

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2020**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2020

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

	Notes	Current period unaudited 31 March 2020	Prior period audited 31 December 2019
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	1,119,918,301	746,806,508
Trade receivables:			
- Related parties	5,21	122,201,137	66,762,265
- Other parties	5	377,750,655	400,237,204
Inventories	6	549,292,463	631,694,053
Prepaid expenses	11	2,438,475	713,774
Current tax assets	19	10,419,686	14,218,962
Other current assets	10	45,050,053	75,398,426
TOTAL CURRENT ASSETS		2,227,070,770	1,935,831,192
NON-CURRENT ASSETS			
Trade receivables:			
- Other parties	5	109,458	908,760
Other receivables:			
- Other parties		381,635	390,365
Property, plant and equipment	7	576,205,931	584,676,374
Right of use assets	8	26,752,839	25,878,400
Intangible assets	9	298,806,345	295,718,210
Prepaid expenses	11	223,275	1,043,485
Deferred tax assets	19	77,437,619	71,324,643
TOTAL NON-CURRENT ASSETS		979,917,102	979,940,237
TOTAL ASSETS		3,206,987,872	2,915,771,429

The condensed interim financial statements prepared for the period 1 January-31 March 2020 have been approved by the Board of Directors on 24 April 2020.

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

	Notes	<i>Current period unaudited</i> 31 March 2020	<i>Prior Period audited</i> 31 December 2019
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities			
Other parties			
- Bank borrowings	4	280,000,000	17,729
Short-term portion of long-term financial liabilities			
Related parties			
- Lease liabilities		4,959,896	5,522,687
Other parties			
- Bank borrowings	4	360,231,045	388,047,179
- Lease liabilities		2,629,467	3,510,525
Trade payables:			
- Related parties	5, 21	58,082,079	52,475,109
- Other parties	5	753,150,843	556,368,934
Payables related to employee benefits	13	10,754,215	28,873,543
Other payables			
- Other parties		28,260,927	13,310,653
Government incentives and aids	10	4,113,292	4,113,292
Deferred income	11	2,514,010	16,153,833
Short-term provision :			
- Provision for employee benefits	12	3,035,885	1,688,128
- Other provisions	12	23,467,145	24,956,722
TOTAL CURRENT LIABILITIES		1,531,198,804	1,095,038,334
NON-CURRENT LIABILITIES			
Long-term financial liabilities			
Related parties			
- Lease liabilities		12,524,269	13,647,550
Other parties			
- Bank borrowings	4	847,690,371	979,761,447
- Lease liabilities		6,639,133	6,002,410
Long-term provision			
- Provision for employee benefits	12	41,905,775	39,946,649
- Other provisions	12	20,106,267	17,360,774
TOTAL NON-CURRENT LIABILITIES		928,865,815	1,056,718,830
SHAREHOLDERS' EQUITY			
Parent's equity			
Paid-in share capital	14	53,369,000	53,369,000
Adjustments to share capital	14	39,014,356	39,014,356
Merger reserve		(5,569,000)	(5,569,000)
Restricted profit reserves		145,353,605	135,620,450
Other accumulated comprehensive income and expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		(43,372,040)	(42,973,914)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
- Losses on cash flow hedging		(47,706,942)	(47,019,640)
Retained earnings		521,839,858	519,679,547
Net profit for the year		83,994,416	111,893,466
TOTAL LIABILITIES		3,206,987,872	2,915,771,429

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2020

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	<i>Current period unaudited</i> 1 January - 31 March 2020	<i>Prior Period unaudited</i> 1 January - 31 March 2019
Revenue	15	1,190,601,222	817,964,375
Cost of sales (-)	15	(989,161,053)	(722,037,404)
GROSS PROFIT		201,440,169	95,926,971
Marketing expenses (-)		(50,961,776)	(45,200,259)
General administrative expenses (-)		(28,606,989)	(24,052,966)
Research and development expenses (-)		(11,452,051)	(7,655,832)
Other income from operating activities	16	136,664,842	126,881,100
Other expenses from operating activities (-)	16	(132,249,803)	(87,033,635)
OPERATING PROFIT		114,834,392	58,865,379
Income from investment activities		610,207	3,572,646
OPERATING INCOME BEFORE FINANCIAL INCOME/ (EXPENSE)		115,444,599	62,438,025
Financial income	17	30,231,502	34,025,736
Financial expenses (-)	18	(63,689,239)	(91,644,353)
PROFIT BEFORE TAXATION ON INCOME		81,986,862	4,819,408
Taxes on income (-)	19	(3,799,276)	9,852,635
Deferred tax income/(expense)	19	5,806,830	(7,090,096)
NET PROFIT FOR THE YEAR		83,994,416	7,581,947
Earnings per share (TL)	20	0,0157	0,0014
Other comprehensive income/(expense)			
Other comprehensive expense not to be reclassified to profit or loss:			
Actuarial loss arising from defined benefits plans	12	(510,418)	(1,727,530)
Other comprehensive expense not to be reclassified to profit or loss, tax effect			
Actuarial gain/ loss arising from defined benefit plans, tax effect	19	112,292	380,057
Other comprehensive expense to be reclassified to profit or loss			
Losses on cash flow hedging		(881,156)	(1,830,478)
Other comprehensive expense to be reclassified to profit or loss, tax effect			
Losses on cash flow hedging, tax effect	19	193,854	402,705
Other comprehensive income / (expense) after tax		(1,085,428)	(2,775,246)
TOTAL COMPREHENSIVE INCOME		82,908,988	4,806,701

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE INTERIM PERIOD ENDED 31 MARCH 2020**

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

				Other comprehensive income or expense items not to be reclassified to profit or loss	Other comprehensive income or expense items to be reclassified to profit or loss				
	Paid-in share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Cash flow hedge losses	Restricted profit reserves	Retained earnings	Net profit for the period	Total shareholders equity
1 January 2020	53,369,000	39,014,356	(5,569,000)	(42,973,914)	(47,019,640)	135,620,450	519,679,547	111,893,466	764,014,265
Transfers	-	-	-	-	-	9,733,155	102,160,311	(111,893,466)	-
Dividends paid	-	-	-	-	-	-	(100,000,000)	-	(100,000,000)
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	83,994,416	83,994,416
Other comprehensive income									
Actuarial loss arising from defined benefit plans	-	-	-	(398,126)	-	-	-	-	(398,126)
Cash flow hedge losses	-	-	-	-	(687,302)	-	-	-	(687,302)
Total other comprehensive expense	-	-	-	(398,126)	(687,302)	-	-	-	(1,085,428)
Total comprehensive income	-	-	-	(398,126)	(687,302)	-	-	83,994,416	82,908,988
31 March 2020	53,369,000	39,014,356	(5,569,000)	(43,372,040)	(47,706,942)	145,353,605	521,839,858	83,994,416	746,923,253

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE INTERIM PERIOD ENDED 31 MARCH 2020**

(Amounts expressed in Turkish Lira (“TRY”) unless otherwise indicated.)

				Other comprehensive income or expense items not to be reclassified to profit or loss		Other comprehensive income or expense items to be reclassified to profit or loss			
	Paid-in share	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Cash flow hedge losses	Restricted profit reserves	Retained earnings	Net profit for the period	Total shareholders equity
1 January 2019	53,369,000	39,014,356	(5,569,000)	(36,677,082)	(53,579,549)	135,620,450	279,572,898	240,106,649	651,857,722
Transfers	-	-	-	-	-	-	240,106,649	(240,106,649)	-
Dividends paid	-	-	-	-	-	-	-	-	-
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	7,581,947	7,581,947
Other comprehensive									
Actuarial loss arising from defined benefit plans	-	-	-	(1,347,473)	-	-	-	-	(1,347,473)
Cash flow hedge losses	-	-	-	-	(1,427,773)	-	-	-	(1,427,773)
Total other comprehensive expense	-	-	-	(1,347,473)	(1,427,773)	-	-	-	(2,775,246)
Total comprehensive income	-	-	-	(1,347,473)	(1,427,773)	-	-	56,201,064	4,806,701
31 March 2019	53,369,000	39,014,356	(5,569,000)	(38,024,555)	(55,007,322)	135,620,450	519,679,547	7,581,947	656,664,423

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS FOR THE INTERIM PERIOD ENDED 31 MARCH 2020

