

**TÜRK HAVA YOLLARI TEKNİK
ANONİM ŞİRKETİ AND ITS SUBSIDIARY**

Condensed Consolidated Interim
Financial Statements
For the Six-Month Period Ended
30 June 2020



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Türk Hava Yolları Teknik A.Ş.

Introduction

1. We have reviewed the accompanying condensed consolidated interim statement of financial position of Türk Hava Yolları Teknik A.Ş. and its subsidiary (the "Group") as at 30 June 2020 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Other matters

4. We draw attention to Note 20 of which describes the large-scale operations with related parties of the Group. For the six month interim period ended 30 June 2020, 85% of sales are realized with the related parties. Our conclusion is not modified in respect of this matter.



5. The consolidated financial statements of the Group as of 31 December 2019 and for the year then ended were audited and the condensed consolidated interim financial information as of 30 June 2019 and for the six-month period then ended were reviewed by another audit firm whose audit report dated 5 March 2020 expressed an unmodified opinion and whose review report dated 8 August 2019 expressed a conclusion that no material non-compliance with respect to IAS 34 has come to their attention.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

A handwritten signature in blue ink, appearing to read 'Baki Erdal', is written over a light blue circular stamp.

Baki Erdal, SMMM
Partner

Istanbul, 13 August 2020

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TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Condensed Consolidated Balance Sheet as at 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

	Notes	Reviewed 30 June 2020	Audited 31 December 2019
ASSETS			
Right of Use Assets	13	32.496.533	34.109.587
Property, Plant and Equipment	8	564.147.874	543.884.657
Intangible Assets	9	10.848.145	9.340.761
Investments Accounted for Using the Equity Method	7	66.917.809	64.372.950
Other Investments		510.059	510.059
Prepaid Expenses	12	1.917.307	2.311.547
Non-Current Assets		676.837.727	654.529.561
Inventories	6	657.385.875	615.154.029
Current Tax Assets	18	139.957	8.089.656
Trade Receivables	5, 20	150.545.004	295.736.239
Other Receivables	20	2.927.584	1.050.507
Prepaid Expenses	12	20.615.074	10.218.371
Cash and Cash Equivalents	3	6.185.274	4.523.149
Other Current Assets		364.816	231.364
Current Assets		838.163.584	935.003.315
TOTAL ASSETS		1.515.001.311	1.589.532.876

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Condensed Consolidated Balance Sheet as at 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

	Notes	Reviewed 30 June 2020	Audited 31 December 2019
EQUITY			
Share Capital	14	569.462.907	569.462.907
Reserves	14	34.847.147	30.768.471
Retained Earnings		452.744.806	476.727.998
Equity Attributable to Equity Holders of the Parent		1.057.054.860	1.076.959.376
Non – Controlling Interest	14	1.334.985	513.210
TOTAL EQUITY		1.058.389.845	1.077.472.586
LIABILITIES			
Long Term Lease Liabilities	4	26.668.655	28.469.237
Provisions	11	29.242.071	29.562.464
Deferred Tax Liabilities	18	62.146.925	54.862.297
NON-CURRENT LIABILITIES		118.057.651	112.893.998
Short Term Portion of Lease Liabilities	4	3.524.444	3.422.490
Other Financial Liabilities		1.301.408	4.731.904
Short Term Borrowings	4	56.422.644	56.032.511
Trade Payables	5, 20	112.067.335	117.817.132
Other Payables	20	12.908.198	29.854.858
Payables Related to Employee Benefits		9.102.190	23.999.092
Provisions	11	12.206.301	11.300.541
Deferred Income	12	130.627.890	151.289.952
Other Current Liabilities		393.405	717.812
CURRENT LIABILITIES		338.553.815	399.166.292
TOTAL LIABILITIES AND EQUITY		1.515.001.311	1.589.532.876

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the Six Months Period Ended at 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

	Notes	Reviewed 1 January- 30 June 2020	Reviewed 1 January- 30 June 2019
Continuing operations			
Revenue	15	430.080.267	634.328.458
Cost of Sales (-)	15	(393.747.977)	(506.549.147)
GROSS PROFIT		36.332.290	127.779.311
Other Income		9.534.571	9.066.607
Marketing and Sales Expenses (-)		(3.729.980)	(3.317.039)
Administrative Expenses (-)	16	(41.580.866)	(45.657.833)
Research and Development Expenses (-)		(2.146.269)	(2.546.209)
Impairment Losses on Trade Receivables (-)	5	(7.576.497)	(5.855.100)
Other Expenses (-)		(3.430.451)	(2.863.264)
OPERATING (LOSS)/PROFIT		(12.597.202)	76.606.473
Finance Income		4.296.124	452.777
Finance Costs (-)		(3.008.767)	(2.472.718)
NET FINANCE INCOME/(COST)		1.287.357	(2.019.941)
Gain on Investment Activities		-	17.309
Share of Net Profit/(Loss) of Investments Accounted for Using the Equity Method	7	864.305	(5.555.703)
PROFIT/(LOSS) BEFORE TAX		(10.445.540)	69.048.138
Income Tax Expense	18	(7.626.315)	(9.772.593)
(LOSS)/PROFIT FOR THE PERIOD		(18.071.855)	59.275.545
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Actuarial Losses From Defined Pension Plans	11	(1.553.122)	(2.508.774)
Tax Effect of Actuarial Losses From Defined Pension Plans	18	341.687	551.910
Items that are or may be reclassified subsequently to profit or loss			
Currency Translation Differences		(795.514)	(206.717)
OTHER COMPREHENSIVE EXPENSE		(2.006.949)	(2.163.581)
TOTAL COMPREHENSIVE EXPENSE		(20.078.804)	57.111.964
Loss Attributable to			
Non-Controlling Interest		(15.185)	(2.249)
Parent Company		(18.056.670)	59.277.794
		(18.071.855)	59.275.545
Total Comprehensive Expense Attributable to:			
Non-Controlling Interest		(174.288)	(43.591)
Parent Company		(19.904.516)	57.155.555
		(20.078.804)	57.111.964

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Condensed Consolidated Interim Statement of Changes in Equity
For the Six-Month Period Ended at 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

	Attributable to Owners of the Company					
	Share Capital	Restricted Profit Reserves	Retained Earnings	Total	Non- Controlling Interests	Total Equity
Balances as at 1 January 2019	569.462.907	19.925.548	352.964.749	942.353.204	482.078	942.835.282
Total Comprehensive Income	-	-	57.155.555	57.155.555	(43.591)	57.111.964
Balances as at 30 June 2019	569.462.907	19.925.548	410.120.304	999.508.759	438.487	999.947.246
Balances as at 1 January 2020	569.462.907	30.768.471	476.727.998	1.076.959.376	513.210	1.077.472.586
Transactions with non-controlling interests	-	-	-	-	996.063	996.063
Transfers	-	4.078.676	(4.078.676)	-	-	-
Total Comprehensive Income	-	-	(19.904.516)	(19.904.516)	(174.288)	(20.078.804)
Balances as at 30 June 2020	569.462.907	34.847.147	452.744.806	1.057.054.860	1.334.985	1.058.389.845

