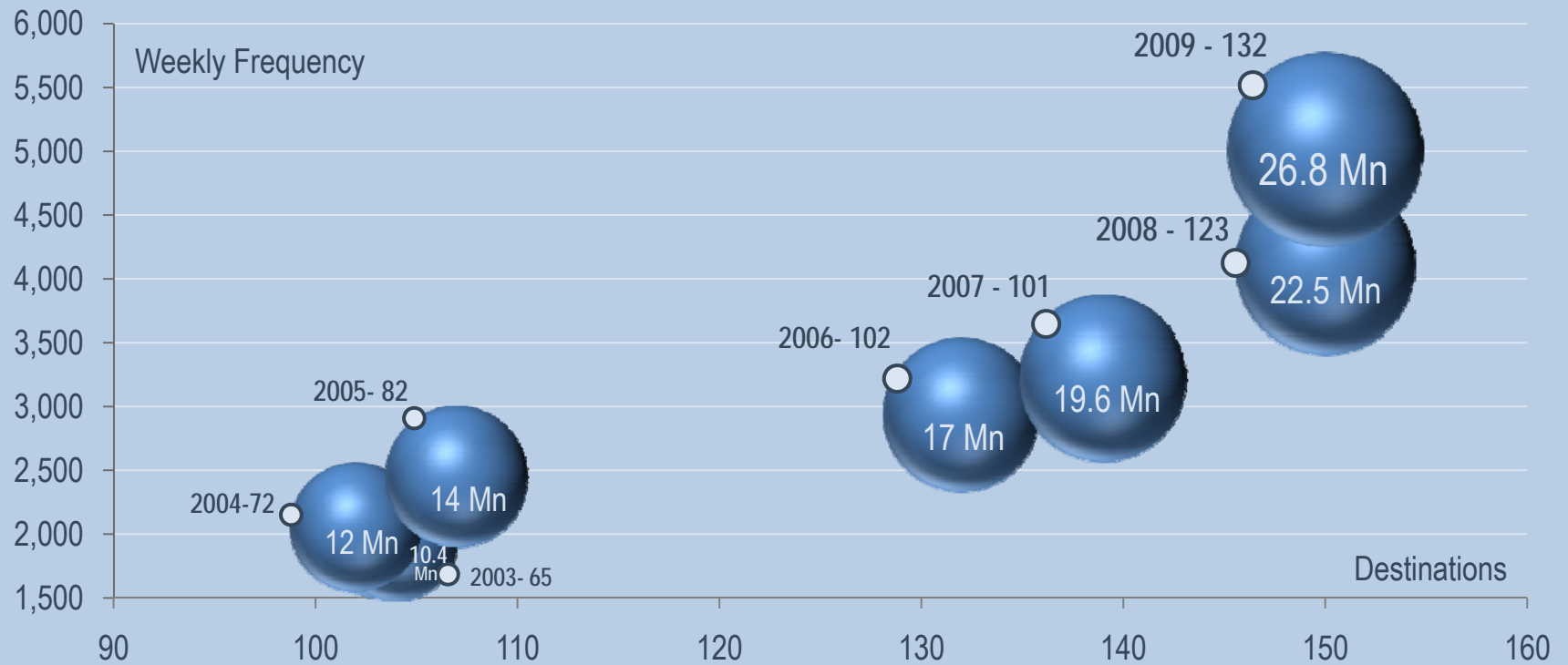
#### MIDDLE EAST (18)

AMMAN	KUWAIT
ABU DHABI	MUSCAT
BAHREYN	RIYAD
BEIRUT	SANAA
DAMASCUS	TEHRAN
DUBAI	TEBRIZ
DOHA	TEL AVIV
JEDDAH	MEDINAH
BAGDAT	ALEPPO

**TURKISH AIRLINES** 

A STAR ALLIANCE MEMBER 

## › Network Mapping



## › Subsidiary & Affiliates

### › THY Technic Inc. (Consolidated)

- › Owned 100% by THY
- › Established on May 23rd, 2006 with the capital-in-kind valued at 271,325,800 New Turkish Lira (appx \$169 mn) which is mainly aircraft components and aircraft spare parts. Current capital is approximately around 198 mn\$.
- › In 9M 2008 posted revenues and net income of 222€mn and 11€mn respectively.
- › Provides maintenance services to more than 10 international airlines including Lufthansa, KLM, BA and Alitalia as well as domestic airlines.
- › Main goal is to become one of the biggest MRO Center in the region.

### › THY Do&Co Catering Inc. (Equity Pick-up)

- › Owned 50% - %50 by THY and Do & Co Restaurants & Catering A.G.
- › In the first 9 months of 2008 posted revenues and net income of 75€mn and 5€mn respectively.

### › TGS Ground Handling Inc. (Equity Pick-up)

- › Registered on August 28th, 2008 to Commerce Registry.