(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	<i>Current period unaudited 1 January - 31 March 2020</i>	<i>Prior period unaudited 1 January - 31 March 2019</i>
A. CASH FLOWS FROM OPERATING ACTIVITIES		421,116,271	23,606,082
Net profit for the period		83,994,417	7,581,947
Adjustments to reconcile net profit:		57,725,171	89,239,970
Depreciation and amortization	7,8,9	34,097,011	31,733,639
Adjustments related to impairment on inventories	6	(449,804)	810,715
Adjustments related to provision for employee termination benefits	12	3,456,883	3,714,168
Adjustments related to impairment on receivables	5	(107,152)	(124,200)
Adjustments related to other provisions	12	1,255,916	(1,300,615)
Adjustments related to interest income and expense	17, 18	21,084,623	45,298,325
Adjustments related to tax expense	19	(2,007,553)	(2,762,539)
Adjustments related to sales of property, plant and equipment		(610,207)	(3,572,646)
Non-cash items		1,005,454	15,443,123
Changes in working capital		280,057,101	(67,231,846)
Trade receivables- other parties		23,393,003	(77,820,822)
Trade receivables- related parties		(55,438,872)	(121,561,321)
Inventories		82,851,394	163,412,892
Other current assets		44,567,335	34,121,035
Other receivables		8,730	(6,749)
Prepaid expenses		(904,491)	(7,785,506)
Trade payables-related parties		5,606,970	(6,302,115)
Trade payables- other parties		196,781,909	(26,408,639)
Deferred income		(13,639,823)	(20,351,639)
Other liabilities		14,950,274	3,236,600
Payables related to employee benefits		(18,119,328)	(7,765,582)
Net cash provided by operating activities		421,776,689	29,590,071
Employment termination benefits paid	12	(660,418)	(3,431,440)
Taxes paid	19	-	(2,552,549)
B. CASH FLOWS FROM INVESTING ACTIVITIES		(25,141,110)	(37,115,687)
Proceeds from sales of property, plant and equipment and intangible assets		658,360	5,010,416
Payments for purchases of property, plant and equipment and intangible assets		(25,799,470)	(42,126,103)
C. CASH FLOWS FROM FINANCING ACTIVITIES		(30,563,709)	191,121,051
Proceeds from bank borrowings	4	694,500,000	497,000,000
Repayment of bank borrowings	4	(589,863,758)	(268,436,250)
Dividends paid	14	(100,000,000)	-
Interest paid		(45,202,290)	(62,396,998)
Interest received		13,797,483	24,954,299
Repayment of lease liabilities		(3,795,144)	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		365,411,452	177,611,446
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		4,765,861	5,923,384
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		370,177,313	183,534,830
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	745,445,410	408,307,825
E. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	1,115,622,723	591,842,655

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. (“Koç Holding”). As of 31 March 2020, major shareholders of the Company are Koç Holding and CNHI Österreich GmbH (“CNHI Österreich”) (Note 14). The number of personnel working within the Company as of 31 March 2020 is 2,131 (Permanent: 2,090 temporary: 41) and the average number of personnel is 2,113 (31 December 2019: 2,123 (Permanent: 2,123, temporary: 0), average: 2,243).

The Company conducts marketing and selling activities in the domestic market, through its 119 sales dealers, 127 spare part dealers and 40 heavy construction equipment dealers (31 December 2019: 123 sales dealers, 143 spare part dealers, 42 heavy construction equipment dealers).

The Company signed an import and distribution agreement providing after-sales services for activities such as domestic oriented sales and marketing for CNHI International SA, New Holland and Case branded imported construction equipment.

The Company is registered in Turkey in the following address:

Gazi Mahallesi Anadolu Bulvarı No:52-52 A
06560 Yenimahalle Ankara

As of 31 March 2020 the free float of the Company whose shares are traded in the Borsa Istanbul (“BİST”) is 25% (31 December 2019:25 %) (Note 14).

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS

2.1 Basis of presentation

The main accounting policies used for preparing the Company’s financial statements are stated below:

Principles governing the preparation of financial statements

The financial statements of the Company have been prepared in accordance with the Turkish Financial Reporting Standards, (“TFRS”) and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) in line with the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board of Turkey (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676. TFRS are updated in harmony with the changes and updates in International Financial and Accounting Standards (“IFRS”) by the communiqués announced by the POA.

The financial statements are presented in accordance with “Announcement regarding with TFRS Taxonomy” which was published on 15 April 2019 by POA and the format and mandatory information recommended by CMB.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Continued)

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira (TRY) in accordance with regulations on accounting and reporting framework and the Uniform Chart of Accounts issued by the Ministry of Finance.

The financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Turkish Accounting Standards of the POA. Such adjustments are mainly composed of deferred tax, retirement pay liability calculation, economic life and pro-rata depreciation implementation of fixed assets depreciation, the recognition of a provision, provision for inventories, evaluation of doubtful receivables and the rediscount of trade receivables and payables.

Functional and presentation currency

Functional and presentation currency of the Company is TRY.

2.2 Changes in accounting estimates

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these financial statements for the year ended 31 March 2020 are consistent with those used in the preparation of financial statements for the year ended 31 December 2019.

2.3 Changes in accounting policies

The Company changes accounting policies when it is believed that the change will lead to better presentation of transactions and events in the financial statements. When the intentional change can affect the prior period results, the change is applied retrospectively as though it was already applied before. Accounting policy changes arising from the application of a new standard are applied considering the transition principles of the related standard, if any, retrospectively or forward. If no transition principle for the standard exists, the changes are applied retrospectively.

The accounting policies adopted in preparation of the financial statements as at 31 March 2020 are consistent with those of the previous financial year, except for the new and amended TFRS standards which are valid as of 1 January 2020 and Turkey Financial Reporting Interpretations Committee's ("TFRIC") interpretations summarised below.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)

2.3 Changes in accounting policies (Continued)

a. The new standards, amendments and interpretations which are effective as at 31 March 2020:

- **Amendment to IFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. The amendments did not have a significant impact over financial position or performance of the Company as of 31 March 2020.
- **Amendment to IAS 28, ‘Investments in associates and joint venture’;** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9. The amendment did not have a significant impact over financial position or performance of the Company.
- **IFRS 16, ‘Leases’;** effective from annual periods beginning on or after 1 January 2019. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)

2.3 Changes in accounting policies (Continued)

- **TFRIC 23, ‘Uncertainty over income tax treatments’**; effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The impact of the amendment over financial position or performance of the Company are being assessed.
- **Annual improvements 2015 - 2017**; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, ‘Business combinations’, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ - a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, ‘Borrowing costs’ - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement**; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)

2.3 Changes in accounting policies (Continued)

- **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.
- b. Standards, amendments and interpretations that are issued but not effective as at 31 March 2020:*
- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2022. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
 - **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.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies

The accounting policies used in the preparation of these interim condensed financial statements for the period ended 31 March 2020 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2019 except for the following:

Tax provisions at interim periods are recognized based on the expected tax rates and taxable profit of the Company at year end.

These interim condensed financial statements for the period 1 January- 31 March 2020 should be read in conjunction with the annual financial statements for the year 1 January - 31 December 2019.

The expenses that are not evenly distributed throughout the financial year are recognised in the interim financial statements in the case that those expenses can be estimated properly at year ends.

2.5 Significant accounting estimates and judgments

The preparation of financial statements requires estimates and assumptions to be made regarding the amounts for the assets and liabilities at the balance sheet date, and explanations for the contingent assets and liabilities as well as the amounts of income and expenses realized in the reporting period. The Company makes estimates and assumptions concerning the future. The accounting estimates and assumptions, by definition, may not be equal the related actual results.

The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Warranty expense provisions

The Company calculates warranty expense provisions by estimating the repair and maintenance costs, including labor and material costs to be incurred, for goods sold with a warranty commitment, and the probability of return of goods sold in following years. The probability the goods will be returned for repair and maintenance as well as the repair and maintenance levels and costs used in the warranty provision calculation are estimated based on the Company's actual statistics from previous years (Note 12). Based on the sensitivity analysis performed for the probability the goods that will be returned for repair and maintenance as well as the repair and maintenance levels and costs, it is concluded that 10% increase/decrease in related estimations does not have any significant effect on the calculated amount of warranty provisions.

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available. If it is probable that future taxable profit will be available, deferred tax assets are accounted for over the deductible temporary differences and tax advantages resulted from investment incentives that enables the Company pay lower corporate tax.

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NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)

2.5 Significant accounting estimates and judgments (Continued)

The Company assess the recoverability of deferred tax assets over tax advantages resulted from investment incentives, based on business models that contain management estimations related to taxable profit for future periods. The models include key management estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in related estimations does not have any effect on the assessment of recoverability of deferred tax assets (Note 19).