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Condensed Consolidated Interim Statement of Cash Flows
For the Six-Month Period Ended at 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

	Notes	Reviewed 1 January - 30 June 2020	Reviewed 1 January - 30 June 2019
(Loss)/Profit for the period		(18.071.855)	59.275.545
Adjustments to Reconcile Cash Flow Generated From Operating Activities:			
Adjustments for depreciation and amortization	6,8,9,13	61.588.748	61.433.291
Adjustments for provisions, net	11	2.032.237	1.113.437
Adjustments for provisions for inventories	6	(3.645.057)	(255.791)
Adjustments for provisions for employee benefits	11	2.080.324	3.082.177
Adjustments for provisions for doubtful receivables	5	5.272.100	5.358.926
Adjustments for changes in expected credit loss	5	2.304.397	496.174
Adjustments for interest income and expenses		1.263.962	557.011
Adjustments for discount for receivables and payables		(19.100)	16.894
Adjustments for unrealized foreign exchange loss and translation differences		(7.546.080)	12.389.824
Gain from sale of property, plant and equipment		-	(17.309)
Adjustments for share of investment's profit accounted for using the equity method	7	(864.305)	5.555.703
Adjustments for deferred tax expense	18	7.626.315	5.651.262
Adjustments for tax expense	18	-	4.121.331
Operating Profit Before Working Capital Changes		52.021.686	158.778.475
Increase in inventories		(66.132.053)	(127.145.837)
Decrease in trade receivables		137.791.778	59.561.157
Increase in other receivables		(1.877.077)	(14.303)
Increase in other current assets		(133.452)	(97.760)
(Decrease)/increase in trade payables		(5.907.737)	14.384.587
Decrease in other payables		(11.585.994)	(4.230.329)
Increase in prepaid expenses		(10.002.463)	(7.040.116)
(Decrease)/increase in deferred income		(20.662.062)	9.448.697
Decrease in payables related to employee benefits		(14.896.902)	(7.450.651)
(Decrease)/increase in other current and non-current liabilities		(324.407)	307.903
Cash Flows Generated From Operating Activities		58.291.317	96.501.823
Interest received		193.974	329.074
Taxes paid	18	(139.957)	(8.231.455)
Employee benefit indemnity paid	11	(1.072.442)	(1.108.352)
Net Cash Generated From Operating Activities		57.272.892	87.491.090
Cash Flows From Investing Activities			
Purchase of property and equipment	8	(49.656.738)	(64.663.826)
Purchase of intangible assets	9	(4.046.896)	(2.924.249)
Proceeds from sale of property and equipment		582.057	590.102
Capital increase of associates		-	(979.945)
Net cash used in investing activities		(53.121.577)	(67.977.918)
Cash Flows From Financing Activities			
Cash inflows from non controlling interest for capital increase of subsidiaries		996.063	-
Net changes in other payables to related parties		2.589.033	(13.936.118)
Net changes in borrowings		(3.430.496)	(4.759.841)
Cash outflows arising from lease liabilities		(2.394.106)	(1.895.409)
Interest paid		(249.684)	-
Net Cash Used In Financing Activities		(2.489.190)	(20.591.368)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1.662.125	(1.078.196)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		4.523.149	6.656.469
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		6.185.274	5.578.273

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Notes to the Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Türk Hava Yolları Teknik Anonim Şirketi (the “Company”) was incorporated on 23 May 2006 with the purpose to bring the Company to an important technical maintenance base in the area in air transport sector and to provide maintenance and repair services to civil aviation sector and every kind of technical and infrastructural assistance related with the airlines sector.

For the purpose of these condensed consolidated interim financial statements, the Company and its consolidated subsidiary Cornea Havacılık Sistemleri Sanayi ve Ticaret A.Ş. (“Cornea”) are collectively referred as the “Group”.

Total average number of employees working for the Group for the period ended 30 June 2020 is 9.347 (31 December 2019: 8.818). Total number of employees working for the Group as at 30 June 2020 is 9.422 (31 December 2019: 9.292).

	<u>30 June 2020</u>	<u>31 December 2019</u>
Administrative staff	2.780	2.540
Production staff	6.642	6.752
Total	9.422	9.292

The Company is registered in Turkey and its head office address is as follows:

Sanayi Mah. Havaalanı İyolu Cd. Sabiha Gökçen Havalimanı E Kapısı No:3 Pendik/İSTANBUL

(a) Subsidiary

As at 30 June 2020 and 31 December 2019 the detail of the Company’s subsidiary is as follows:

Name of the company	Principal Activity	Participation Rate		Country of Registration
		30 June 2020	31 December 2019	
Cornea	Cabin Interior Entertainment Systems	80%	80%	Turkey

Cornea was founded in order to design, manufacture, repair, maintain, market, sell and perform after-sales services, including in-cabin entertainment and internet service provider systems in land, sea, rail systems and air platforms, and spare parts of other software systems in civil aviation.

(b) Associates

As at 30 June 2020 and 31 December 2019 associates accounted for using equity method and participation rate of associates are as below:

Name of the Company	Principal Activity	Participation Rate		Country of Registration
		30 June 2020	31 December 2019	
P&W T.T. Uçak Bakım Merkezi Limited Şirketi (“TEC”)	Technical Maintenance	49%	49%	Turkey
Goodrich THY Teknik Servis Merkezi Limited Şirketi (“Goodrich”)	Technical Maintenance	40%	40%	Turkey
TCI Kabiniçi Sistemleri Sanayi ve Ticaret Anonim Şirketi (“TCI”)	Cabin Interior	20%	20%	Turkey

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Notes to the Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Preparation of the Consolidated Financial Statements

The condensed consolidated interim financial statements as at and for the six-month period ended 30 June 2020 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for complete annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2019.

Basis of Preparation

The consolidated financial statements, have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Adjustment of Financial Statements in Hyperinflationary Periods

As of 1 January 2005, “IAS 29: Financial Reporting in Hyperinflationary Economies” was no longer applied henceforward.

Functional and Reporting Currency

Functional Currency

These condensed consolidated interim financial statements are presented in US Dollars (“USD”), which is the Company’s functional currency.

Although the currency of the country in which the Group is domiciled is Turkish Lira (“TL”), for the purpose of this report the Group’s functional currency is determined as USD. USD 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 USD in measuring items in its consolidated financial statements and as the reporting currency. All currencies other than the currency selected for measuring items in the consolidated financial statements are treated as foreign currencies.

2.2 Basis of the Consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(b) Non-controlling interests

Non-controlling interest (“NCI”) are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Notes to the Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.2 Basis of the Consolidation *(continued)*

(c) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(d) Interests in investments accounted for using the equity method

The Group’s interests in investments accounted for using the equity method comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group’s share of the profit or loss and OCI of investments accounted for using the equity method, until the date on which significant influence or joint control ceases.