### › Sun Express Inc. (Equity Pick-up)

- › Owned 50% - 50% by THY and Lufthansa, respectively.
- › Operating mainly charter flights between Germany and Antalya (Turkey) airports. Scheduled operation have started from İzmir on November 3, 2005 . Also Domestic Operations has started from İzmir as of March 26, 2006.
- › Flies to/from 21 airports in Germany, 17 in Turkey and 60 in other countries with total of 1,032 personnel.
- › Fleet consisted of 18 aircraft (one of them wet-leased AC); 15 B737 (one of them wet-leased AC with total seat capacity of 189) & 3 B757 aircraft with total seat capacity of 3,522 as of September 2008. Carried 3,162,623 passengers in the first nine months of 2008, by achieving load factor of 78.32%.
- › As of September 30, 2008 posted revenues and loss of 314€ ths and 269 €ths respectively.

### › THY Flight Training Inc. (to be Established)

- › With 6 Full Flight Simulators, 8 A/Cs and cabin training mock-ups

## Some Current Issues of Global Aviation

- Global Financial Crisis may slow down liberalization of International Aviation for few years due to Protectionism.
- Economic slowdown will force Consolidation in Aviation in 1-3 years mainly via M&A, bankruptcies, re-scalings
- Limitations on airline ownership by foreigners may continue to be used as barrier for cross-border Acquisitions
- Competition will be mainly between Alliance blocks as well as to a lesser degree within blocks.
- The volume of domestic business as well as the scale (fleet&network) will play a crucial role with respect to viability of any airline business practice. (Critical Threshold)
- In Point-to-Point vs Hub-Spoke rebuttal the latter will regain its force due to efficiency, ATC congestions and environmentalist concerns.
- Legacy and LCLF business models will converge in terms of cost and yield figures and will coexist mainly due to Market Segmentation and Product Differentiation.
- In emerging markets demand for air travel will continue to grow despite economic slowdown since Aviation is far from being saturated. Shift among different modes of transportation has not ceased and consumer preferences has changed dramatically.
- Additional taxation and carbon emission trade type of measures will further narrow profit margins first leading to further consolidations and later relatively less competition.
- Development of more efficient aircrafts will entail high levels of capital expenditure. High investment requirements and falling yields will force airlines to design and implement their unique business model for viability.
- In any case retirement of older A/C and economic recovery will lead to sustained overcapacity from 2-3 years on.

## Turkish Airlines' Prospects

- Unique geographical position (only 3hrs flight from 50 different countries)
- Unlike Gulf Carriers one leg is serviced with narrow body A/C leading to higher number of city pairs offered.
- A four star product obtained at a lower cost relative to competitors (Labor costs only 1.3€ per ASK (LH:2.9€, Iberia: 2.0€))
- Turkey is among top 10 touristic destinations worldwide with huge potential yet to be discovered.
- Istanbul is itself a turistic destination currently with 6 mn tourist. (Paris 60 mn)
- International investors obtain high rates of return and continue to invest in Turkey.
- Turkish foreign policy (zero problem with neighbors, promoting stability in the region, commitment to EU membership, etc) lays the ground for a huge economic and cultural relations network to prosper.
- Plenty of room for further cost reductions exists.
- Developing Infrastructure (SAW airport 20+mn passengers in Anatolian Istanbul, ESB, ADB, AYT, others, IST expansion, IST 06-24 runway extension, ATC-SMART Project).
- Ankara based operation AnadoluJet after being separate Airline will serve a certain LCLF market segment to help Turkish AL to focus on its target segment.
- Antalya based SunExpress serves tourists with charter configuration A/C. SunExpress business is also supported by seat-only scheduled traffic and domestic regional LCLF traffic in and out of AYT, ADB, SAW, YEI.
- Star Membership has increased Turkish brand awareness and has altered passenger composition considerably with increased transit passenger figures some of which can directly be attributable to Star. (i.e. from 6% to 22% in 2 years.)
- The opportunity to enhance the product further with best F&B, best IFE, new routes, appropriate frequencies, etc.
- In 2023 Turkish is planning to operate about 330 to 350 A/C.
- THE NEW TENDER TO PROCURE 105 A/C WILL SET THE FUTURE STANDARD SUITABLE FOR TARGETED MARKET SEGMENT.

# Gateway Airport Investments

## Discussion Points to Follow

- What is the objective function of deciding about GAI?
- Is it possible to determine an optimal GAI?
- Can we get all stakeholders to exert influence on GAI?
- How to improve sub-optimal initial conditions later on?
- Can AOs maintain appropriate charges throughout the lifetime of GAI? Grandfather rights considered kickback?
- How to manage trade-offs if slots are used up?
- What is maximized at the marginal slot allocation?
- Does cross subsidy exist if AO operates multiple airports?
- Is GAI a source of income or income generator for all?

---

**TURKISH AIRLINES**



**THANK YOU**

---