Cash flow hedge transactions

As explained in Note 22, the Company uses its loans amounting to EUR26,583,333 as a hedging instrument against the euro spot exchange rate risk the Company is exposed to due to highly probable export sales income and applies cash flow hedge accounting as a result of the effectiveness tests performed. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

The useful life of tangible and intangible assets

The Company's management has made significant assumptions in determining the useful life of tangible and intangible assets.

Provision for employment termination benefits

Provisions for retirement payments, discount rate, future salary increases, and employee turnover rates are determined by actuarial calculations based on certain assumptions. Due to the long term nature of these plans, such estimates are subject to significant uncertainty (Note 12).

Provision for impairment of inventories

Inventory is evaluated at each period in order to determine whether there is a need to have provision for potential impairment costs at the date of statement of financial position (Note 6).

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NOTE 3 - CASH AND CASH EQUIVALENTS

	31 March 2020	31 December 2019
Cash on hand	-	-
Banks:		
- TRY denominated demand deposits	27,416,195	16,600,418
- TRY denominated time deposits	994,736,318	611,561,098
- Foreign currency denominated demand deposits	3,249,288	1,261,902
- Foreign currency denominated time deposits	94,516,500	117,383,090
	1,119,918,301	746,806,508

As of 31 March 2020, the weighted average effective annual interest rate for TRY and Euro (“EUR”) time deposits are 10.27% and 0.12%, respectively (31 December 2019: TRY: 10.96%, EUR: 0.13%). As of 31 March 2020 and 31 December 2019, remaining time to maturity of time deposits is less than three months.

As of 31 March 2020, the Company has no restricted deposits (31 December 2019: None).

The cash and cash equivalents included in the statement of cash flows at 31 March 2020 and 31 December 2019 is as follows:

	31 March 2020	31 December 2019
Banks	1,119,918,301	746,806,508
Less: Interest accruals	(4,295,578)	(1,361,098)
Cash and cash equivalents	1,115,622,723	745,445,410

NOTE 4 - FINANCIAL LIABILITIES

	31 March 2020	31 December 2019
Short-term financial liabilities		
Short-term bank borrowings	280,000,000	17,729
Short-term portions of long-term bonds	77,376,595	77,743,352
Short-term portions of long-term financial	282,854,450	310,303,827
Short-term lease liabilities	7,589,363	9,033,212
	647,820,408	397,098,120
Long-term financial liabilities		
Long-term bonds	847,690,371	979,761,447
Long-term bank borrowings	19,163,402	19,649,960
	866,853,773	999,411,407

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NOTE 4 - FINANCIAL LIABILITIES (Continued)

a) Short-term financial liabilities

Short-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019	31 March 2020	31 December 2019
TRY borrowings	280,000,000	17,729	10.22	29.50	280,000,000	17,729
					280,000,000	17,729

Current portion of long-term bonds

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019	31 March 2020	31 December 2019
TRY bonds issued (*)	77,376,595	77,743,352	13.00	15.00	77,376,595	77,743,352
Total short term bonds					77,376,595	77,743,352

(*) The Company issued total of TRY150,000,000 bond, TRY75,000,000 of which is bond with 3 years maturity and floating interest rate and TRY75,000,000 of which is a bond with 2 years maturity and fixed interest rate.

Current portion of long-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019	31 March 2020	31 December 2019
EUR borrowings	34,214,465	35,622,004	1.99	1.99	246,857,363	236,907,700
TRY borrowings	35,997,087	73,396,127	10.53	20.06	35,997,087	73,396,127
					282,854,450	310,303,827

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NOTE 4 - FINANCIAL LIABILITIES (Continued)

b) Long-term financial liabilities

Long-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019	31 March 2020	31 December 2019
EUR borrowings	3,989,866	9,451,472	2.05	1.99	28,786,885	62,857,958
TRY borrowings	818,910,324	917,003,310	10.41	15.11	818,910,324	917,003,310
					847,697,209	979,861,268
Prepaid commission (*)					(24,955)	(111,059)
Total long-term borrowings					847,690,371	979,761,447

(*) Prepaid commission for debt consists of unrealized commission expenses that are paid to banks related to bank borrowings.

Redemption schedule of the long-term bank borrowings and bonds as of 31 March 2020 and 31 December 2019 is as follows:

Year	31 March 2020	31 December 2019
2021	66,732,750	408,046,957
2022	207,970,621	559,743,410
2023	568,658,000	7,980,720
2024	4,329,000	3,990,360
	847,690,371	979,761,447

As of 31 March 2020; the Company has an investment loan with fixed interest rate amounting to EUR14,583,333, an operating loan with fixed interest rate amounting to EUR16,800,000 and an operating loan with variable interest rate amounting to EUR6,666,667. The EUR14,583,332 loan's maturity is 6 years (maturity date of 15 July 2022), with an interest and principal payment of every 6 months and with an interest rate of 0.95%. The EUR12,000,000 of EUR16,800,000 fixed interest operational capital loans is 5 years maturity (maturity date of 14 November 2022), with interest payment of every 6 months and principal payment at maturity date and with an interest rate of 2.60%. The remaining EUR4,800,000 of EUR16,800,000 loan's maturity is 5 years (maturity date of 29 March 2024), with principal and interest payment of every 6 months and with an interest rate of 3.50%. The EUR6,666,667 floating interest operational capital loan has 3 years maturity (maturity date of 26 March 2021), with an interest payment of every month and without principal payment for the first 2 years and after 2nd year principal payment of every 6 months and with an interest rate of 2.25% + Euribor. In accordance with the agreement signed with respect to the investment loan used by the Company, there is an obligation of not exceeding the below mentioned rate calculated over the financial statements prepared in accordance with the Turkish Financial Reporting Standards. There is no guarantees or mortgages given for the financial liabilities obtained.

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(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 4 - FINANCIAL LIABILITIES (Continued)

Obligation rate is;

- Net financial liability (*) / Earnings before interest, taxes, depreciation and amortization should be lower than 3.75.
- (*) Net financial liability is calculated by deducting the total of financial liabilities (including short-term and long-term financial liabilities) from cash and cash equivalents.

The Company meets this condition as of the balance sheet date.

Carrying values and fair values of the bank borrowings are as follows:

	Carrying Value		Fair Value	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Bank borrowings	1,410,544,821	1,290,083,003	1,469,958,953	1,375,015,329

As of 31 March 2020, fair values of the bank borrowings, for EUR and TRY bank borrowings are determined by using the discounted cash flow method over weighted effective discount rates 0.04% and 11.38% per annum, respectively (31 December 2019: EUR: 0.48% and TRY: 11.23% per annum)

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	31 March 2020	31 December 2019
Short-term trade receivables:		
Trade receivables	422,937,788	448,375,845
Notes receivables	7,054,164	7,600,071
	429,991,952	455,975,916
Less: Provision for doubtful receivables	(50,010,610)	(50,117,763)
Unearned financial income	(2,230,687)	(5,620,949)
Short-term trade receivables	377,750,655	400,237,204
Due from related parties (Note 21)	122,201,137	66,762,265
Total short-term trade receivables	499,951,792	466,999,469

As of 31 March 2020, the average maturity of trade receivables and payables are not longer than one year and weighted average effective annual interest rates for discount of TRY, USD and EUR are 9.00%, 1.26% and 0.35% (31 December 2019: 10.50%, 1.83% and 0.45%).

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NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)

Movements of the provisions for short-term doubtful receivables for the periods ended 31 March 2020 and 2019 are as follows:

	2020	2019
1 January	(50,117,763)	(51,547,274)
Cancelled during the period (Note 16)	545,138	1,322,542
Charge during the period (Note 16)	(437,985)	(1,198,342)
31 March	(50,010,610)	(51,423,073)

	31 March 2020	31 December 2019
Long-term trade receivables:		
Notes receivables	109,458	908,760
	109,458	908,760

	31 March 2020	31 December 2019
Trade payables:		
Trade payables	761,997,526	564,842,432
Less: Unincurred financial expense	(8,846,683)	(8,473,498)
Trade payables	753,150,843	556,368,934
Due to related parties (Note 21)	58,082,079	52,475,109
Total trade payables	811,232,922	608,844,043

NOTE 6 - INVENTORIES

	31 March 2020	31 December 2019
Raw materials	307,353,687	273,588,385
Work in progress	13,376,112	12,231,535
Finished goods	45,080,470	116,648,635
Commercial goods	72,090,390	116,234,947
Spare parts	64,079,186	56,243,482
Goods in transit (*)	77,628,721	87,512,976
Provision for impairment of inventory (-)	(30,316,103)	(30,765,907)
Inventories	549,292,463	631,694,053

The cost of inventories recognised as expense in the current period is amounting to TRY895,100,796 (31 March 2019: TRY637,526,227)

(*) Goods in transit are comprised of commercial goods and spare parts not yet arrived, but the risk and responsibility of which is received by the Company as of period end.