(e) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.3 Summary of significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group’s financial statements as at and for the year ended 31 December 2019.

The changes in accounting policies are also expected to be reflected in the Group’s financial statements as at and for the year ending 31 December 2020.

2.4 Changes and Errors in Accounting Estimates

If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively.

Changes in accounting policies or accounting errors applied retroactively and the consolidated financial statements of the previous periods were adjusted.

The significant estimates and assumptions used in preparation of these interim consolidated financial statements as at 30 June 2020 are same with those used in the preparation of the Group’s consolidated financial statements as at and for the year ended 31 December 2020.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 New and Revised Standards and Interpretations

a) *Standards, amendments and interpretations applicable as at 30 June 2020:*

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions;** effective from Annual periods beginning on or after 1 June 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

b) *Standards, amendments and interpretations that are issued but not effective as at 30 June 2020:*

- **Amendments to IAS 1, ‘Presentation of financial statements’ on classification of liabilities;** effective from 1 January 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date

(for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.5 New and Revised Standards and Interpretations

- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.
 - **Amendments to IFRS 3,** ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. .
 - **Amendments to IAS 16,** ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
 - **Amendments to IAS 37,** ‘Provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, IAS 41, ‘Agriculture’ and the Illustrative Examples accompanying IFRS 16, ‘Leases’.

The new standards, amendments and improvements have no material impacts on the financial position and performance of the Group.

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).

2.7 Impact of Covid-19 Pandemic on the Group’s Activities

During the last period of 2019, information regarding Covid-19 (Coronavirus) spread gradually with a limited number of cases being reported to the World Health Organization (WHO). In the first months of 2020, the virus continued to spread internationally and its negative effect started to increase. On March 11, 2020, the World Health Organization declared Covid-19 as a Global Pandemic.

This summary embodies the continuing development of the current state whilst consolidated financial statements approval date, stating that the impact of this pandemic is considered to be more than expected on both Turkey and international markets. Due to the local restrictions with the goal of preventing the spread of the virus, the Group's procurement, production and sales processes were proportionally disrupted, creating a negative impact on the Group's operations. The Group's management evaluated the impact of this situation on the fixed assets and other financial and non-financial assets on the Company’s financial statements and has indicated that there isn't any significant effect on its financial statements and performance. Additionally, the effect of the pandemic on the financial assets has been evaluated and probable outcomes have been reflected on the financial statements. The Group's management is carefully analyzing the latest developments regarding this situation and evaluating necessary work at the board of directors level in order to minimize the effects. As of the approval date of these financial statements, uncertainty remains regarding the duration and impact of the Covid-19 on operations and the local economy.

TÜRK HAVA YOLLARI TEKNİK ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Notes to the Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended 30 June 2020
(All amounts are expressed in US Dollars (“USD”) unless otherwise stated.)

3. CASH AND CASH EQUIVALENTS

As at 30 June 2020 and 31 December 2019, cash and cash equivalents comprised the following:

	<u>30 June 2020</u>	<u>31 December 2019</u>
Cash	12.087	-
Banks (demand deposits)	1.248.596	745.478
Banks (time deposits)	4.924.591	3.777.671
	<u>6.185.274</u>	<u>4.523.149</u>

As at 30 June 2020 and 31 December 2019, details of the time deposits are as follows:

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>30 June 2020</u>
143.000	TL	30 June 2020	8,28%	1 July 2020	20.900
10.667	USD	30 June 2020	1,75%	1 July 2020	10.667
90.000	USD	30 June 2020	0,20%	1 July 2020	90.000
32.863.251	TL	30 June 2020	7,50%	1 July 2020	4.803.024
					<u>4.924.591</u>

<u>Capital</u>	<u>Currency</u>	<u>Opening date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
3.808.000	TL	31 December 2019	13,67%	2 January 2020	641.056
610.000	USD	31 December 2019	1,50%	2 January 2020	610.000
15.008.598	TL	31 December 2019	10,00%	2 January 2020	2.526.615
					<u>3.777.671</u>

4. BORROWINGS

As at 30 June 2020 and 31 December 2019, the details of borrowings are as follows:

	<u>30 June 2020</u>	<u>31 December 2019</u>
Short-term bank loans	56.422.644	56.032.511
Total	<u>56.422.644</u>	<u>56.032.511</u>

As at 30 June 2020, the details of borrowings are as follows:

<u>Principal</u>	<u>Currency</u>	<u>Interest Type</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>30 June 2020</u>
50.083.679	Euro	Fixed	0,75%	30 October 2020	56.422.644

As at 31 December 2019, the details of borrowings are as follows:

<u>Principal</u>	<u>Currency</u>	<u>Interest Type</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>31 December 2019</u>
50.047.262	Euro	Fixed	0,75%	30 October 2020	56.032.511

The reconciliation regarding the liabilities arising from financial transactions is as follows:

	<u>1 January 2020</u>	<u>Cash Flows</u>	<u>Non-Cash Changes (*)</u>	<u>30 June 2020</u>
Bank Loans	56.032.511	-	390.133	56.422.644
	<u>56.032.511</u>	<u>-</u>	<u>390.133</u>	<u>56.422.644</u>

(*) USD 390.133 non-cash changes comprises foreign exchange translation differences amounting to USD 349.939 is and interest expense accruals amounting to USD 40.194.

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4. BORROWINGS (continued)

As at 30 June 2020, the details of lease liabilities resulting from IFRS 16 are as follows:

	Future minimum lease payments	Interest	Principal
Less than a year	5.509.170	(1.984.726)	3.524.444
Over a year	31.519.974	(4.851.319)	26.668.655
Total	37.029.144	(6.836.045)	30.193.099

As at 31 December 2019, the details of lease liabilities resulting from IFRS16 are as follows:

	Future minimum lease payments	Interest	Principal
Less than a year	5.660.945	(2.238.455)	3.422.490
Over a year	34.367.310	(5.898.073)	28.469.237
Total	40.028.255	(8.136.528)	31.891.727

5. TRADE RECEIVABLES AND PAYABLES

As at 30 June 2020 and 31 December 2019 trade receivables are as follows:

	30 June 2020	31 December 2019
Trade receivables from related parties (Note 20)	109.673.952	240.950.342
Trade receivables from non related parties	40.871.052	54.785.897
	150.545.004	295.736.239

As at 30 June 2020 and 31 December 2019, the details of trade receivables from non-related parties are as follows:

	30 June 2020	31 December 2019
Trade receivables	80.425.564	88.373.310
Notes receivables	1.654.006	2.652.510
Provision for doubtful receivables	(41.208.518)	(36.239.923)
	40.871.052	54.785.897

For the six month period ended 30 June 2020 and 2019 the movement of provision for doubtful receivables comprised the following:

	1 January - 30 June 2020	1 January - 30 June 2019
Provision at the beginning of the period	36.239.923	29.308.752
Current period charge of IFRS 9	2.304.397	496.174
Current period charge	5.351.831	5.761.326
Collections during period	(79.731)	(402.400)
Foreing exchange differences	(2.607.902)	(3.950.683)
Provision at the end of the period	41.208.518	31.213.169

As at 30 June 2020 and 31 December 2019 trade payables are as follows:

	30 June 2020	31 December 2019
Trade payables to related parties (Note 20)	27.793.506	17.478.827
Trade payables to non-related parties	84.273.829	100.338.305
	112.067.335	117.817.132

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5. TRADE RECEIVABLES AND PAYABLES (continued)

As at 30 June 2020 and 31 December 2019, trade payables to non-related parties comprised the following:

	30 June 2020	31 December 2019
Trade payables	74.094.740	89.420.448
Expense accruals	10.179.089	10.917.857
	84.273.829	100.338.305

6. INVENTORIES

As at 30 June 2020 and 31 December 2019, inventories comprised the following:

	30 June 2020	31 December 2019
Components and repairable spare parts	658.813.629	631.168.076
Technical equipment inventories	327.555.436	295.485.947
Scrap equipment inventories	7.926.466	11.571.558
Technical equipment inventories in transit	5.929.510	4.919.320
Accumulated depreciation of components and repairable spare parts (-)	(334.921.484)	(316.428.133)
Provision for impairment of inventories (-)	(7.917.682)	(11.562.739)
	657.385.875	615.154.029

For the six month period ended 30 June 2020 and 2019 the movement of provision for impairment of inventories is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Provision at the beginning of the period	11.562.739	22.362.071
Reversal of current period provision	(3.645.057)	(255.791)
Provision at the end of the period	7.917.682	22.106.280

For the six month period ended 30 June 2020 and 2019, the movement of components and repairable spare parts comprised the following:

Cost	Components and repairable spare parts
Opening balance as at 1 January 2020	631.168.076
Additions	53.970.630
Disposals	(26.325.077)
Closing balance as at 30 June 2020	658.813.629
Accumulated depreciation	
Opening balance as at 1 January 2020	316.428.134
Current charge for the period	27.545.264
Disposals	(9.051.913)
Closing balance as at 30 June 2020	334.921.485
Net book value as at 30 June 2020	323.892.144

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6. INVENTORIES (continued)

<u>Cost</u>	<u>Components and repairable spare parts</u>
Opening balance as at 1 January 2019	567.991.340
Additions	93.311.419
Disposals	(47.451.262)
Closing balance as at 30 June 2019	613.851.497
<u>Accumulated depreciation</u>	
Opening balance as at 1 January 2019	310.972.602
Current charge for the period	30.828.334
Disposals	(23.507.439)
Closing balance as at 30 June 2019	318.293.497
Net book value as at 30 June 2019	295.558.000

7. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

As at 30 June 2020 and 31 December 2019, shares in other entities comprised the following:

	<u>30 June 2020</u>	<u>31 December 2019</u>
TEC	61.246.897	59.004.774
Goodrich	3.631.953	3.068.268
TCI	2.038.959	2.299.908
	66.917.809	64.372.950

For the six month period ended 30 June 2020 and 2019, the shares of investment’s profit/(losses) accounted for using the equity method comprised the following:

	<u>1 January - 30 June 2020</u>	<u>1 January - 30 June 2019</u>
TEC	618.838	(6.296.202)
TCI	(256.175)	(42.090)
Goodrich	501.642	782.589
	864.305	(5.555.703)

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8. PROPERTY AND EQUIPMENT

For the six month period ended 30 June 2020, the movement of property and equipment comprised the following:

	Buildings	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress(*)	Leasehold Improvements	Total
<u>Cost</u>								
Opening balance as at 1 January 2020	436.609.762	213.426.675	13.227.796	43.263.249	5.386.149	105.646.820	65.561.448	883.121.899
Additions	-	5.998.494	42.225	1.033.260	203.977	42.084.882	293.900	49.656.738
Disposals	-	(4.895)	(83.214)	(803.716)	-2.779	-	-	(894.604)
Transfers	-	331.019	-	-	-	(377.898)	-	(46.879)
Closing balance as at 30 June 2020	436.609.762	219.751.293	13.186.807	43.492.793	5.587.347	147.353.804	65.855.348	931.837.154
<u>Accumulated depreciation</u>								
Opening balance as at 1 January 2020	130.732.493	122.663.976	8.347.506	29.111.264	2.845.902	-	45.536.101	339.237.242
Current charge for the period	13.054.624	9.684.375	760.650	2.373.691	332.905	-	2.558.340	28.764.585
Disposals	-	(4.895)	(83.214)	(221.835)	(737)	-	(1.866)	(312.547)
Transfers	-	-	-	-	-	-	-	-
Closing balance as at 30 June 2020	143.787.117	132.343.456	9.024.942	31.263.120	3.178.070	-	48.092.575	367.689.280
Net book value as at 1 January 2020	305.877.269	90.762.699	4.880.290	14.151.985	2.540.247	105.646.820	20.025.347	543.884.657
Net book value as at 30 June 2020	292.822.645	87.407.837	4.161.865	12.229.673	2.409.277	147.353.804	17.762.773	564.147.874

(*) For the period ended 30 June 2020 construction in progress comprised buildings and machinery and equipments which are still under construction in Istanbul Airport.

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8. PROPERTY AND EQUIPMENT (continued)

For the six month period ended 30 June 2019, the movement of property and equipment comprised the following:

	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Assets	Construction in Progress(*)	Leasehold Improvements	Total
<u>Cost</u>							
Opening balance as at 1 January 2019	181.796.972	11.720.635	35.628.920	4.363.416	48.391.861	446.796.043	728.697.847
Additions	8.981.412	1.207.029	2.191.463	546.114	44.627.683	7.110.125	64.663.826
Disposals	(814.473)	(2.715)	(21.184)	(774)	-	-	(839.146)
Transfers	2.484.044	-	(2)	6.155	(33.030.798)	30.540.601	-
Closing balance as at 30 June 2019	192.447.955	12.924.949	37.799.197	4.914.911	59.988.746	484.446.769	792.522.527
<u>Accumulated depreciation</u>							
Opening balance as at 1 January 2019	104.500.792	6.887.895	24.281.597	2.252.782	-	145.913.592	283.836.658
Current charge for the period	9.117.542	758.973	2.348.656	299.781	-	14.806.998	27.331.950
Disposals	(242.146)	(2.670)	(21.137)	(400)	-	-	(266.353)
Closing balance as at 30 June 2019	113.376.188	7.644.198	26.609.116	2.552.163	-	160.720.590	310.902.255
Net book value as at 1 January 2019	77.296.180	4.832.740	11.347.323	2.110.634	48.391.861	300.882.451	444.861.189
Net book value as at 30 June 2019	79.071.767	5.280.751	11.190.081	2.362.748	59.988.746	323.726.179	481.620.272

(*) For the period ended 30 June 2019 construction in progress comprised buildings and machinery and equipments which are still under construction in Istanbul Airport.