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NOTE 6 – INVENTORIES (Continued)

Movement of provisions for impairment of inventories during the periods is as follows:

	2020	2019
1 January	(30,765,907)	(29,814,310)
Cancelled due to sales inventory during the period	449,804	(810,715)
31 March	(30,316,103)	(30,625,025)

Allocation of the provision for impairment on inventories items is as follows:

	31 March 2020	31 March 2019
Raw materials	(23,919,843)	(24,772,244)
Finished goods	(5,195,781)	(3,684,450)
Spare parts	(1,200,479)	(2,168,331)
	(30,316,103)	(30,625,025)

NOTE 7- PROPERTY, PLANT AND EQUIPMENT

	1 January 2020	Additions	Disposals	Transfers	31 March 2020
<u>Cost</u>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	18,536,808	128,207	-	-	18,665,015
Buildings	244,876,713	-	-	-	244,876,713
Machinery and equipment	759,230,922	7,289,001	(301,884)	-	766,218,039
Special costs	6,664,109	-	-	-	6,664,109
Motor vehicles	10,402,866	-	-	-	10,402,866
Furniture and fixtures	99,378,769	103,357	(135,746)	-	99,346,380
Construction in progress	6,423,547	2,878,842	-	-	9,302,389
	1,197,932,114	10,399,407	(437,630)	-	1,207,893,891
<u>Accumulated depreciation</u>					
Land improvements	5,912,064	147,437	-	-	6,059,501
Buildings	66,063,267	847,060	-	-	66,910,327
Machinery and equipment	457,986,162	14,358,570	(253,731)	-	472,091,001
Special costs	5,150,356	165,395	-	-	5,315,751
Motor vehicles	2,888,376	404,546	-	-	3,292,922
Furniture and fixtures	75,255,515	2,898,689	(135,746)	-	78,018,458
	613,255,740	18,821,697	(389,477)	-	631,687,960
Net book value	584,676,374				576,205,931

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NOTE 7- PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2019	Additions	Disposals	Transfers	31 March 2019
<u>Cost</u>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	15,920,720	-	-	-	15,920,720
Buildings	242,860,556	-	-	-	242,860,556
Machinery and equipment	705,553,430	24,953,724	-	-	730,507,154
Special costs	6,516,202	-	-	-	6,516,202
Motor vehicles	8,417,604	-	(2,084,448)	-	6,333,156
Furniture and fixtures	95,156,839	603,381	-	-	95,760,220
Construction in progress	7,439,146	167,014	-	-	7,606,160
	1,134,282,877	25,724,119	(2,084,448)	-	1,157,922,548
<u>Accumulated depreciation</u>					
Land improvements	5,370,659	120,444	-	-	5,491,103
Buildings	60,836,089	1,305,709	-	-	62,141,798
Machinery and equipment	406,349,245	13,949,368	-	-	420,298,613
Special costs	4,444,148	171,711	-	-	4,615,859
Motor vehicles	3,449,668	371,299	(646,678)	-	3,174,289
Furniture and fixtures	63,596,207	2,922,924	-	-	66,519,131
	544,046,016	18,841,455	(646,678)	-	562,240,793
Net book value	590,236,861				595,681,755

Allocation of the depreciation expenses of property, plant and equipment as of 31 March 2020 and 2019 is as follows:

	31 March 2020	31 March 2019
Production costs	13,194,145	13,806,166
General administrative expenses	3,609,646	3,390,567
Marketing, selling and distribution expenses	1,063,409	902,249
Research and development expenses	954,497	742,473
	18,821,697	18,841,455

The Company does not have any financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 31 March 2020 (31 March 2019: None)

There is not mortgage on property, plant and equipment as of 31 March 2020 (31 December 2019: None).

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NOTE 8 - RIGHT OF USE ASSETS

	1 January 2020	Additions	31 March 2020
Cost			
Land and buildings	12,790,937	-	12,790,937
Machinery and equipment	14,078,774	1,312,567	15,391,341
Motor vehicles	12,725,125	2,525,258	15,250,383
	39,594,836	3,837,825	43,432,661
Accumulated amortisation			
Land and buildings	4,333,770	905,422	5,239,192
Machinery and equipment	4,679,223	979,963	5,659,186
Motor vehicles	4,703,443	1,078,001	5,781,444
	13,716,436	2,963,386	16,679,822
Net book value			26,752,839

	1 January 2019	Additions	31 December 2019
Maliyet / yeniden değerlendirilmiş değer			
Land and buildings	12.325.796	465.141	12.790.937
Machinery and equipment	12.608.603	1.470.171	14.078.774
Motor vehicles	9.589.991	3.135.134	12.725.125
	34.524.390	5.070.446	39.594.836
Accumulated amortisation			
Land and buildings	-	4.333.770	4.333.770
Machinery and equipment	-	4.679.223	4.679.223
Motor vehicles	-	4.703.443	4.703.443
	-	13.716.436	13.716.436
Net book value			25.878.400

Depreciation expenses are stated below for the right of use for the periods ending on 31 March 2020 and 2019:

	31 Mart 2020	31 Mart 2019
Production costs	1,087,953	1,333,204
General administrative expenses	219,260	209,180
Marketing, selling and distribution expenses	1,466,908	1,839,003
Research and development expenses	189,265	205,020
	2,963,386	3,586,407

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NOTE 9 - INTANGIBLE ASSETS

	1 January 2020	Additions	Disposals	Transfers	31 March 2020
<u>Cost</u>					
Rights	103,908,396	1,244,063	-	-	105,152,459
Development costs	294,798,630	-	-	13,309,668	308,108,298
Development costs in progress	51,580,173	15,356,000	-	(13,309,668)	53,626,505
	450,287,199	16,600,063		-	466,887,262
<u>Accumulated amortisation</u>					
Rights	47,586,598	3,585,029	-	-	51,171,627
Development costs	106,982,391	9,926,899	-	-	116,909,290
	154,568,989	13,511,928		-	168,080,917
Net book value	295,718,210				298,806,345

	1 January 2019	Additions	Disposals	Transfers	31 March 2019
<u>Cost</u>					
Rights	88,912,993	702,459	-	-	89,615,452
Development costs	232,075,537	-	-	-	232,075,537
Development costs in progress	58,054,633	16,600,000	-	-	74,654,633
	379,043,163	17,302,459		-	396,345,622
<u>Accumulated amortisation</u>					
Rights	34,329,690	3,072,783	-	-	37,402,473
Development costs	75,966,812	7,133,469	-	-	83,100,281
	110,296,502	10,206,252		-	120,502,754
Net book value	268,746,661				275,842,868

Development costs includes intangible assets generated by the Company. Capitalized development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

The amortisation is not calculated for development costs in progress as the development process has not yet been completed.

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NOTE 9 - INTANGIBLE ASSETS (Continued)

Allocation of the amortization expenses of intangible assets that has suspended as of 31 March 2020 and 2019 are as follows:

	31 March 2020	31 March 2019
Production costs	2,620,842	2,164,948
General administrative expenses	638,302	553,825
Marketing, selling and distribution expenses	162,638	185,817
Research and development expenses	8,891,226	6,401,187
Reflected to development cost in progress	1,198,920	900,475
	13,511,928	10,206,252

NOTE 10 - OTHER ASSETS AND LIABILITIES

	31 March 2020	31 December 2019
a) Other current assets:		
Deferred value added tax ("VAT")	11,858,686	34,130,325
Reclaimed taxes	33,191,367	41,268,101
	45,050,053	75,398,426

	31 March 2020	31 December 2019
b) Government grants and aids:		
Government grants and aids	4,113,292	4,113,292
	4,113,292	4,113,292

NOTE 11 - PREPAID EXPENSES AND DEFERRED INCOME

	31 March 2020	31 December 2019
a) Prepaid expenses:		
Prepaid expenses for future months	2,438,475	713,774
	2,438,475	713,774

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 11 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)

	31 March 2020	31 December 2019
b) Long-term prepaid expenses:		
Advances given for purchases of fixed assets	223,275	1,043,485
	223,275	1,043,485

	31 March 2020	31 December 2019
c) Deferred income:		
Deferred income (*)	2,514,010	16,153,833
	2,514,010	16,153,833

(*) Deferred income represents the sales amount of the tractors for which the invoices were issued as of 31 March 2020 and 31 December 2019, but the delivery of the risk and responsibility to the customers has not yet reached 90 days from the invoice date.

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Short-term provisions

Short-term provision for employee benefits

	31 March 2020	31 December 2019
Provision for unused vacation	3,035,885	1,688,128
	3,035,885	1,688,128

Movements of the provision for unused vacation rights for the period are as follows

	2020	2019
1 January	1,688,128	1,807,491
Charge/ (used) for the period- net	1,347,757	1,843,012
31 March	3,035,885	3,650,503

Other short-term provisions

	31 March 2020	31 December 2019
Warranty provision	14,414,746	15,707,907
Provision for legal cases (*)	9,052,399	9,248,815
	23,467,145	24,956,722

(*) The balance represents provision for legal cases which were filled against the Company.

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Movements of the lawsuit provisions for the periods are as follows:

	2020	2019
1 January	9,248,815	6,881,714
Cancelled/Charge provision for the period (Note 15)	(196,416)	1,247,968
31 March	9,052,399	8,129,682

b) Long-term provisions

Long-term provision for employee benefits

	31 March 2020	31 December 2019
Provision for employee termination benefits	41,905,775	39,946,649
	41,905,775	39,946,649

Provision for employee termination benefit is recorded in line with the legal arrangements explained below:

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

Communiqué require actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 March 2020	31 December 2019
Inflation rate (%)	7.00	7.00
Interest rate (%)	12.00	12.00
Turnover rate to estimate the probability of retirement (%)	93.17	93.17

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The Company's provision for employee termination benefit was calculated over TRY6,730.15 valid as of 1 January 2020 (1 January 2019: TRY6,017.60).

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(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Movements of the provision for employee termination benefits during the period are as follows:

	2020	2019
1 January	39,946,649	34,199,225
Interest cost	1,198,400	1,023,626
Current period service cost	910,726	847,530
Paid during the period	(660,418)	(3,431,440)
Actuarial loss	510,418	1,727,530
31 March	41,905,775	34,366,471

Sensitivity analysis of key assumptions used for termination benefits calculations as at 31 March 2020 are as follows:

Sensitivity level	Net discount rate		Turnover related to the probability of retirement	
	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase
Rate	4,17 (%)	5,17 (%)	92,67 (%)	93,67 (%)
Change in employee benefits liability	2,199,288	(1,975,591)	(527,828)	563,433

Other long-term provisions

	31 March 2020	31 December 2019
Warranty provision	20,106,267	17,360,774
	20,106,267	17,360,774

Movements of the short term and long term warranty provisions for the period are as follows:

	2020	2019
1 January	33,068,681	49,833,148
Used during the period	(8,368,537)	(8,485,825)
Charge for the period	9,820,869	5,937,242
31 March	34,521,013	47,284,565

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(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

c) Contingent liabilities

The commitments and contingent liabilities that are not expected to cause material loss or debts to the Company are summarized below:

As of 31 March 2020 and 31 December 2019; the Company's guarantee/pledge/mortgage positions are as follows:

	31 March 2020	31 December 2019
A. The total amount of collaterals given on behalf of its own legal entity	80,357,054	68,245,082
B. The total amount of collaterals given in favor of the companies in the scope of full consolidation	-	-
C. The total amount of collaterals given for the purpose of providing debt to third parties in the course of ordinary business activities	-	-
D. The total amount of other collaterals given	-	-
i. The total amount of collaterals given in favor of the parent companies	-	-
ii. The total amount of collaterals given in favor of other group companies which are not in the scope of items B and C	-	-
iii. The total amount of collaterals given in favor of third parties other than the parties stated in item C	-	-
	80,357,054	68,245,082

As at 31 March 2020, the Company has given its own legal entity on behalf of the original collateral denominated in foreign currency amounts of EUR 2,006,350 (31 December 2019: EUR2,006,350).

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

d) Contingent assets

	Original currency amount						TRY equivalent	
	31 March 2020			31 December 2019			31 March 2020	31 December 2019
	EUR	USD	TRY	EUR	USD	TRY		
Letters of guarantees received	-	270,000	542,028,672	-	270,000	557,136,472	543,787,992	558,740,326
Direct debit	-	-	510,127,413	-	-	460,031,615	510,127,413	460,031,615
Mortgages	-	-	438,714	-	-	438,714	438,714	438,714
Cash TL guarantees	-	-	11,351,402	-	-	759,019	11,351,402	759,019
Guarantee bonds	8,000	-	4,763,056	8,000	-	1,584,655	4,820,776	1,637,860
							1,070,526,297	1,021,607,534

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

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NOTE 13 - PROVISION FOR EMPLOYEE BENEFITS

Liabilities for employee benefits

	31 March 2020	31 December 2019
Accrued premiums and liabilities to personnel	4,730,326	17,290,321
Taxes payable and liabilities (*)	6,023,889	11,583,222
	10,754,215	28,873,543

(*) The balance consists of social security and withholding tax denominated debt for the employees.

NOT 14 - SHAREHOLDERS' EQUITY

Paid-in share capital

The Company's registered share capital amounts to TRY250,000,000 (31 December 2019: TRY250,000,000).

The Company's share capital is composed of 5,336,900,000 units of shares each Kr 1 nominal value. The nominal value of share capital is TRY53,369,000.

The composition of the Company's statutory share capital at 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020		31 December 2019	
	Participation (%)	Share amount (TRY)	Participation (%)	Share amount (TRY)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNHI Osterreich	37.50	20,013,375	37.50	20,013,375
Public quotation in BIST	25.00	13,342,250	25.00	13,342,250
	100.00	53,369,000	100.00	53,369,000
Adjustments to share capital		39,014,356		39,014,356
		92,383,356		92,383,356

Adjustments to share capital represent the restatement effect of cash and cash equivalent contributions to share capital.

The Company's shares were organized as A, B and C Groups. A and B Group shares are privilege shares, and five Board members are selected from Group A's and five Board members are selected from Group B's nominated candidates.

As of 11 June 2004, the Company has been quoted to BIST and its shares started to be traded in the stock exchange market from that date. As of 31 March 2020, 25% (31 December 2019: 25%) of the Company shares are quoted at BIST.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOT 14 - SHAREHOLDERS' EQUITY (Continued)

Retained earnings, restricted profit reserves, fair value reserves, and other capital reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital.

In accordance with the CMB regulations effective until 1 January 2008, the inflation adjustment differences arising at the initial application of inflation accounting which are recorded under "accumulated losses" could be netted off from the profit to be distributed based on CMB profit distribution regulations. In addition, the aforementioned amount recorded under "accumulated losses" could be netted off with net income for the period, if any, undistributed prior period profits, and inflation adjustment differences of extraordinary reserves, legal reserves and capital, respectively

In addition, in accordance with the CMB regulations effective until 1 January 2008, "Capital, Share Premiums, Legal Reserves, Special Reserves and Extraordinary Reserves" were recorded at their statutory carrying amounts and the inflation adjustment differences related to such accounts were recorded under "inflation adjustment differences" at the initial application of inflation accounting. "Equity inflation adjustment differences" could have been utilised only in issuing bonus shares and offsetting accumulated losses, carrying amount of extraordinary reserves could have been utilised in issuing bonus shares, cash dividend distribution and offsetting accumulated losses.

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from January 1, 2008, "Share capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amounts. The valuation differences arose due to implementing the communique (such as inflation adjustment differences) shall be disclosed as follows:

- If the difference is arising due to the inflation adjustment of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment To Share Capital";
- If the difference is due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been utilized in dividend distribution or capital increase yet, it shall be classified under "Retained Earnings/losses"

Other equity items shall be carried at the amounts calculated based on TAS/ TFRS.

Capital adjustment differences have no other use other than being transferred to share capital.

Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No. II-19.1 issued by the CMB which is effective from February 1, 2014.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOT 14 - SHAREHOLDERS' EQUITY (Continued)

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

Companies should include at least the following in their profit distribution policies:

- a) Whether dividends will be distributed, and if distributed, the dividend distribution rate for shareholders and for others participating in the distribution.
- b) Payment type of dividend distribution.
- c) Time of dividend distribution; on condition that the distribution procedures to be started at the latest of the end of the annual period in which general assembly meeting was held in which the distribution was agreed upon.
- d) Whether dividend advances will be distributed, and if distributed, the related principles.