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9. INTANGIBLE ASSETS

For the six month period ended 30 June 2020 the movement of intangible assets comprised the following:

	<u>Rights</u>
Cost	
Opening balance as at 1 January	36.627.847
Additions	4.046.896
Transfers	46.879
Closing balance as at 30 June	40.721.622
<u>Accumulated depreciation</u>	
Opening balance as at 1 January	27.287.086
Current charge for the period	2.586.391
Closing balance as at 30 June 2020	29.873.477
Net book value as at 1 January 2020	9.340.761
Net book value as at 30 June 2020	10.848.145

For the six month period ended 30 June 2019 the movement of intangible assets comprised the following:

	<u>Rights</u>
Cost	
Opening balance as at 1 January	28.986.682
Additions	2.924.249
Closing balance as at 30 June	31.910.931
<u>Accumulated depreciation</u>	
Opening balance as at 1 January	23.661.042
Current charge for the period	1.490.305
Closing balance as at 30 June 2019	25.151.347
Net book value as at 1 January 2019	5.325.640
Net book value as at 30 June 2019	6.759.584

10. COMMITMENTS

As at 30 June 2020 and 31 December 2019 the guarantees given are as follows:

	<u>30 June 2020</u>		<u>31 December 2019</u>	
	<u>Original Amount</u>	<u>USD Equivalent</u>	<u>Original Amount</u>	<u>USD Equivalent</u>
A. Total amounts of GPM given on the behalf of its own legal entity				
-Guarantees	81.434.166	69.038.939	76.415.369	68.319.947
TL	22.410.243	3.275.298	17.391.446	2.927.754
Euro	53.250.000	59.989.718	53.250.000	59.618.270
USD	5.773.923	5.773.923	5.773.923	5.773.923
Total GPM	81.434.166	69.038.939	76.415.369	68.319.947

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11. PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES

As at 30 June 2020 and 31 December 2019 short-term provisions are as follows:

	<u>30 June 2020</u>	<u>31 December 2019</u>
Provisions for employee benefits	6.113.367	4.870.517
Other provisions	6.092.934	6.430.024
	<u>12.206.301</u>	<u>11.300.541</u>

As at 30 June 2020 and 31 December 2019 short-term provisions are as follows:

(a) Short-term provisions for employee benefits

	<u>30 June 2020</u>	<u>31 December 2019</u>
Provisions for unused vacation liability	6.113.367	4.870.517
	<u>6.113.367</u>	<u>4.870.517</u>

For the six month period ended 30 June 2020 and 2019, the movement of provision for unused vacation liability is as follows:

	<u>1 January – 30 June 2020</u>	<u>1 January – 30 June 2019</u>
Provision at the beginning of the period	4.870.517	4.802.302
Foreign currency translation difference	(537.858)	(177.368)
Current period charge	1.919.796	1.384.996
Reversal of current period provision	(139.088)	(257.084)
Provision at the end of the period	<u>6.113.367</u>	<u>5.752.846</u>

(b) Other short-term provisions

	<u>30 June 2020</u>	<u>31 December 2019</u>
Provision for legal claims	3.422.934	4.465.024
Other provisions (*)	2.670.000	1.965.000
	<u>6.092.934</u>	<u>6.430.024</u>

(*) In accordance with IFRS 15, it consists of the calculated amount of penalty expenses and discounts arising from the contract to be paid in 2020.

For the six month period ended 30 June 2020 and 2019, the movement of provision for legal claims is as follows:

	<u>1 January – 30 June 2020</u>	<u>1 January – 30 June 2019</u>
Provision at the beginning of the period	4.465.024	5.589.027
Current period charge (Note 17)	56.911	102.619
Reversal of current period provision (Note 17)	(510.382)	(1.122.094)
Foreing currency translation	(588.619)	(461.799)
Provision at the end of the period (**)	<u>3.422.934</u>	<u>4.107.753</u>

(**) As at 30 June 2020, provision for legal claims amounting to USD 1.877.757 is related with reinstatement cases (30 June 2019: USD 3.015.463).

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11 PROVISIONS, CONTINGENTS ASSETS AND LIABILITIES *(continued)*

For the six month period ended 30 June 2020 and 30 June 2019 the movement of other provisions is as follows:

	1 January – 30 June 2020	1 January – 30 June 2019
Provision at the beginning of the period	1.965.000	135.000
Current period charge	2.670.000	1.140.000
Reversal of current period provision	(1.965.000)	(135.000)
Provision at the end of the period	2.670.000	1.140.000

(c) Other long-term provisions for employee benefits

As at 30 June 2020 and 31 December 2019 other long-term provisions for employee benefits is as follows:

	30 June 2020	31 December 2019
Retirement pay liability	29.242.071	29.562.464
	29.242.071	29.562.464

The movement of provision for employee benefits are as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Provisions at the beginning of the period	29.562.464	27.040.502
Service charge for the period	529.493	1.619.247
Interest charges	1.550.831	1.462.930
Payments	(1.072.442)	(1.108.352)
Actuarial losses	1.553.122	2.508.774
Foreing currency translation difference	(2.881.397)	(2.323.979)
Provisions at the end of the period	29.242.071	29.199.122

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12. PREPAID EXPENSES AND DEFERRED INCOME

As at 30 June 2020 and 31 December 2019, short term prepaid expenses comprised the following:

	30 June 2020	31 December 2019
Advances given for orders (*)	18.446.170	6.165.310
Short-term prepaid expenses	2.168.904	4.053.061
	20.615.074	10.218.371

(*) Advances given for orders comprise advances given for purchasing of trading goods, components and consumables.

As at 30 June 2020 and 31 December 2019, long term prepaid expenses comprised the following:

	30 June 2020	31 December 2019
Advances given for fixed asses	1.898.540	2.225.327
Long-term prepaid expenses	18.767	86.220
	1.917.307	2.311.547

As at 30 June 2020 and 31 December 2019, short term deferred income comprised the following:

	30 June 2020	31 December 2019
Advances received	117.152.256	130.798.481
Short-term deferred income	13.475.634	20.491.471
	130.627.890	151.289.952

13. RIGHT OF USE ASSETS

For the six month period ended 30 June 2020, the movement of right of use assets comprised the following:

	Real Estate	Vehicles	Total
Opening balance at 1 January 2020	33.365.947	743.640	34.109.587
Additions	1.055.145	24.309	1.079.454
Depreciation charge	(2.483.156)	(209.352)	(2.692.508)
30 June 2020 closing balance	31.937.936	558.597	32.496.533

For the six month period ended 30 June 2019, the movement of right of use assets comprised the following:

	Real Estate	Vehicles	Total
Opening balance at 1 January 2019	-	-	-
IFRS 16 transition effect	28.677.382	1.190.250	29.867.632
Additions	-	4.015	4.015
Depreciation charge	(1.559.405)	(223.297)	(1.782.702)
30 June 2019 closing balance	27.117.977	970.968	28.088.945

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14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

(a) Issued share capital and ve share capital adjustments

As at 30 June 2020, the paid-in capital of the Company comprises of 960.850.000 shares issued (31 December 2019: 960.850.000 shares) of kr 1 each.

As at 31 December the ownership structure of the Group’s share capital is as follows:

	30 June 2020			31 December 2019		
	Class	Ownership Interest	%	Ownership Interest	%	
THY AO	A group	569.462.907	100	569.462.907	100	
Total		569.462.907	100	569.462.907	100	

960.850.000 (A) group shares with a nominal value of 960.850.000 TL have privilege in nominating the members of the board of directors and voting rights.

As at 30 June 2020 and 31 December 2019, the Company has no unpaid capital amount which is committed by its shareholders.

(b) Restricted Profit Reserves

Restricted reserves are reserves which are reserved for specific purposes from previous period profit other than due to law or contractual obligations or dividend payments. These reserves are presented as the same amount in Group’s statutory books and differences arising preparing the financial statements in accordance with IFRS are associated with prior years’ profit or losses.

As at 30 June 2020 and 31 December 2019, restricted reserves comprised the followings:

	30 June 2020	31 December 2019
The first legal reserve	34.847.147	30.768.471
Total	34.847.147	30.768.471

In accordance with the Turkish Commercial Code (“TCC”) numbered 519, the first legal reserve is appropriated out of statutory profits at the rate of 5 percent per annum, until the total reserve reaches 20 percent of the Group’s paid-in share capital. The second legal reserve is appropriated at the rate of 10 percent per annum of all cash distributions in excess of 5 percent of the paid-in share capital.

As at 30 June 2020, the Group does not have any reacquired shares (31 December 2019: None).

(c) Non-controlling interests

The parts of the subsidiary’s net assets that are not subject to the direct and or indirect control of the parent company are classified as non-controlling interests in the Group’s consolidated financial statements.

The movements of the non-controlling interests for the six month period ended 30 June 2020 and 2019 is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Beginning of the period	513.210	482.078
Changes in non-controlling interests of the shares on investments accounted for equity method	996.063	-
Currency translation differences	(159.103)	(41.342)
Period loss attributed to non-controlling interests	(15.185)	(2.249)
End of the period	1.334.985	438.487

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15. REVENUE AND COST OF SALES

For the six month period ended 30 June 2020 and 2019, the details of revenue is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Aircraft maintenance income	188.814.908	258.140.069
Pool income	77.121.257	119.760.614
Component maintenance income	76.473.519	100.623.192
Line maintenance income	45.468.195	85.090.767
Engine maintenance income	14.780.104	23.654.104
Equipment sales income	9.940.504	31.019.638
Others	17.481.780	16.040.074
Revenue	430.080.267	634.328.458
Cost of sales (-)	(393.747.977)	(506.549.147)
Gross profit	36.332.290	127.779.311

For the six month period ended 30 June 2020 and 2019, the details of cost of sales is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Equipment expenses	126.044.830	170.900.936
Personnel expenses	90.808.150	128.016.560
Maintenance expenses	68.514.171	75.209.010
Depreciation and amortization expenses	46.720.051	48.895.643
Service expenses	34.060.554	56.383.099
Transportation expenses	15.559.118	17.289.914
Utilization expenses	3.001.808	2.593.179
Customs brokerage expense	1.136.927	2.235.304
Equipment rent expense	1.050.980	499.073
Others	6.851.388	4.526.429
	393.747.977	506.549.147

16. GENERAL ADMINISTRATIVE EXPENSES

For the six month period ended 30 June 2020 and 2019, the details of general administrative expenses is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Personnel expenses	13.149.198	18.132.474
Depreciation and amortization expenses	13.767.920	9.877.394
Service expenses	6.249.825	7.281.979
Equipment expenses	1.303.936	2.010.084
Utilization expenses	1.074.153	1.030.795
Others	6.035.834	7.325.107
	41.580.866	45.657.833

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17. OTHER OPERATING INCOME AND EXPENSES

For the six month period ended 30 June 2020 and 2019, the details of other operating income is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Foreign exchange gain from trade operations, net	7.523.496	2.191.295
Provisions for legal claims, no longer required (Note 11)	510.382	1.122.094
Insurance, indemnities and penalties income	505.940	4.239.526
Plant maintenance income	411.685	345.744
Late payment interest income of trade receivables	153.171	407.736
Others	429.897	760.212
	9.534.571	9.066.607

For the six month period ended 30 June 2020 and 2019, the details of other operating expense is as follows:

	1 January - 30 June 2020	1 January - 30 June 2019
Contractual penalty (*)	2.767.472	1.402.700
Non-employment (job security) compensation costs	157.310	462.690
Provision expense of the legal claims (Note 11)	56.911	102.619
Others	448.758	895.255
	3.430.451	2.863.264

(*) In accordance with TFRS 15, it consists of the calculated amount related to penalty expenses arising from the contract to be paid in 2020.

18. TAX ASSET AND LIABILITIES

As at 30 June 2020 and 31 December 2019, current period tax expense comprise of following:

	30 June 2020	31 December 2019
Prepaid taxes and funds	(139.957)	(8.089.656)
Current tax assets	(139.957)	(8.089.656)

The Group current tax expense comprises current tax expense and deferred tax expense.

	1 January - 30 June 2020	1 January - 30 June 2019
Current period tax expense	-	(4.121.331)
-Current period tax expense	-	(5.327.744)
-Adjustments for prior year	-	1.206.413
Deferred tax expense	(7.626.315)	(5.651.262)
	(7.626.315)	(9.772.593)

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18. TAX ASSET AND LIABILITIES *(continued)*

Corporate Taxes

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group’s results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting other exempt income and investment incentives utilized.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017 “Law Amending Some Tax Laws and Some Other Laws”, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20 percent to 22 percent.

As at 30 June 2020, corporations are required to pay advance corporation tax quarterly at the rate of 22 percent on their corporate income (2019: 22 percent) and tax payments that are made in advance during the year are being deducted from the total final tax liability of the fiscal year.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments in Turkey. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Deferred Tax Assets and Liabilities

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its consolidated 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.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017 “Law Amending Some Tax Laws and Some Other Laws”, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20 percent to 22 percent. Therefore, deferred tax assets and liabilities as of 30 June 2020 and 31 December 2019 are calculated with 22 percent tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20 percent tax for those which will be realized after 2021 and onwards.

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18. TAX ASSET AND LIABILITIES (continued)

Deferred Tax Assets and Liabilities (continued)

As at 30 June 2020 and 31 December 2019, the deferred tax assets and liabilities comprised the following:

	30 June 2020	31 December 2019
Government incentives	25.236.877	16.982.073
Provision for employment termination indemnity	6.433.255	6.503.742
Provision for doubtful receivables	3.806.598	2.139.788
Provision for vacation pay	1.344.941	1.071.514
Provision for legal claims	753.045	982.305
Fixed assets	(50.842.467)	(45.129.611)
Inventories	(51.755.167)	(39.861.359)
Others	2.875.993	2.449.251
	(62.146.925)	(54.862.297)

For the six month period ended 30 June 2020 and 31 December 2019, the movements of deferred tax liability comprised the following:

	1 January – 30 June 2020	1 January – 30 June 2019
Deferred tax liability at the beginning of the period	54.862.297	50.514.050
Charged to profit or loss	7.626.315	5.651.262
Charged to other comprehensive income	(341.687)	(551.910)
Deferred tax liability at the end of the period	62.146.925	55.613.402

19. EARNINGS PER SHARE

There is not any equity (dilutive equity instruments) that have reducing effects on the earnings per share. The calculation of weighted average of total shares and earnings per share is as follows:

	1 January– 30 June 2020	1 January– 30 June 2019
Number of total outstanding shares as at 1 January (in full)	960.850.000	960.850.000
Number of outstanding shares as at 30 June (in full)	960.850.000	960.850.000
Weighted Average number of shares outstanding during the period (in full)	960.850.000	960.850.000
Net (loss)/profit for the period	(18.071.855)	59.275.545
(Loss)/Earnings per share	(1,88)	6,17

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20. RELATED PARTY TRANSACTIONS

As at 30 June 2020 and 31 December 2019 trade receivables from related parties are as follows:

	30 June 2020	31 December 2019
Türk Hava Yolları Anonim Ortaklığı (“THY A.O.”)	102.541.652	230.850.727
Güneş Express Havacılık A.Ş. (“Sun Ekspress”)	3.603.325	5.117.059
TEC	541.443	2.537.941
Goodrich	181.005	112.915
Air Albania SHPK	1.247.115	943.739
Others	1.559.412	1.387.961
	109.673.952	240.950.342

As at 30 June 2020 and 31 December 2019 trade payables to related parties are as follows:

	30 June 2020	31 December 2019
THY A.O.	21.274.374	13.931.292
Goodrich	3.861.496	2.273.244
Uçak Koltuk Üretim Sanayi Ticaret A.Ş	811.532	867.167
TGS Yer Hizmetleri A.Ş. (“TGS”)	1.497.031	234.771
Others	349.073	172.353
	27.793.506	17.478.827

As at 30 June 2020 and 31 December 2019 other receivables from related parties are as follows:

	30 June 2020	31 December 2019
THY A.O.	77.451	26.753
	77.451	26.753

As at 30 June 2020 and 31 December 2019 short term other payables to related parties are as follows:

	30 June 2020	31 December 2019
THY A.O.	3.168.288	579.255
	3.168.288	579.255

As at 30 June 2020 and 31 December 2019, advances received from related parties are as follows:

	30 June 2020	31 December 2019
THY A.O.	114.853.878	127.863.356
	114.853.878	127.863.356

As of 30 June 2020 and 31 December 2019, the details of assets in banks are as follows:

	30 June 2020	31 December 2019
Time deposit (*)	4.893.024	3.136.615
Demand deposit	1.224.070	503.030
	6.117.094	3.639.645

(*) The details of time deposits are shown in Note 3.

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20. RELATED PARTY TRANSACTIONS *(continued)*

For the six month period ended 30 June 2020 and 2019, transactions with related parties are as follows:

	1 January- 30 June 2020	1 January- 30 June 2019
Sales		
THY A.O.	343.160.130	496.402.633
Sun Express	7.461.711	12.136.742
TEC	2.428.568	3.922.452
Aydın Çıldır Havalimanı	1.046.738	1.802.495
Goodrich	411.976	1.139.779
TCI	190.231	303.975
Uçak Koltuk	176.083	172.663
Others	297.017	254.719
	355.172.454	516.135.458
	1 January- 30 June 2020	1 January- 30 June 2019
Purchases		
THY A.O.	20.021.687	35.831.523
Goodrich	9.549.945	14.303.399
Uçak Koltuk	2.026.369	3.304.649
TGS	1.335.068	1.625.906
TCI	550.545	403.962
Türk Hava Yolları Opet Havacılık Yakıtları A.Ş.	90.725	201.595
Others	133.566	210.064
	33.707.905	55.881.098
	1 January- 30 June 2020	1 January- 30 June 2019
Interest income		
T.C. Ziraat Bankası A.Ş. (“Ziraat Bank”)	182.041	229.148
Türkiye Halk Bankası A.Ş. (“Halkbank”)	3.158	-
	185.199	229.148

For the six month period ended 30 June 2020 total amount of salaries and other benefits provided to key management personnel is amounting to USD 279.467 (30 June 2019: USD 461.179).

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21. GOVERNMENTS INCENTIVES AND GRANTS

The Ministry of Industry and Technology (Former ministry: Ministry of Commerce) General Directorate of Incentive Practices and Foreign Capital approved the letter with the application numbered (51664236-401.01-E.66875) dated 28 June 2018 which was applied on 1 March 2018 by the Group and Istanbul Investment Incentive certificate dated 29 June 2018 and numbered 138160 amounting to USD 87.691.094 has been issued. This incentive certificate is in scope of regional incentive. Within this scope; the right for VAT Exemption, Customs Tax Discount, Corporate Tax Discount and Insurance Premium Employer Share Support has been entitled. In this investment incentive certificate, the tax deduction and the investment contribution rate is determined as 50% and 15% respectively. The rates have been doubled until 31 December 2022 and published in the Official Gazette. The tax deduction rate and the investment contribution rate was applied as 100% and 30%, respectively. In February 2019, the total investment amount of the incentive numbered A-138160 was updated by increasing to USD 110.457.017. On 20 October 2019 the total investment amount of the incentive numbered C-138160 was updated again and increased to USD 151.050.832. The investment amount of the investment certificate dated 4 May 2020 and numbered D138160 was updated to USD 204.612.552 and was last updated on 11 June 2020 to USD 228.287.101.

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22. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS

Foreign Currency Risk Management

As at 30 June 2020 and 31 December 2019, Group’s foreign currency position table comprised the following:

	30 June 2020					31 December 2019				
	USD Equivalent	TL	Euro	GBP	Others	USD Equivalent	TL	Euro	GBP	Others
1. Trade Receivables	15.626.952	7.878.816	5.798.038	1.950.098	-	10.572.700	2.907.645	7.477.582	97.658	89.815
2. Monetary Financial Assets	4.869.112	4.846.240	18.423	2.773	1.676	3.766.215	3.348.213	414.494	3.508	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	6.231.984	1.404.512	4.665.835	161.257	380	12.308.318	10.867.691	1.277.046	130.471	33.110
4. Total Current Assets (1+2+3)	26.728.048	14.129.568	10.482.296	2.114.128	2.056	26.647.233	17.123.549	9.169.122	231.637	122.925
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
7. Other	902.895	214.309	688.586	-	-	1.040.803	385.030	655.773	-	-
8. Total Non-Current Assets (5)	902.895	214.309	688.586	-	-	1.040.803	385.030	655.773	-	-
9. Total Assets (4+6)	27.630.943	14.343.877	11.170.882	2.114.128	2.056	27.688.036	17.508.579	9.824.895	231.637	122.925
10. Trade Payables	47.255.340	35.188.240	10.885.147	1.097.446	84.507	47.236.671	35.792.182	10.450.615	663.350	330.524
11. Financial Borrowings	59.796.047	3.369.207	56.426.840	-	-	62.783.636	6.748.970	56.034.666	-	-
12a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
12b. Other Non-Monetary Liabilities	29.386.656	26.670.595	2.571.210	6.525	138.326	63.297.032	60.889.211	2.296.731	6.907	104.183
13. Total Short-Term Liabilities (10+11+12)	136.438.043	65.228.042	69.883.197	1.103.971	222.833	173.317.339	103.430.363	68.782.012	670.257	434.707
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Borrowings	7.390.363	7.390.363	-	-	-	8.466.239	8.465.903	336	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	29.242.069	29.242.069	-	-	-	29.562.463	29.562.463	-	-	-
17. Total Long-Term Liabilities (14+15+16)	36.632.432	36.632.432	-	-	-	38.028.702	38.028.366	336	-	-
18. Total Liabilities (13+17)	173.070.475	101.860.474	69.883.197	1.103.971	222.833	211.346.041	141.458.729	68.782.348	670.257	434.707
19. Net Foreign Currency Asset/(Liability) Position (9-18)	(145.439.532)	(87.516.597)	(58.712.315)	1.010.157	(220.777)	(183.658.005)	(123.950.150)	(58.957.453)	(438.620)	(311.782)
20. Net Foreign Currency Asset/(Liability) Position of Monetary Items ((1+2a+5+6a-10-11-12a-15-16a)	(93.945.686)	(33.222.754)	(61.495.526)	855.425	(82.831)	(104.147.631)	(44.751.197)	(58.593.541)	(562.184)	(240.709)

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22. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS
(continued)

Foreign Currency Risk Management (continued)

Foreign currency sensitivity

The Group is exposed to foreign currency risk due to TL, Euro and GBP (2019: TL, Euro and GBP) exchange rate fluctuations. The following table details the Group’s sensitivity to a 10% increase and decrease in TL, Euro and GBP exchange rates. 10% is used in the reporting of currency risk to the key management and it represents the management’s expectation on the potential exchange currency fluctuations. Sensitivity analysis can only be made on the year-end outstanding foreign currency denominated monetary items and it shows the year end effects of the 10% of exchange currency fluctuation on the related items. Positive value represents an increase in profit/loss and other equity items.

	30 June 2020	
	Profit (Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset liability	(3.322.275)	3.322.275
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	(3.322.275)	3.322.275
4-Euro net asset/liability	(6.149.553)	6.149.553
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	(6.149.553)	6.149.553
7-GBP net asset/liability	85.543	(85.543)
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	85.543	(85.543)
10-Other net asset/liability	(8.283)	8.283
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	(8.283)	8.283
TOTAL (3+6+9+12)	(9.394.568)	9.394.568

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22. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS
(continued)

	31 December 2019	
	Profit/(Loss) Before Tax	
	If foreign currency appreciated 10 %	If foreign currency depreciated 10 %
1-TL net asset/liability	(4.475.120)	4.475.120
2-Part of hedged from TL risk (-)	-	-
3-TL net effect (1+2)	<u>(4.475.120)</u>	<u>4.475.120</u>
4-Euro net asset/liability	(5.859.354)	5.859.354
5-Part of hedged from Euro risk (-)	-	-
6- Euro net effect (4+5)	<u>(5.859.354)</u>	<u>5.859.354</u>
7-GBP net asset/liability	(56.218)	56.218
8-Part of hedged from GBP risk (-)	-	-
9-GBP net effect (7+8)	<u>(56.218)</u>	<u>56.218</u>
10-Other net asset/liability	(24.071)	24.071
11-Part of hedged from Other risk (-)	-	-
12-Other net effect (10+11)	<u>(24.071)</u>	<u>24.071</u>
TOTAL (3+6+9+12)	<u>(10.414.763)</u>	<u>10.414.763</u>

Credit risk management

The risk of financial loss of the Group due to one of the financial instrument parties not meeting the requirements of the agreement is defined as credit risk.

The Group’s credit risk is basically related to its trade receivables. The balance shown in the balance sheet is formed by the net amount after deducting the doubtful receivables arisen from the Group management’s forecasts based on its previous experience and current economic conditions. Because there are so many customers, the Group’s credit risk is dispersed and there is not important credit risk concentration.

30 June 2020	Weighted-average loss rate %	Gross carrying amount	Loss allowance
Current (not past due)	3,66	15.735.417	575.724
1-30 days past due	5,66	3.422.361	193.663
31-90 days past due	8,61	15.754.531	1.355.787
91-180 days past due	21,09	15.712.167	3.313.236
+180 days past due	66,45	229.009	152.186
		<u>50.853.485</u>	<u>5.590.596</u>
31 December 2019	Weighted-average loss rate %	Gross carrying amount	Loss allowance
Current (not past due)	1,61	14.471.838	232.997
1-30 days past due	2,65	14.963.772	396.540
31-90 days past due	4,38	23.474.315	1.028.175
91-180 days past due	11,18	7.312.026	817.484
+180 days past due	26,36	3.076.820	811.003
		<u>63.298.771</u>	<u>3.286.199</u>

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22. NATURE AND LEVEL OF RISK DERIVED FROM FINANCIAL INSTRUMENTS
(continued)

Fair values of financial instruments

	Financial assets carried at amortized cost	Financial liabilities carried at amortized cost	Book value
30 June 2020			
<u>Financial assets</u>			
Cash and cash equivalents	6.185.274	-	6.185.274
Trade receivables	150.545.004	-	150.545.004
Other receivables	2.927.584	-	2.927.584
<u>Financial liabilities</u>			
Financial borrowings	-	57.724.052	57.724.052
Lease liabilities	-	30.193.099	30.193.099
Trade payables	-	112.067.335	112.067.335
Other payables	-	12.908.198	12.908.198
	Financial assets carried at amortized cost	Financial liabilities carried at amortized cost	Book value
31 December 2019			
<u>Financial assets</u>			
Cash and cash equivalents	4.523.149	-	4.523.149
Trade receivables	295.736.239	-	295.736.239
Other receivables	1.050.507	-	1.050.507
<u>Financial liabilities</u>			
Financial borrowings	-	60.764.415	60.764.415
Lease liabilities	-	31.891.727	31.891.727
Trade payables	-	117.817.132	117.817.132
Other payables	-	29.854.858	29.854.858

23. EVENTS AFTER THE BALANCE SHEET DATE

None.