In accordance with the Turkish Commercial Code, unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

In dividend distribution, the Company follows a balanced and consistent policy between the benefits of the shareholders and the benefits of the Company in accordance with the Corporate Management Principles. The Board of Directors of the Company has decided; that at least 20% of the distributable net profit for the period calculated in accordance with the TCC, CMB regulations and the main agreement should be distributed to the shareholders as dividends, taking into consideration the economic conditions, long-term investment financing and business plans as well as profitability; that the dividend to be distributed may be realized in cash or by capital increase through bonus shares or partly in cash and partly through bonus shares; that the calculable dividend amount may remain undistributed in the event that it is less than 5% of the paid-in capital; and that this dividend distribution policy should be revised annually by the Board of Directors.

The part of the of accumulated losses of the Company exceeding the total of retained earnings, general legal reserves including premiums related to shares and costs arising from the adjustment of equity items except for capital stock in accordance with inflation accounting is accounted for as discount items in the calculation of net distributable profit for the period.

The decision of dividend payment amounting to TL 100.000.000 was taken in the Company's 65th General Assembly dated March 17, 2020 and payment has been made to shareholders in cash till March 20, 2020 (Note 20). Dividend payment distribution has been 1,87 Kr per share.

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(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 15 - SALES AND COST OF SALES

	1 January - 31 March 2020	1 January- 31 March 2019
Domestic sales	780,764,205	406,663,257
Export sales	529,868,059	478,818,263
Sales income (gross)	1,310,632,264	885,481,520
Less: Discount and returns	(120,031,042)	(67,517,145)
Sales income (net)	1,190,601,222	817,964,375
Cost of sales	(989,161,053)	(722,037,404)
Gross profit	201,440,169	95,926,971

Sales quantities:

	31 March 2020			31 March 2019		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Tractor	4,266	3,417	7,683	2,345	3,553	5,898
Combine	48	-	48	8	-	8
	4,314	3,417	7,731	2,353	3,553	5,906

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

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NOTE 16 - OTHER OPERATING INCOME/ (EXPENSES)

	1 January - 31 March 2020	1 January - 31 March 2019
Foreign exchange gain from trade receivable/ payables	114,160,178	75,112,818
Financial income from credit sales	13,567,821	41,867,063
Reversal of provision for doubtful receivables (Note 5)	545,138	1,322,542
Reversal of provision for litigation expenses (Note 12)	201,056	-
Other income	8,190,649	8,578,677
Other operating income	136,664,842	126,881,100
Foreign exchange loss from trade receivable/ payables	(118,331,030)	(71,140,091)
Financial expense from credit sales	(13,476,147)	(13,447,234)
Reversal of provision for doubtful receivables (Note 5)	(437,985)	(1,198,342)
Provision for litigation expenses (Note12)	(4,641)	(1,247,968)
Other operating expenses	(132,249,803)	(87,033,635)

NOTE 17 - FINANCIAL INCOME

	1 January - 31 March 2020	1 January - 31 March 2019
Foreign exchange gain	13,499,539	5,853,351
Interest income	16,731,963	28,172,385
Financial income	30,231,502	34,025,736

NOTE 18 - FINANCIAL EXPENSES

	1 January - 31 March 2020	1 January - 31 March 2019
Foreign exchange losses	(23,854,178)	(17,483,489)
Interest expenses of bank borrowings	(37,816,586)	(70,252,623)
Other	(2,018,475)	(3,908,241)
Financial expenses	(63,689,239)	(91,644,353)

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NOTE 19 - TAX ASSETS AND LIABILITIES

The Company is subject to taxation in accordance with the tax regulation and the legislation effective in Turkey.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. The corporate tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the year in which it relates, and is paid in one installment until the end of the relevant month. In accordance with the tax legislation, temporary taxes are calculated and paid on a quarterly basis at a rate of 22%, and the amounts paid in this manner are deducted from the tax calculated on annual earnings.

Corporate tax losses can be carried forward for a maximum period of 5 years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

15% withholding applies to dividends distributed by resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distribution by resident corporations to resident corporations is not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 10% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations.

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2019 and 2018.

As of 31 March 2020 and 31 December 2019, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 March 2020	31 December 2019
Corporate tax expenses	3,799,276	-
Less: Prepaid taxes	(14,218,962)	(14,218,962)
Tax liability/ (Current tax assets)	(10,419,686)	(14,218,962)

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NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the periods ended 31 March 2020 and 2019 are as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Corporate tax expenses	(3,799,276)	9,852,635
Deferred tax income/(expense)	5,806,830	(7,090,096)
Tax expenses	2,007,554	2,762,539

Deferred taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements prepared in accordance with the Turkish Financial Reporting Standards and their statutory financial statements, using the currently enacted tax rates. These temporary differences result in the recognition of revenue and expenses in different reporting periods for Turkish Financial Reporting Standards and tax purposes.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) at 31 March 2020 and 31 December 2019 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Property, plant and equipment and intangible assets, restatement and useful life differences	305,943,285	292,238,713	(67,307,523)	(64,292,517)
Provision for employee termination benefits	(41,905,775)	(39,946,649)	9,219,270	8,788,263
Warranty provision	(34,521,013)	(33,068,681)	7,594,623	7,275,110
Provision for lawsuits	(9,052,399)	(9,248,815)	1,991,528	2,034,739
Unearned finance income/ (expense) on trade receivables, payables and due from related parties	(2,796,134)	1,403,858	615,150	(308,849)
Provision for doubtful receivables	107,152	1,429,511	(23,574)	(314,492)
Provision for impairment of inventory	(30,316,103)	(30,765,907)	6,669,543	6,768,500
Sales premium accrued	(84,177,578)	(28,361,687)	18,519,067	6,239,571
Other expense provisions	(3,035,885)	(1,688,128)	667,895	371,388
Investment incentive tax assets	313,249,352	272,465,249	93,974,805	81,739,575
Research and development incentives	-	38,936,391	-	8,566,006
Deferred income	(6,739,048)	(16,153,833)	1,482,591	3,553,843
Other	(18,337,472)	(49,561,390)	4,034,244	10,903,506
Deferred tax assets			77,437,619	71,324,643

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NOTE 19 - TAX ASSETS AND LIABILITIES (Continued)

Movements of deferred tax assets during the periods are as follows:

	2020	2019
1 January	71,324,643	68,763,051
Reflected to profit for the year	5,806,830	(7,090,096)
Reflected to other comprehensive income/ (expense)	306,146	782,762
31 March	77,437,619	62,455,717

The reconciliation of the current period tax charge is as follows:

	1 January - 31 March 2020	1 January - 31 March 2019
Profit before tax	81,986,862	4,819,408
Tax calculated at enacted tax rate	18,037,110	1,060,270
Investment incentives	(15,290,840)	-
Research and development incentives	(4,757,446)	(3,652,000)
Disallowable expenses	3,622	4,621
Other	-	(175,430)
Total tax expense/(income)	(2,007,554)	(2,762,539)

NOTE 20 - EARNINGS PER SHARE

Earnings per share stated in the income statement are calculated by dividing the net income to the weighted average number of ordinary shares outstanding during the period.

Companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from statutory retained earnings and statutory revaluation surplus. For the purpose of earnings per share computations, the weighted average number of shares in existence during the year has been adjusted in respect of bonus share issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year.

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue. Nominal value of one share of company is Kr1.

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NOTE 20 - EARNINGS PER SHARE (Continued)

	1 January- 31 March 2020	1 January- 31 March 2019
Net profit for the period	83,994,416	7,581,947
Weighted average number of the ordinary shares	5,336,900,000	5,336,900,000
Earnings per share (Kr1 nominal value per share as TRY)	0.0157	0.0014

NOTE 21 - RELATED PARTY DISCLOSURES

The Company is jointly controlled by Koç Holding and CNHI Osterreich. Related party balances and transaction disclosure are grouped by joint venture companies and group companies of joint venture companies.

Summary of the intercompany balances as of 31 March 2020 and 31 December 2019 and significant intercompany transactions are as follows:

i) Balances with related parties as of 31 March 2020 and 31 December 2019:

a) Bank deposits and borrowings	31 March 2020	31 December 2019
Deposits with related parties:		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	250,000,000	-
	250,000,000	-
b) Due from related parties		
	31 March 2020	31 December 2019
Due from group companies		
CNHI International SA ("CNHI International") (*)	115,644,423	59,747,532
CNHI Italy SPA ("CNHI Italy")	2,415,545	3,393,956
CNH Industrial Argentina SA	2,084,622	1,856,620
CNH Industrial Brasil Ltda	1,162,608	816,094
Other	893,939	948,063
	122,201,137	66,762,265

(*) Due from related parties is arising from export sales of the Company realized via CNHI International. These receivables are collected on a regular basis in specified maturities within the business deals.

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NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

c) Due to related parties

	31 March 2020	31 December 2019
Koç Holding	528,050	4,940,364
Due to shareholders	528,050	4,940,364
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	26,042,778	25,882,104
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	23,343,969	11,934,097
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	2,722,495	6,319,420
Otokoç Otomotiv San. ve Tic. A.Ş. (“Otokoç”)	1,546,433	830,599
Setur Servis Turistik A.Ş. (“Setur”)	1,467,776	938,773
Ram Sigorta Aracılık Hizmetleri A.Ş. (“Ram Sigorta”)	1,266,089	357,139
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. (“Akpa”)	747,008	482,647
Opet Petrolcülük A.Ş. (“Opet”)	155,398	151,700
Koçtaş Yapı Marketleri A.Ş. (“Koçtaş”)	153,997	145,137
Divan Turizm İşletmeleri (“Divan”)	95,532	335,896
Other	460,448	545,151
Due to group companies	58,001,923	47,922,663
Less: Unearned financial expenses	(447,894)	(387,918)
	58,082,079	52,475,109

d) Lease liabilities to related parties

	31 March 2020	31 Aralık 2019
Otokoç	4,708,517	9,566,438
Zer	4,165,191	8,812,661
Other	394,672	791,138
	9,268,380	19,170,237

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(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 21 - RELATED PARTY DISCLOSURES (Continued)

ii) Significant sales and purchases transactions with related parties for the periods between 1 January - 31 March 2020 and 2019:

a) Product sales to related parties

	1 January - 31 March 2020	1 January- 31 March 2019
Product sales to group companies:		
CNHI International (*)	517,041,581	476,382,128
CNHI Italy	2,500,449	4,365,039
CNH Industrial Argentina SA	1,562,386	927,795
CNH Industrial Brasil Ltda	1,076,341	1,680,097
CNH Industrial (India) PV	593,734	1,720,683
Yapı Kredi Finansal Kiralama A.O.	470,000	-
Diğer	631,667	155,565
	523,876,158	485,231,307

(*) The Company realizes export sales through CNHI International.

b) Service sales to related parties

	1 January- 31 March 2020	1 January- 31 March 2019
Service sales to group companies		
CNHI Italy (2)	978,070	62,757
Cnh Industrial (India) PRI	643,582	382,058
CNHI International SA(1)	-	240,295
Otokar Otomotiv ve Savunma San. A.Ş.	-	1,107,085
Other	-	12,156
	1,621,652	1,804,351

(1) Services given to CNHI International are related to engineering, consultancy and various other services

(2) Services given to CNHI Italy is related to engineering and other various other services

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NOTE 21 - RELATED PARTY EXPLANATIONS (Continued)

c) Product purchases from related parties

	1 January- 31 March 2020	1 January- 31 March 2019
Product purchases from group companies		
CNHI International (1)	53,368,457	73,472,419
Opet Fuchs (2)	16,608,416	13,527,203
Koç Sistem	1,471,650	629,851
Zer	1,296,455	972,161
Akpa	935,985	694,491
Opet (2)	633,633	731,165
CNHI India	69,336	21,902
Other	669,816	350,232
	75,053,748	90,399,424

(1) The Company purchases tractors, agricultural machineries, engine and spare parts.

(2) The Company purchases various oil for use in production and fuel for use for company vehicles.

d) Service purchases from related parties

	1 January- 31 March 2020	1 January- 31 March 2019
Service purchases from shareholders		
Koç Holding (1)	1,342,500	997,500
	1,342,500	997,500
Service purchase from group companies		
Zer (2)	24,406,835	17,295,899
Eltek (3)	4,124,172	2,990,158
Setur (4)	3,984,535	3,654,879
Ram Sigorta (5)	2,104,914	3,282,475
Otokoç (6)	1,744,753	1,622,159
CNHI International (7)	-	7,959,560
Koç Sistem (8)	74,039	601,203
Other	872,943	770,549
	37,312,191	38,176,882
	38,654,691	39,174,382

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 21 - RELATED PARTY EXPLANATIONS (Continued)

- (1) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Koç Holding A.Ş. regarding their related services according to the concealed gain distribution described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.
- (2) Services purchased from Zer are related with security, cleaning, transportation and other services.
- (3) Services purchased from Eltek related to electricity.
- (4) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (5) As of 31 March 2020, the amounts contain the paid and accrued premiums within the insurance policy signed with insurance companies through the related party Ram Sigorta Aracılık Hizmetleri A.Ş. which is operating as insurance agent.
- (6) Service purchased from Otokoç is related with motor vehicles leasing services.
- (7) Services purchased from CNHI International are related with engineering services, strategy development, consulting and brokerage.
- (8) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licenses.

iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January - 31 March 2020 and 2019:

Financial income and expense from group companies

	1 January- 31 March 2020	1 January- 31 March 2019
Interest income		
Yapı Kredi	871,355	3,905,753

iv) Dividends paid to shareholders:

	1 January- 31 March 2020	1 January- 31 March 2019
Koç Holding	37,500,000	-
CNHI Osterreich	37,500,000	-
	75,000,000	-

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 21 - RELATED PARTY EXPLANATIONS (Continued)

v) **Other transactions with related parties for the periods between 1 January - 31 March 2020 and 31 December 2019:**

Key management personnel are identified as members of the Board of Directors, General Manager and Vice General Managers.

As of 31 March 2020, the Company paid TRY3,227,569 benefits to the key management personnel (31 March 2019: TRY3,185,017).

NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks. These risks are market risk, currency risk, fair value interest rate risk, price risk and cash flow interest rate risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

Risk management is carried out in accordance with the program set by the Board of Directors of the Company.

a) **Market risk**

Foreign currency risk

The Company is exposed to foreign exchange risks resulting from the foreign currency denominated commercial activities with the foreign companies and long-term investment loan. Currency risk arises due to foreign currency denominated recorded and prospective transactions resulting as assets and liabilities. These risks are monitored regularly and limited by analyses of the foreign currency position.

Cash flow hedge accounting

There is an affective foreign currency cash flow hedge relationship between EUR long term financial borrowing related with investment expenditures and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 July 2016. The related long term investment borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/gains on cash flow hedges. The amount of the related investment borrowing as of 31 March 2020 is EUR26,583,333 (31 December 2019 EUR29,500,000). The amount of foreign exchange losses recognized after tax in equity is TRY47,706,942 (31 December 2019: TRY47,019,640).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The amounts of foreign currency assets, liabilities and TRY equivalents of the Company as of 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020					
	TRY equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	130,078,242	966,558	17,155,834	100	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	97,765,788	135,687	13,394,774	25,311	4,597	52,075
3. Other	-	-	-	-	-	-
4. Current assets(1+2+3)	227,844,030	1,102,245	30,550,608	25,411	4,597	52,075
5. Trade receivables	-	-	-	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets(5+6)	-	-	-	-	-	-
8. Total assets (4+7)	227,844,030	1,102,245	30,550,608	25,411	4,597	52,075
9. Trade payables	160,598,718	3,253,400	18,635,286	67,502	-	73,090,934
10. Financial liabilities (Note 4)	251,540,232	-	34,863,511	-	-	-
11. Other monetary liabilities	6,053,168	-	838,970	-	-	-
12. Current liabilities (9+10+11)	418,192,118	3,253,400	54,337,767	67,502	-	73,090,934
13. Financial liabilities (Note 4)	40,611,290	-	5,628,731	-	-	-
14. Non-current liabilities (13)	40,611,290	-	5,628,731	-	-	-
15. Total liabilities (12+14)	458,803,408	3,253,400	59,966,498	67,502	-	73,090,934
16. Cash flow hedge accounting amounts	191,798,750	-	26,583,333	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(39,160,628)	(2,151,155)	(2,832,556)	(42,091)	4,597	(73,038,859)
18. Net monetary foreign currency asset/ (liability) position (8-15)	(230,959,378)	(2,151,155)	(29,415,890)	(42,091)	4,597	(73,038,859)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2019

	TRY equivalent	USD	EUR	GBP	CHF	YEN
1.Trade receivables	75,065,291	1,516,592	9,932,285	100	-	-
2.Monetary financial assets (including banks accounts) (Note 3)	118,644,992	55,791	17,748,907	26,863	9,642	93,002
3.Other	-	-	-	-	-	-
4.Current assets(1+2+3)	193,710,283	1,572,383	27,681,192	26,963	9,642	93,002
5.Trade receivables	-	-	-	-	-	-
6.Other	-	-	-	-	-	-
7. Non-current assets(5+6)	-	-	-	-	-	-
8. Total assets (4+7)	193,710,283	1,572,383	27,681,192	26,963	9,642	93,002
9. Trade payables	98,567,549	2,590,037	12,217,831	53,022	-	27,886,477
10. Financial liabilities (Note 4)	243,004,697	-	36,538,763	-	-	-
11. Other monetary liabilities	20,336,047	-	3,057,776	-	-	-
12.Current liabilities (9+10+11)	361,908,293	2,590,037	51,814,370	53,022	-	27,886,477
13. Financial liabilities (Note 4)	73,649,194	-	11,074,068	-	-	-
14. Non-current liabilities (13)	73,649,194	-	11,074,068	-	-	-
15. Total liabilities (12+14)	435,557,487	2,590,037	62,888,438	53,022	-	27,886,477
16. Cash flow hedge accounting amounts	196,192,700	-	29,500,000	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(45,654,505)	(1,017,655)	(5,707,245)	(26,059)	9,642	(27,793,475)
18. Net monetary foreign currency asset/ (liability) position (8-15)	(45,654,505)	(1,017,655)	(5,707,245)	(26,059)	9,642	(27,793,475)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The import and export amounts of the Company for the periods ended 31 March 2019 and 2018 are as follows:

	1 January- 31 March 2020	1 January- 31 March 2019
Total export amount	529,868,059	478,818,263
Total import amount	249,361,329	208,488,244

The Company is exposed to foreign exchange risk primarily with respect to EUR and USD. The effect of the Company's EUR and USD foreign currency position as of 31 March 2020 and 31 December 2019 under the assumption of the appreciation and depreciation of TRY against other currencies by 10% considering all variables are constant, the effect of net profit/loss and shareholder's equity for the period is as follows:

	31 March 2020			
	Appreciation of foreign currency	Profit/ Loss Depreciation of foreign currency	Appreciation of foreign currency	Shareholders' equity Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(1,401,693)	1,401,693	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(1,401,693)	1,401,693	-	-
Had TRY appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(21,223,564)	21,223,564	8,393,480	(8,393,480)
Hedged amount against EUR risk (-)	8,419,003	(8,419,003)	14,960,303	(14,960,303)
Net Effect of EUR	(12,804,561)	12,804,561	23,353,783	(23,353,783)
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/(loss) from other net liability position	(517,749)	517,749	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(517,749)	517,749	-	-
Total net effect	(14,724,003)	14,724,003	23,353,783	(23,353,783)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2020**

(Amounts expressed in Turkish Lira (TRY), unless otherwise indicated)

**NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING
FROM FINANCIAL INSTRUMENTS (Continued)**

	31 December 2019			
	Appreciation of foreign currency	Profit/ loss Depreciation of foreign currency	Appreciation of foreign currency	Shareholders' equity Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/ (loss) from USD net asset position	(604,507)	604,507	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(604,507)	604,507	-	-
Had TRY appreciate/(depreciate) by 10% against EUR				
Profit/(loss) from EUR net liability position	(23,414,930)	23,414,930	7,993,024	(7,993,024)
Hedged amount against EUR risk (-)	9,371,803	(9,371,803)	15,303,030	(15,303,030)
Net effect of EUR	(14,043,127)	14,043,127	23,296,054	(23,296,054)
Had TRY appreciate/(depreciate) by 10% against other				
Profit/(loss) from other net liability position	(181,811)	181,811	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(181,811)	181,811	-	-
Total net effect	(14,829,445)	14,829,445	23,296,055	(23,296,055)

Price risk

The Company does not have financial assets exposed to price risk,

Interest rate risk

The table of the financial instruments that have interest rate sensitivity are as follows:

	31 March 2020	31 December 2019
Financial instruments with fixed interest rate		
Time deposits (Not 3)	1,089,252,818	728,944,188
Financial liabilities (Not 4)	1,339,821,414	1,201,320,355
Lease liabilities (Not 4)	26,752,765	28,683,172
	31 March 2020	31 December 2019
Financial instruments with floating interest rate		
Financial liabilities (Not 4)	148,100,002	166,506,000

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NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

For financial instruments with variable interest rates, if the interest on 31 March 2020 in all currencies was higher/lower by 100 base points with all other variables held constant, the profit for the period before tax as a result of high/ low interest rate income/ expense consisting of loans with variable interest rates would be higher/ lower by TRY391,569 (31 March 2019: TRY460,892),

b) Credit risk

Financial assets are in hand carrying the risk of the inability of fulfilling the requirements of the agreements by the counter parties, The Company management manages these risks by limiting the average risk to any individual counterparty, by obtaining guarantees where necessary, The Company limits these risks that may arise from its dealers, by restricting the credit limits determined for the dealers according to the amount of the guarantees received, by updating the guarantee amounts regularly and by receiving the pledge of ownership of the tractors sold, Credit limits are regularly monitored by the Company and the customers' credit quality are regularly evaluated by considering the customers' financial position, past experiences and other factors, Trade receivables are evaluated by the management of the Company depending on their past experiences and current economic conditions and are presented in financial statements net of provision for doubtful receivables (Note 5),

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NOT 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The Company's maximum exposure to credit risk as of 31 March 2020 and 31 December 2019 are as follows:

	31 March 2020					
	Trade receivables		Other receivables			
	Related party	Third party	Related party	Third party	Banks deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	122,201,137	371,188,084	-	381,635	1,119,918,301	-
Net book value of restructured financial assets, otherwise that will be considered as due dated or impaired	-	6,672,029	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	50,010,610	-	-	-	-
- Provision (-)	-	(50,010,610)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Amount exposed to maximum credit risk (*)	122,201,137	377,860,113	-	381,635	1,119,918,301	-

(*) The factors, increasing the credit reliability and the guarantees received are not taken into consideration in calculation of the amount,

As of 31 March 2020, the guarantee amount of the maximum exposure to credit risk is TRY893,654,132; Besides, all assets which are due but not impaired and are impaired are guaranteed,

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NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2019					
	Trade Receivables		Other receivables		Bank deposits	Derivative instruments
	Related party	Third party	Related party	Third party		
Net book value of financial assets which are undue and not impaired	66,762,265	389,650,680	-	390,365	746,806,508	-
Net book value of restructured financial assets, otherwise that will be considered as due dated or impaired	-	11,495,284	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	50,117,763	-	-	-	-
- Provision (-)	-	(50,117,763)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Amount exposed to maximum credit risk (*)	66,762,265	401,145,964	-	390,365	746,806,508	-

(*) The factors, increasing the credit reliability and the guarantees received are not taken into consideration in calculation of the amount

As of 31 December 2019, the guarantee amount of the maximum exposure to credit risk is TRY969,940,787; Besides, all assets which are overdue but not impaired and are impaired are guaranteed,

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NOTE 22 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

c) Liquidity risk

Liquidity risk is managed by maintaining cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions,

Funding risk of the current and future liabilities is managed by providing sustainability of the access to sufficient high quality creditors and the sustainability of the sufficient cash flows obtained from operating activities, The Company management, in order to ensure continuous liquidity, closely follows up the timely collection of receivables, allocates high intensity focus to prevent any financial burden sourcing from late collections and determines cash and non-cash credit limits to be activated in case of need by the Company,

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital,

The Company monitors capital on the basis of the net financial debt/shareholder's equity ratio, Net financial debt calculated as total financial liabilities (including short and long-term bank borrowings) less cash and cash equivalents, This ratio is calculated as net financial debt divided by total shareholders' equity,

	31 March 2020	31 December 2019
Total financial liabilities	1,514,674,181	1,396,509,527
Less: Cash and cash equivalents (Not 3)	(1,119,918,301)	(746,806,508)
Net financial debt	394,755,880	649,703,019
Total shareholders' equity	746,923,253	764,014,265
Total liabilities	1,141,679,133	1,413,717,284
Net financial debt/ total liabilities	34.58%	45.96%

Fair value of financial assets

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists,

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies, However, judgement is necessarily required to interpret market data to estimate the fair value, Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange,

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practical to estimate fair value:

