

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE PERIOD
1 JANUARY - 31 MARCH 2023**

(ORIGINALLY ISSUED IN TURKISH)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

FINANCIAL STATEMENTS AS OF 31 MARCH 2023

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.
STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2023

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

	Notes	<i>Current period unaudited 31 March 2023</i>	<i>Prior period audited 31 December 2022</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	4,514,535,584	4,416,872,941
Financial investments	5	113,846,752	420,033,225
Trade receivables:			
- Trade receivables from related parties	7, 25	890,580,809	1,274,066,993
- Trade receivables from third parties	7	1,753,916,461	827,840,777
Inventories	8	3,070,542,182	3,614,962,987
Prepaid expenses	13	21,782,587	15,168,023
Current tax assets	23	-	3,069
Other current assets	12	939,701,009	1,008,138,837
TOTAL CURRENT ASSETS		11,304,905,384	11,577,086,852
NON - CURRENT ASSETS			
Trade receivables			
- Trade receivables from third parties	7	109,458	109,458
Other receivables:			
- Other receivables from third parties		412,385	393,753
Property, plant and equipment	9	1,003,336,854	931,097,842
Right of use assets	10	86,568,996	93,425,351
Intangible assets	11	662,880,108	621,820,738
Prepaid expenses	13	123,885,309	90,815,165
Deferred tax assets	23	746,203,556	481,193,003
TOTAL NON - CURRENT ASSETS		2,623,396,666	2,218,855,310
TOTAL ASSETS		13,928,302,050	13,795,942,162

The financial statements prepared as at and for the period ended 31 March 2023 have been approved by the Board of Directors on 26 April 2023. These financial statements will be finalised following their approval in the General Assembly.

The accompanying notes form an integral part of these financial statement

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.
STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2023

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

	Notes	<i>Current period unaudited 31 March 2023</i>	<i>Prior period audited 31 December 2022</i>
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities			
Short-term financial liabilities to other parties			
- Bank borrowings	6	2,082,412,244	2,432,320,224
Short-term portion of long-term financial liabilities			
Short-term portion of long-term financial liabilities from related parties			
- Lease liabilities	6	41,302,464	24,918,517
Short-term portion of long-term financial liabilities from third parties			
- Bank borrowings	6	825,136,748	848,288,136
- Lease liabilities	6	12,334,953	7,441,898
Trade payables			
- Trade payables to related parties	7, 25	184,668,572	271,784,705
- Trade payables to third parties	7	5,388,034,320	4,653,430,244
Payables related to employee benefits	15	304,258,710	149,120,886
Other payables			
- Other payables to third parties		225,301,049	124,654,842
Government incentives and aids	12	3,321,575	3,321,575
Deferred income	13	546,834,283	566,700,564
Tax liability for the period	23	507,822,432	-
Short - term provision			
- Short term provision for employee benefits	14	24,588,399	13,328,665
- Other short term provisions	14	128,728,374	120,401,000
TOTAL CURRENT LIABILITIES		10,274,744,123	9,215,711,256
NON - CURRENT LIABILITIES			
Long-term financial liabilities			
Long-term financial liabilities from related parties			
- Lease liabilities	6	39,690,535	68,144,904
Long-term financial liabilities from third parties			
- Bank borrowings	6	286,610,375	507,427,245
- Lease liabilities	6	962,555	1,652,616
Long - term provisions			
- Long term provision for employee benefits	14	236,014,904	256,458,270
- Other long term provisions	14	133,951,900	108,334,042
TOTAL NON-CURRENT LIABILITIES		697,230,269	942,017,077
EQUITY		2,956,327,658	3,638,213,829
Paid-in share capital	16	53,369,000	53,369,000
Adjustments to share capital	16	39,014,356	39,014,356
Merger reserve		(5,569,000)	(5,569,000)
Restricted profit reserves		448,435,448	238,702,293
Other accumulated comprehensive income and expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		(184,787,928)	(194,390,177)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
- Gain/(Losses) on cash flow hedging		69,403,177	58,947,006
Retained earnings		1,138,407,196	477,121,790
Net profit for the year		1,398,055,409	2,971,018,561
TOTAL LIABILITIES		13,928,302,050	13,795,942,162

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 31 MARCH 2023 AND 2022

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

	Notes	<i>Current period unaudited</i> 1 January - 31 March 2023	<i>Prior period unaudited</i> 1 January - 31 March 2022
Revenue	17	9,523,667,947	3,987,989,777
Cost of sales (-)	17	(7,305,214,958)	(3,265,327,729)
GROSS PROFIT		2,218,452,989	722,662,048
Marketing expenses	18	(269,275,877)	(111,068,503)
General administrative expenses	18	(177,293,483)	(67,441,917)
Research and development expenses	18	(31,515,104)	(16,967,990)
Other income from operating activities	20	449,910,744	398,351,511
Other expenses from operating activities	20	(569,746,376)	(462,321,676)
OPERATING PROFIT		1,620,532,893	463,213,473
Income from investment activities		1,972,134	-
OPERATING INCOME BEFORE FINANCIAL INCOME		1,622,505,027	463,213,473
Financial income	21	333,798,629	163,049,368
Financial expenses	22	(306,322,416)	(89,323,161)
PROFIT BEFORE TAXATION ON INCOME		1,649,981,240	536,939,680
Taxes on income (-)	23	(521,950,989)	(129,614,879)
Deferred tax income/(expense)	23	270,025,158	69,270,350
NET PROFIT FOR THE PERIOD		1,398,055,409	476,595,151
Earnings per share (TRY)	24	0.2620	0.0893
Other comprehensive income/(expense) Not to be reclassified to profit or loss:			
Actuarial loss arising from defined benefits plans	14	12,002,811	129,122
Other comprehensive expense not to be reclassified to profit or loss, tax effect			
Actuarial gain/ loss arising from defined benefit plans, tax effect	23	(2,400,562)	(25,824)
To be reclassified to profit or loss:			
Profit/(Losses) on cash flow hedging		13,070,214	(29,050,081)
Other comprehensive expense to be reclassified to profit or loss, tax effect			
Losses on cash flow hedging, tax effect	23	(2,614,043)	6,681,519
Other comprehensive income/(expense)		20,058,420	(22,265,264)
TOTAL COMPREHENSIVE INCOME		1,418,113,829	454,329,887

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

				Other accumulated income or expense items not to be reclassified to profit or loss	Other accumulated income or expense items to be reclassified to profit or loss				
	Paid share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Loses on cash flow hedges	Restricted profit reserves	Retained earnings	Net profit for the period	Equity
1 January 2023	53,369,000	39,014,356	(5,569,000)	(194,390,177)	58,947,006	238,702,293	477,121,790	2,971,018,561	3,638,213,829
Transfers	-	-	-	-	-	209,733,155	2,761,285,406	(2,971,018,561)	-
Dividends	-	-	-	-	-	-	(2,100,000,000)	-	(2,100,000,000)
Net profit for the periods	-	-	-	-	-	-	-	1,398,055,409	1,398,055,409
Other comprehensive income									
Actuarial loss arising from defined benefits plans	-	-	-	9,602,249	-	-	-	-	9,602,249
Loses on cash flow hedgings	-	-	-	-	10,456,171	-	-	-	10,456,171
Total other comprehensive income									
Income/(expense)	-	-	-	9,602,249	10,456,171	-	-	-	20,058,420
Total comprehensive income	-	-	-	9,602,249	10,456,171	-	-	1,398,055,409	1,418,113,829
31 December 2023	53,369,000	39,014,356	(5,569,000)	(184,787,928)	69,403,177	448,435,448	1,138,407,196	1,398,055,409	2,956,327,658

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY - 31 MARCH 2022

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

				Other accumulated income or expense items not to be reclassified to profit or loss	Other accumulated 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	Losses on cash flow hedges	Restricted profit reserves	Retained earnings	Net profit for the period	Equity
1 January 2022	53,369,000	39,014,356	(5,569,000)	(62,365,129)	110,720,788	118,969,138	474,667,368	1,322,187,577	2,050,994,098
Transfers	-	-	-	-	-	119,733,155	1,202,454,422	(1,322,187,577)	-
Dividends	-	-	-	-	-	-	(1,200,000,000)	-	(1,200,000,000)
Net profit for the periods	-	-	-	-	-	-	-	476,595,151	476,595,151
Other comprehensive income									
Actuarial loss arising from defined benefit plans	-	-	-	103,298	-	-	-	-	103,298
Losses on cash flow hedging	-	-	-	-	(22,368,562)	-	-	-	(22,368,562)
Total other comprehensive income/(expense)	-	-	-	103,298	(22,368,562)	-	-	-	(22,265,264)
Total comprehensive income	-	-	-	103,298	(22,368,562)	-	-	476,595,151	454,329,887
31 March 2022	53,369,000	39,014,356	(5,569,000)	(62,261,831)	88,352,226	238,702,293	477,121,790	476,595,151	1,305,323,985

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023 AND 2022

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

	Notes	<i>Current period unaudited 1 January- 31 March 2023</i>	<i>Prior period unaudited 1 January- 31 March 2022</i>
A. CASH FLOWS FROM OPERATING ACTIVITIES			
		2,623,715,505	196,942,285
Net profit for the period			
		1,398,055,409	476,595,151
Adjustments to reconcile profit for the period			
		347,568,866	265,101,189
Amortization and depreciation		74,952,691	44,386,526
Provision for impairment on inventories	8	(322,139)	(262,170)
Provision for employee benefits	14	24,848,613	12,430,380
Provision for doubtful receivables	7	50,543	(1,382,796)
Other provisions	14	33,945,232	10,115,432
Government incentives and aids	12	-	(120,724)
Interest income and expense	19, 20	(58,123,138)	24,669,868
Fair value loss (gains) of financial assets	5	(11,260,252)	-
Tax income/expense	21	251,925,831	60,344,259
(Gain)/loss from sales of property plant and equipment		(1,972,134)	-
Other adjustments to reconcile profit		33,523,619	114,920,144
Changes in working capital			
		914,246,152	(539,826,434)
Trade receivables	7	(926,126,227)	(257,668,696)
Due from related parties	7	383,486,184	220,818,977
Inventories	8	544,742,942	(781,101,210)
Other current assets	12	68,440,897	(290,262,054)
Other receivables		(18,632)	562,439
Prepaid expenses	13	(39,684,708)	10,949,007
Due to related parties	7	(87,116,133)	(43,912,441)
Trade payables	7	734,604,076	621,816,228
Deferred income	13	(19,866,281)	(58,481,449)
Other liabilities		100,646,210	23,680,259
Debt for employee termination benefits		155,137,824	13,772,506
Net cash provided by operating activities			
		2,659,870,427	201,869,906
Employee termination benefits paid	14	(22,029,434)	(3,085,050)
Taxes paid	21	(14,125,488)	(1,842,571)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
		126,116,181	(131,485,329)
Proceeds from sales of property, plant and equipment and intangible assets			
		2,782,995	-
Payments for purchases of property, plant and equipment and intangible assets			
		(182,205,579)	(131,511,428)
Other cash advances and debts given			
		-	-
Proceeds from government grants	12	-	26,099
Cash outflows from shares (profit) and other financial instruments			
		-	-
Cash outflows for the acquisition of shares or debt instruments of other businesses or funds			
		305,538,765	-
C. CASH FLOWS FROM FINANCING ACTIVITIES			
		(2,659,729,038)	61,313,783
Proceeds from bank borrowings	6	1,260,000,000	1,430,755,960
Repayment of bank borrowings	6	(1,910,159,616)	(157,543,317)
Dividends paid	16	(2,100,000,000)	(1,200,000,000)
Interest paid		(175,312,778)	(35,729,568)
Interest received		279,158,146	29,290,162
Repayment of lease liabilities		(13,414,790)	(5,459,454)
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)			
		90,102,648	126,770,739
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS			
		43,016,679	43,456,517
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)			
		133,119,327	170,227,256
E. . CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		4,366,412,147	1,559,700,196
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)			
		4,499,531,474	1,730,026,452

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS OF THE COMPANY

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 2023, major shareholders of the Company are Koç Holding and CNHI Österreich GmbH (“CNHI Österreich”) (Note 16). The company is jointly managed by Koç Holding and CNH Industrial Österreich. The number of personnel working within the Company as of 31 March 2023 is 2,810 (Permanent: 2,693, temporary: 117) (31 December 2022: 2,881 (Permanent 2,782, temporary: 99)). The average number of personnel working within the Company for the year ended 31 March 2023 is 2,844 (31 December 2022: 2,837).

The Company conducts marketing and selling activities in the domestic market, through its 130 tractor sales dealers, 158 spare part dealers and 30 construction equipment dealers (31 December 2022 : 131 tractor sales dealers, 150 spare part dealers, 33 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: 52-52A
06560 Yenimahalle Ankara

As of 31 March 2023, 25% of the shares of the Company are quoted on Borsa Istanbul (“BIST”) (31 December 2022: 25%) (Note 16).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

Basis of presentation

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 4 October 2022 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 PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 2 - BASIS OF PRESENTATION OF 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. Public Oversight Accounting and Auditing Standards Authority ("POA") made an announcement on 20 January 2022 about Application of Financial Reporting in Hyperinflationary Economies for Turkish Financial Reporting Standards and Reporting Standards for Large and Medium Sized Entities. In accordance with the announcement, companies that apply TFRS should not adjust financial statements for IAS 29 - Financial Reporting in Hyperinflationary Economies for the year 2021. As of the preparation date of this financial statements, POA did not make an additional announcement and no adjustment was made to this financial statements in accordance with IAS 29.

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 2023 are consistent with those used in the preparation of financial statements for the year ended 31 December 2022.

2.3 Changes in TFRS

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 2023 are consistent with those of the previous financial year, except for the new and amended TFRS standards which are valid as of 1 January 2023 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 PERIOD 1 JANUARY - 31 MARCH 2023

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

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

2.3 Changes in TFRS (Continued)

a. *Standards, amendments and interpretations applicable as at 31 March 2023:*

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

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

- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;** effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- **Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction;** effective from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

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

2.3 Changes in TFRS (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 31 March 2023:

- **Amendment to IAS 1 – Non current liabilities with covenants;** effective from annual periods beginning on or after 1 January 2024. These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.
- **Amendment to IFRS 16 – Leases on sale and leaseback;** effective from annual periods beginning on or after 1 January 2024. These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

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 2023 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2022 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 2023 should be read in conjunction with the annual financial statements for the year 1 January - 31 December 2022.

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 accounts for warranty provisions for the expenses incurred as a result of repair and maintenance activities for products produced and sold, authorised services' labour and material costs for products under the scope of the warranty terms based on statistical information for possible future warranty services and returns of products with respect to the products sold during the period (Note 14). The Company estimates ratio based on statistical information for possible future warranty services and returns of products, and calculates provision amount with respect to the products sold during the period. The Company gives guarantee services for each tractor sold during two years. The Company reflects estimated cost incurred in one year to short-term. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in possible returns of products with respect to the products sold and cost estimations does not have any effect on the calculation of warranty expense provisions.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

2.5 Significant accounting estimates and judgments (Continued)

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 deferred tax assets that enables the Company pay lower corporate tax (Note 21).

The Company assess the recoverability of deferred tax assets 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 21).

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 14).

Provision for inventory impairment

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 8).

2.6 Comparative figures and the reclassification to the financial statements of the prior period

In order to determine the financial status and performance trends, the financial statements of the Company have been prepared in comparison with the financial statements of previous periods. The Company prepared its statement of financial position as of 31 March 2023 in comparison with the statement of financial position prepared as of 31 December 2022; prepared statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows between 1 January - 31 March 2023 in comparison with 1 January - 31 March 2022. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

NOTE 3 - SEGMENT REPORTING

The Company, which is incorporated and domiciled in Turkey, has primary operation of manufacturing agricultural tractors, combines, construction equipment, and other agricultural machinery and tools. The Company's operating segments, nature and economic characteristics of products, nature of production processes, classification of customers in terms of risk for their products and services and methods used to distribute their products are similar. Furthermore, the Company structure has been organized to operate in one segment rather than separate business segments. Consequently, the business activities of the Company are considered to be in one operating segment and the operating results, resources to be allocated to the segment and assessment of performance are managed in this respect. The activities of the Company are followed in detail by the authority authorized to take decisions regarding the activities of the Company.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 March 2023	31 December 2022
Banks:		
- TRY denominated demand deposits	99,878,357	103,887,727
- TRY denominated time deposits	3,375,784,687	3,611,460,793
- Foreign currency denominated demand deposits	56,809,307	10,745,899
- Foreign currency denominated time deposits	982,063,233	690,778,522
	4,514,535,584	4,416,872,941

As of 31 March 2023, the weighted average effective annual interest rates for TRY, Euro ("EUR") and USD time deposits are 24.38% , 1.40% and 1.25% (31 December 2022: TRY: 25.11% EUR: 1.53% USD: 1.50).

31 March 2023 and 2022 remaining time to maturity of time deposits is less than three months.

The Company has no blocked deposits as of 31 March 2023 (31 March 2022: None).

The cash and cash equivalents included in the statement of cash flows at 31 March 2023 and 2022 are as follows:

	31 March 2023	31 December 2022
Banks	4,514,535,584	4,416,872,941
Less: Interest accruals	(15,004,110)	(50,460,794)
Cash and cash equivalents	4,499,531,474	4,366,412,147

The credit risks of the banks where the Company has deposits are evaluated by taking into account independent data, and no significant credit risk is expected. The market values of cash and cash equivalents approximate their carrying values including the accrued interest income at the balance sheet date.

NOTE 5 – FINANCIAL INVESTMENTS

Financial assets at fair value through profit or loss

	31 March 2023	31 December 2022
Special fund paying dividends	-	306,261,048
Currency protected time deposit accounts	111,008,357	110,551,603
Investment fund	2,838,395	3,220,574
	113,846,752	420,033,225

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**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 MARCH 2023**

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

NOTE 6 - FINANCIAL LIABILITIES

	31 March 2023	31 December 2022
Short-term financial liabilities		
Short-term bank borrowings	2,082,412,244	2,432,320,224
Short-term portions of long-term financial	825,136,748	848,288,136
Short-term lease liabilities	53,637,417	32,360,415
	2,961,186,409	3,312,968,775
Long-term financial liabilities		
Long-term bank borrowings	286,610,375	507,427,245
Long-term lease liabilities	40,653,090	69,797,520
	327,263,465	577,224,765

a) Short - term financial liabilities

Short - term bank borrowings

	Original currency		Weighted average effective interest rate p.a.(%)		TRY Equivalent	
	31	31	31	31	31	31
	March 2023	December 2022	March 2023	December 2022	March 2023	December 2022
EUR borrowings	-	20,064,882	-	4.38	-	399,991,416
TRY bonds	563,317,432	523,243,108	32.50	32.50	563,317,432	523,243,108
TRY borrowings	1,519,094,812	1,509,085,700	14.80	21.83	1,519,094,812	1,509,085,700
					2,082,412,244	2,432,320,224

Short - term portions of long term borrowings

	Original currency		Weighted average effective interest rate p.a.(%)		TRY Equivalent	
	31	31	31	31	31	31
	March 2023	December 2022	March 2023	December 2022	March 2023	December 2022
EUR borrowings	39,666,031	14,409,496	4.38	4.38	825,136,748	287,251,862
TRY borrowings	-	561,036,274	-	21.38	-	561,036,274
					825,136,748	848,288,136

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

b) Long - term financial liabilities

Long - term bank borrowings

	Original currency		Weighted average effective interest rate p.a.(%)		TRY Equivalent	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022	31 March 2023	31 December 2022
EUR borrowings	13,336,432	24,993,486	3.85	3.85	277,425,784	498,242,644
TRY borrowings	9,184,591	9,184,601	5.91	5.91	9,184,591	9,184,601
Prepaid borrowing commissions for debt (*)					-	(27,353)
Total long-term financial liabilities					286,610,375	507,427,245

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

Redemption schedule of the long-term bank borrowings as of 31 March 2023 and 31 December 2022 are as follows:

Year	2023	2022
2024	158,926,449	275,744,114
2025	127,683,926	231,683,131
	286,610,375	507,427,245

As of 31 March 2023, the Company has investment loan with fixed interest rate amounting to EUR52,526,304. The loan of EUR52,526,304 has a maturity of 5 years (maturity date 29 March 2024), with an interest and principal payment of every 6 months and with interest rate of 3.50%. EUR1,200,000 fixed interest operating loan; EUR22,426,478 of the loan has a maturity of 3 years (maturity 17 February 2025), the principal and interest repayment every 6 months and the interest rate is 3.95%; EUR3,903,706 of the loan has a maturity of 3 years (maturity 17 February 2025 the principal and interest every months, the interest rate is 3.25%.; EUR9,997,077 of the loan has a maturity of 1 years (maturity 9 June 2023 the principal and interest every 6 months, the interest rate is 3.75%. EUR9,999,660 of the loan has a maturity of 1 years (maturity 3 July 2023 the principal and interest every 6 months, the interest rate is 4.25%. EUR4,999,381 of the loan has a maturity of 1 years (maturity 22 December 2023 the principal and interest every 6 months, the interest rate is 7.50%. There is no guarantees or mortgages given for the financial liabilities obtained.

Carrying values and fair values of the bank borrowings are as shown below:

	Carrying values		Fair value	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022
Bank borrowings	3,194,159,367	3,788,035,605	3,258,042,554	3,846,254,783

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 6 - FINANCIAL LIABILITIES (Continued)

b) Long - term financial liabilities (Continued)

As of 31 March 2023, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 2.78% for EUR loans and 11.95% for TRY denominated bank borrowings respectively (31 December 2022: EUR 0.61%, TRY: 28.12%).

The movement of the borrowings for the years 2023 and 2022 are as follows:

	31 March 2023	31 March 2022
1 January	3,890,193,540	1,134,841,687
Borrowing received during the period	1,260,000,000	1,430,755,960
Repayment of lease liabilities	(13,414,790)	(5,459,454)
Effect of new lease contracts	-	3,158,875
Principal payments	(1,910,159,616)	(157,543,317)
Change of interest accruals	10,265,546	13,156,690
Change of exchange rates	51,565,193	69,569,227
	3,288,449,874	2,488,479,668

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

	31 March 2023	31 December 2022
Short-term trade receivables:		
Trade receivables	1,799,901,918	862,338,190
Notes receivables	14,735,624	21,124,239
	1,814,637,542	883,462,429
Less: Provision for doubtful receivables	(48,837,527)	(48,786,983)
Unearned financial income	(11,883,554)	(6,834,669)
Short-term trade receivables	1,753,916,461	827,840,777
Due from related parties (Note 23)	890,580,809	1,274,066,993
Total short-term trade receivables	2,644,497,270	2,101,907,770

As of 31 March 2023, the average maturity of trade receivables and payables are not longer than one year (31 December 2022 not longer than one year) and weighted average effective annual interest rates for discount of TRY, USD and EUR are 14.50%, 0.45% and 0.53% (31 December 2022: 9.54%, 4.39% and 1.88%).

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Movements of the provisions for doubtful receivables for the years ended 31 March 2023 and 2022 are as shown below:

	2023	2022
1 January	(48,786,983)	(50,907,510)
Cancelled during the year (Note 18)	15,998,766	2,691,140
Charge during the year (Note 18)	(16,049,309)	(1,308,343)
31 March	(48,837,527)	(49,524,713)
	31 March 2023	31 December 2022
Long - term trade receivables:		
Notes receivables	109,458	109,458
	109,458	109,458
	31 March 2023	31 December 2022
Trade payables:		
Trade payables	5,463,244,156	4,727,364,172
Less: Unincurred financial expense	(75,209,836)	(73,933,928)
Trade payables	5,388,034,320	4,653,430,244
Due to related parties (Note 23)	184,668,572	271,784,705
Total trade payables	5,572,702,892	4,925,214,949

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 8 – INVENTORIES

	31 March 2023	31 December 2022
Raw materials	1,534,149,030	1,522,340,014
Goods in transit (*)	296,100,405	672,022,661
Work in progress	324,887,118	416,895,433
Commercial goods	305,180,726	375,453,767
Spare parts	425,540,493	354,071,158
Finished goods	252,543,139	342,360,822
Less: Provision for impairment of inventory (-)	(67,858,729)	(68,180,868)
Inventories	3,070,542,182	3,614,962,987

The cost of inventories recognised as expense in the current period is amounting to TRY6,774,990,627 (31 December 2022: TRY16,671,981,903).

(*) Goods in transit comprised of commercial goods and spare parts are not arrived, but invoices are received as of period end.

Movement of provision for impairment of inventory for the years 2023 and 2022 are as follows

	2023	2022
1 January	(68,180,868)	(29,679,765)
Charge for impairment of inventory	322,139	(262,170)
31 March	(67,858,729)	(29,417,595)

Allocation of the provision for impairment on inventories in terms of inventory type is as follows:

	31 March 2023	31 March 2022
Raw materials	(61,945,492)	(26,846,910)
Commercial goods	(5,351,755)	(1,406,161)
Spare parts	(561,482)	(1,164,524)
	(67,858,729)	(29,417,595)

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2023	Additions	Disposals	Transfers	31 March 2023
<u>Cost</u>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	46,115,735	4,176,327	-	-	50,292,062
Buildings	273,133,709	5,204,967	-	-	278,338,676
Machinery and equipment	1,235,857,531	76,642,184	-	-	1,312,499,715
Special costs	6,664,109	-	-	-	6,664,109
Motor vehicles	20,251,363	11,747,333	(1,683,214)	-	30,315,482
Furniture and fixtures	160,614,654	13,556,580	-	-	174,171,234
Construction in progress	-	-	-	-	-
	1,795,055,481	111,327,391	(1,683,214)	-	1,904,699,658
<u>Accumulated depreciation</u>					
Land improvements	8,008,527	452,654	-	-	8,461,181
Buildings	82,610,952	1,494,904	-	-	84,105,856
Machinery and equipment	655,367,806	30,542,141	-	-	685,909,947
Special costs	6,349,908	55,126	-	-	6,405,034
Motor vehicles	8,012,026	896,180	(872,353)	-	8,035,853
Furniture and fixtures	103,608,420	4,836,513	-	-	108,444,933
	863,957,639	38,277,518	(872,353)	-	901,362,804
Net book value	931,097,842				1,003,336,854
	1 January 2022	Additions	Disposals	Transfers	31 March 2022
<u>Cost</u>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	20,016,761	835,411	-	-	20,852,172
Buildings	264,255,222	698,554	-	-	264,953,776
Machinery and equipment	891,765,332	43,322,370	-	-	935,087,702
Special costs	6,664,109	0	-	-	6,664,109
Motor vehicles	17,726,224	5,129,136	-	-	22,855,360
Furniture and fixtures	128,991,314	6,610,115	-	-	135,601,429
Construction in progress	95,242	32,526,975	-	-	32,622,217
	1,381,932,584	89,122,561	-	-	1,471,055,145
<u>Accumulated depreciation</u>					
Land improvements	7,105,108	161,698	-	-	7,266,806
Buildings	77,152,880	1,326,853	-	-	78,479,733
Machinery and equipment	564,607,841	18,485,896	-	-	583,093,737
Special costs	6,038,882	78,638	-	-	6,117,520
Motor vehicles	5,609,951	1,065,710	-	-	6,675,661
Furniture and fixtures	92,153,686	3,119,814	-	-	95,273,500
	752,668,348	24,238,609	-	-	776,906,957
Net book value	629,264,236				694,148,188

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NOTE 9 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of the depreciation expenses of property, plant and equipment for the years ended at 31 March 2023 and 2022 is as follows:

	31 March 2023	31 March 2022
Cost of sales	27,844,795	16,536,214
General administrative expenses	6,951,347	5,158,134
Marketing, selling and distribution expenses	1,843,850	1,433,909
Research and development expenses	1,637,526	1,110,352
	38,277,518	24,238,609

The Company have no financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 31 March 2023 (31 December 2022: None).

There is no mortgage on property, plant and equipment as of 31 March 2023 (31 December 2022: None).

NOTE 10 -RIGHT OF USE ASSETS

	1 January 2023	Additions	Disposals (*)	31 March 2023
Cost				
Land and buildings	32,074,403	-	-	32,074,403
Machinery and equipment	41,559,985	-	-	41,559,985
Motor vehicles	77,418,381	-	-	77,418,381
	151,052,769	-	-	151,052,769
Accumulated depreciation				
Land and buildings	16,903,132	1,474,811	-	18,377,943
Machinery and equipment	16,751,478	1,304,063	-	18,055,541
Motor vehicles	23,972,808	4,077,481	-	28,050,289
	57,627,418	6,856,355	-	64,483,773
Net book value	93,425,351			86,568,996

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

NOTE 10 -RIGHT OF USE ASSETS (Continued)

	1 January 2022	Additions	Disposals (*)	31 March 2022
Cost				
Land and buildings	15,820,355	301,665	-	16,122,020
Machinery and equipment	18,800,737	461,424	-	19,262,161
Motor vehicles	26,597,337	2,395,784	-	28,993,121
	61,218,429	3,158,873	-	64,377,302
Accumulated depreciation				
Land and buildings	11,010,273	857,898	-	11,868,171
Machinery and equipment	11,269,084	662,778	-	11,931,862
Motor vehicles	15,723,547	1,623,554	-	17,347,101
	38,002,904	3,144,230	-	41,147,134
Net book value	23,215,525			23,230,168

* Disposals consist of vehicles and machines which contract period has expired.

Depreciation expenses are stated below for the right of use for the periods ending on 31 March 2023 and 2022:

	31 March 2023	31 March 2022
Cost of sales	1,866,662	1,082,280
General administrative expenses	634,868	423,606
Marketing, selling and distribution expenses	3,806,112	1,371,440
Research and development expenses	548,713	266,904
	6,856,355	3,144,230

NOTE 11 - INTANGIBLE ASSETS

	1 January 2023	Additions	Disposals	Transfers	31 March 2023
Cost					
Rights	218,171,728	11,820,152	-	-	229,991,880
Development costs in progress	580,485,179	-	-	-	580,485,179
	181,047,473	61,640,384	-	-	242,687,857
	979,704,380	73,460,536	-	-	1,053,164,916
Accumulated amortisation					
Rights	112,505,900	8,704,835	-	-	121,210,735
Development costs	245,377,742	23,696,331	-	-	269,074,073
	357,883,642	32,401,166	-	-	390,284,808
Net book value	621,820,738				662,880,108

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NOTE 11 - INTANGIBLE ASSETS (Continued)

	1 January 2022	Additions	Disposals	Transfers	31 March 2022
<u>Cost</u>					
Rights	157,506,465	5,370,130	-	-	162,876,595
Development costs	365,465,848	-	-	-	365,465,848
Development costs in progress	190,261,147	38,676,384	-	-	228,937,531
	713,233,460	44,046,514	-	-	757,279,974
<u>Accumulated amortisation</u>					
Rights	84,108,573	6,157,593	-	-	90,266,166
Development costs	190,547,893	12,503,741	-	-	203,051,634
	274,656,466	18,661,334	-	-	293,317,800
Net book value	438,576,994				463,962,174

Development costs includes tractors and tractor components 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 the development costs in progress as the development process has not yet been completed.

Allocation of the amortization expenses of intangible assets for the years ended at 31 March 2023 and 2022 is as follows:

	31 March 2023	31 March 2022
Cost of sales	6,363,686	4,501,520
General administrative expenses	1,549,865	1,096,337
Marketing, selling and distribution expenses	394,902	279,345
Research and development expenses	21,510,365	11,126,485
Construction in progress effects	2,582,348	1,657,647
	32,401,166	18,661,334

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NOTE 12 - OTHER ASSETS AND LIABILITIES

	31 March 2023	31 December 2022
a) Other current assets:		
Deferred value added tax ("VAT")	725,946,827	597,540,991
Reclaimed VAT	213,754,182	410,597,846
	939,701,009	1,008,138,837

	31 March 2023	31 December 2022
b) Government grants and aids:		
Government grants and aids	3,321,575	3,321,575
	3,321,575	3,321,575

NOTE 13 - PREPAID EXPENSES AND DEFERRED INCOME

	31 March 2023	31 December 2022
a) Prepaid expenses:		
Prepaid expenses for future months	21,782,587	15,168,023
	21,782,587	15,168,023

	31 March 2023	31 December 2022
b) Long-term prepaid expenses		
Advances given for purchases of fixed assets (*)	123,885,309	90,815,165
	123,885,309	90,815,165

(*) It consists of advances given for machinery and equipment renewal investments.

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NOTE 13 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)

	31 March 2023	31 December 2022
c) Deferred income:		
Advances received (*)	539,028,020	379,877,993
Income for future periods (**)	7,806,263	186,822,571
	546,834,283	566,700,564

(*) The balance consists of tractor order advances received.

(**) Deferred income represents the sales amount of the tractors for which the invoices were issued as of 31 March 2023 and 31 December 2022, but the delivery of the risk and responsibility to the customers has not yet reached 90 days from the invoice date.

NOTE 14 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Short - term provisions

Short - term provision for employee benefits

	31 March 2023	31 December 2022
Provision for unused vacation	24,588,399	13,328,665
	24,588,399	13,328,665

Movements of the provision for unused vacation rights for the years are as follows:

	2023	2022
1 January	13,328,665	6,501,091
Charge/(used) for the year, net	11,259,734	6,352,606
31 March	24,588,399	12,853,697

Other short - term provisions

	31 March 2023	31 December 2022
Warranty expense provisions	112,874,468	105,127,470
Provisions for legal cases	15,853,906	15,273,530
	128,728,374	120,401,000

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NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES(Continued)

a) Short - term provisions (Continued)

Movements of the provision for legal cases for the years are as follows:

	2023	2022
1 January	15,273,530	13,163,403
Charge for the year (Note 20)	580,376	31,957
Used during the year (Note 20)	-	-
31 March	15,853,906	13,195,360

b) Long-term provisions

Long-term provision for employee benefits

	31 March 2023	31 December 2022
Provision for employee termination benefits	236,014,904	256,458,270
	236,014,904	256,458,270

Provision for employee termination benefit is recorded in line with the regulations 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 amount payable consists of one month's salary limited to a maximum of TRY 19,982.83 for each year of service as of 01 January 2023 (31 December 2022 : TRY15,371.40).

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 2023	31 December 2022
Discount rate (%)	0.55	0.55
Turnover rate to estimate the probability of retirement (%)	93.29	93.29

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NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

b) Long-term provisions (Continued)

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 maximum amount of TRY19,982.83 (1 January 2022: TRY10,848.59) which is effective from 1 January 2023 has been taken into consideration in calculating the provision for employee termination benefits of the Company.

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

	2023	2022
1 January	256,458,270	76,294,116
Interest cost	6,796,144	4,196,177
Current year service cost	6,792,735	1,881,597
Paid in the year	(22,029,434)	(3,085,050)
Actuarial loss	(12,002,811)	(129,122)
31 March	236,014,904	79,157,718

Sensitivity analysis of key assumptions used for termination benefits calculations as at 31 March 2023 are as follows:

Sensitivity level	Net discount rate		Turnover related to the probability of retirement	
	%0,5 decrease (%0.045)	%0,5 increase (%1.045)	%0,5 decrease (%92.79)	%0,5 increase (%93.79)
Rate				
Change in employee benefits liability	20,044,965	(17,893,804)	(5,864,466)	6,163,316

Other long - term provisions

	31 March 2023	31 December 2022
Warranty provision	133,951,900	108,334,042
	133,951,900	108,334,042

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NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

b) Long-term provisions (Continued)

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

	2023	2022
1 January	213,461,512	102,547,391
Used during the year	(49,944,232)	(21,508,604)
Charge for the year (Note 16)	83,309,088	31,592,079
31 March	246,826,368	112,630,866

c) Contingent liabilities

As of 31 March 2023 and 31 December 2022 the Company's guarantee/ pledge/ mortgage positions are as follows:

	31 March 2022	31 December 2022
A. The total amount of collaterals given on behalf of its own legal entity	509,236,134	389,471,116
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	-	-
iii. The total amount of collaterals given in favor of third parties other than the parties stated in item C	-	-
	509,236,134	389,471,116

The guarantees consist of guarantees given to the relevant institutions for customs, electricity, natural gas and similar expenses and the guarantee given to the tax office for cash tax refund.

As at 31 March 2023, the Company has given on behalf of its own legal entity, the original collateral denominated in foreign currency amounts of EUR 2,006,350 (31 December 2022: EUR 2,006,350).

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NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

d) Contingent assets

	Original currency amount						TRY equivalent	
	31 March 2023			31 December 2022			31 March 2023	31 December 2022
	EUR	USD	TRY	EUR	USD	TRY		
Letters of guarantees received	-	270,000	926,098,672	-	270,000	848,286,172	931,268,092	853,334,713
Direct debit	-	-	3,077,879,316	-	-	2,421,779,155	3,077,879,316	2,421,779,155
Mortgages	-	-	438,684	-	-	438,684	438,684	438,684
Cash TRY guarantees	-	-	515,068	-	-	493,270	515,068	493,270
Guarantee bonds	-	-	2,445,441	-	-	2,445,441	2,445,441	2,445,441
							4,012,546,601	3,278,491,263

The guarantees consist of the guarantees received against the risks of dealers and suppliers.

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NOTE 15 - EMPLOYEE BENEFITS

Liabilities for employee benefits

	31 March 2023	31 December 2022
Taxes payable and liabilities (*)	95,224,774	86,922,135
Accrued premiums and liabilities to personnel	209,033,936	62,198,751
	304,258,710	149,120,886

(*) The balance consists of social security and withholding payables for the employees of the Company

NOTE 16 - EQUITY

Paid-in share capital

The Company's registered share capital amounts to TRY250,000,000 (31 December 2022: TRY 250,000,000).

Our Company's Board of Directors decided on 27.02.2023 to increase the issued capital of our company, which is TL 53,369,000, within the registered capital ceiling of TL 250,000,000, to TL 100,066,875 with an increase of 87.5%, amounting to TL 46,697,875, to be fully covered by internal resources. Work on the capital increase process continues.

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 2023 and 31 December 2022 are as follows:

	31 March 2023		31 December 2022	
	Share (%)	Share amount (TRY)	Share (%)	Share amount (TRY)
Koç Holding	37,50	20,013,375	37,50	20,013,375
CNH Industrial Österreich	37,50	20,013,375	37,50	20,013,375
Public quotation in BİST	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 2023, 25% of the Company shares are quoted at BIST (31 December 2022: 25%)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 16 - 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 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 arising due to implementing the communiqué (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 utilised in dividend distribution or capital increase yet, it shall be classified under "Retained Earnings",

Other equity items shall be carried at the amounts calculated based on 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 1 February 2014.

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 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.

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NOTE 16 - EQUITY (Continued)

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 60% 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.

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 proposal for the distribution dividends from the profit of 2022 amount of TRY 2,100,000,000 was accepted at the 69th Ordinary General Assembly Meeting held on 2 March 2023. Dividend paid in cash to shareholders as of 10 March 2023 and distributed per share is 39.35 kurus.

NOTE 17 - REVENUE AND COST OF SALES

	1 January - 31 March 2023	1 January - 31 March 2022
Domestic sales	8,300,381,256	3,114,261,475
Export sales	2,660,332,703	1,560,077,515
Sales income (gross)	10,960,713,959	4,674,338,990
Less: Discounts and returns	(1,437,046,012)	(686,349,213)
Sales income (net)	9,523,667,947	3,987,989,777
Cost of sales	(7,305,214,958)	(3,265,327,729)
Gross profit	2,218,452,989	722,662,048

Sales quantities:

	1 January - 31 March 2023			1 January - 31 March 2022		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Tractor	9,154	5,058	14,212	6,753	4,394	11,147
Combine	128	-	128	58	-	58
	9,282	5,058	14,340	6,811	4,394	11,205

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NOTE 18 – OTHER INCOME/EXPENSE FROM OPERATING ACTIVITIES

	1 January - 31 March 2023	1 January - 31 March 2022
Foreign exchange gain from trade receivables and payables	256,199,592	275,395,735
Interest income from sales	166,812,559	112,120,697
Termination of provision for doubtful receivables (Note 7)	15,998,766	2,691,140
Reversal of provision for litigation expenses (Note 14)	2,675,774	889,752
Other income	8,224,053	7,254,187
Other operating income	449,910,744	398,351,511
Foreign exchange losses on trade receivables and payables	(230,193,049)	(286,411,627)
Interest expense from trade payables	(320,055,557)	(173,108,305)
Provision for litigation expenses (Note 14)	(3,256,150)	(921,709)
Provision for doubtful receivables (Note 7)	(16,049,309)	(1,308,343)
Other expenses	(192,311)	(571,692)
Other operating expenses	(569,746,376)	(462,321,676)

NOTE 19 - FINANCIAL INCOME

	1 January - 31 March 2023	1 January - 31 March 2022
Foreign exchange gain	90,097,167	138,832,978
Interest income	243,701,462	24,216,390
	333,798,629	163,049,368

NOTE 20 - FINANCIAL EXPENSE

	1 January - 31 March 2023	1 January - 31 March 2022
Foreign exchange losses	(115,566,058)	(37,816,983)
Interest expenses of bank borrowings	(185,578,324)	(48,886,258)
Other	(5,178,034)	(2,619,920)
	(306,322,416)	(89,323,161)

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NOTE 21 - 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 7316, published in Official Gazette numbered 31462 on 22 April 2021, "Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2021 has set for 25%, 2022 for 23% and 2023 for 20%. Tax returns are filed between 25th April following the close of the accounting year to which they relate. Corporate tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the relevant year and is paid in one installment until the end of the relevant month. In accordance with the tax legislation, 20% temporary tax is calculated and paid on quarterly earnings, and the paid amounts are deducted from the tax calculated on the annual income.

The law on the amendment of the Tax Procedure Law and the Corporate Tax Law was enacted on 20 January 2022 with the Law No. 7352, including the temporary accounting periods, the conditions regarding the inflation adjustment within the scope of the repeated article 298 for the 2022 and 2023 accounting periods and the 2023 accounting period temporary tax periods, it has been decided that the financial statements will not be subject to inflation adjustment, regardless of whether or not they have occurred. The Public Oversight Authority made a statement on the Implementation of Financial Reporting in Hyperinflationary Economies under TFRS on 20 January 2022, and it was stated that there was no need to make any adjustments within the scope of TAS 29 Financial Reporting in Hyperinflationary Economies in the financial statements for 31 March 2023.

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.

10% 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 100% 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 2022 and 2021.

In accordance with the Law No.7440 on the "Restructuring of Certain Receivables and Amending Certain Laws" published in the Official Gazette on March 12, 2023, with the exceptions and deductions subject to deduction from corporate income in accordance with the regulations in the laws, by being shown in the corporate tax return for the year 2022. An additional tax of 10% should be calculated over the bases subject to reduced corporate tax, without being associated with the period income, and at the rate of 5% over the exempted earnings. As of 31 March 2023, the related tax has been accrued in addition to the Company's corporate tax; the payment for this tax will be paid in two installments in 2023.

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NOTE 21 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 March 2023 and 31 December 2022, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 March 2023	31 December 2022
Corporate tax expense	521,950,989	288,595,540
Less: Prepaid taxes	(14,128,557)	(288,598,609)
Tax liability	507,822,432	(3,069)

The breakdown of total tax expense for the years ended 31 March 2023 and 2022 are as follows:

	1 January - 31 March 2023	1 January - 31 March 2022
Corporate tax expense	(521,950,989)	(129,614,879)
Deferred tax income/(expense)	270,025,158	69,270,350
Total tax income/(expense)	(251,925,831)	(60,344,529)

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 2023 and 31 December 2022 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022
Property, plant and equipment and intangible assets, restatement and useful life differences	(1,201,912,439)	(1,287,591,976)	240,382,488	257,518,395
Employee termination benefits	(236,014,904)	(256,458,270)	47,202,981	51,291,654
Warranty provision	(246,826,368)	(213,461,512)	49,365,274	42,692,302
Provision for lawsuits	(15,853,906)	(15,273,530)	3,170,781	3,054,706
Unearned finance income/ expenses on trade receivables, payables and due from related parties	(299,479,069)	(92,797,808)	59,895,814	18,559,562
Provision for doubtful receivables	(50,543)	2,120,527	10,109	(424,105)
Provision for impairment of inventory	(67,858,729)	(68,180,868)	13,571,746	13,636,174
Sales premium accrued	(881,682,186)	(32,547,420)	176,336,437	6,509,484
Other expense provisions	(70,313,674)	(34,340,239)	14,062,735	6,868,048
Investment incentive tax assets	409,150,889	-	122,745,267	55,381,013
Deferred income	(7,806,263)	(186,822,571)	1,561,253	37,364,514
Other	(89,493,366)	56,293,730	17,898,671	(11,258,744)
Deferred tax assets			746,203,556	481,193,003

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NOTE 21 - TAX ASSETS AND LIABILITIES (Continued)

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

	2023	2022
1 January	481,193,003	33,622,002
Reflected to profit for the year	270,025,158	69,270,350
Reflected to other comprehensive income/(expense)	(5,014,605)	6,655,695
31 March	746,203,556	109,548,047

NOTE 22 - EARNINGS PER SHARE

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.

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.

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 1 Kr.

	1 January- 31 March 2023	1 January- 31 March 2022
Net profit for the year	1,398,055,409	476,595,151
Weighted average number of the ordinary shares	5,336,900,000	5,336,900,000
Earnings per share (TRY)	0.2620	0.0893

There is no difference for any period between basic and relative earnings per share.

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NOTE 23 - RELATED PARTY EXPLANATIONS

The Company is jointly controlled by Koç Holding and CNHI Österreich. 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 2023 and 31 December 2022 and significant intercompany transactions were as follows:

i) **Balances with related parties as of 31 March 2023 and 31 December 2022:**

a) **Due from related parties**

	31 March 2023	31 December 2022
Due from group companies		
CNHI International SA ("CNHI International") (*)	772,623,645	1,142,159,369
CNH Industrial Argentina SA	52,231,520	64,981,335
CNH Industrial (India) Pvt. Ltd.	33,502,321	35,946,440
CNHI Italia SPA ("CNHI Italia")	23,660,242	25,858,502
CNH Industrial Brasil Ltda	3,758,826	2,548,514
Other	4,804,255	2,572,833
	890,580,809	1,274,066,993

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

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NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

i) Balances with related parties as of 31 March 2023 and 31 December 2022 (Continued)

b) Due to related parties

	31 March 2023	31 December 2022
Koç Holding	-	19,773,781
Due to shareholders	-	19,773,781
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	83,978,522	39,181,009
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	81,137,434	139,537,130
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	5,736,586	35,482,633
Otokoç Otomotiv San. ve Tic. A.Ş. (“Otokoç”)	5,593,626	3,772,218
Ram Sigorta Aracılık Hizmetleri A.Ş. (“Ram Sigorta”)	1,987,182	419,777
CNH Argentina S.A	1,674,708	1,635,548
Setur Servis Turistik A.Ş. (“Setur”)	1,369,237	3,543,647
Opet Petrolcülük A.Ş. (“Opet”)	1,195,749	2,329,113
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. (“Akpa”)	939,273	1,473,352
Divan Turizm İşletmeleri (“Divan”)	486,762	3,780,769
Koç Digital Çözümler A.Ş.	226,301	6,674,967
Ingage Dijital Pazarlama Hizmetleri	238,032	396,273
Fpt Industrial Powertrain Technolog	-	14,221,454
Other	1,731,586	1,358,904
Due to group companies	186,294,998	253,806,794
Less: Unearned financial expenses	(1,626,426)	(1,795,870)
	184,668,572	271,784,705

c) Lease liabilities to related parties

	31 March 2023	31 December 2022
Otokoç	55,596,851	57,054,225
Zer	24,021,000	28,450,518
Other	1,375,148	7,558,678
	80,992,999	93,063,421

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

Significant sales and purchases transactions with related parties for the periods between 1 January - 31 March 2023 and 2022:

a) Product sales to related parties

	1 January - 31 March 2023	1 January- 31 March 2022
Product sales to group companies		
CNHI International (*)	2,565,802,603	1,497,867,053
CNH Industrial Argentina SA	26,042,918	36,658,038
CNH Italia SPA	26,130,772	22,663,003
CNH Industrial (India) PV Ltd.	15,685,663	-
Yapı Kredi Finansal Kiralama A.O.	14,088,719	2,640,838
CNH Industrial Brasil Ltda	15,539,192	2,889,420
Other	8,532,444	5,705,628
	2,671,822,311	1,568,423,980

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

b) Service sales to related companies

	1 January- 31 March 2023	1 January- 31 March 2022
Service sales to group companies		
CNH Italia SPA (1)	-	6,588,933
CNHI International (2)	505,053	47,452
CNH Industrial (India) Pvt. Ltd. (1)	-	930,562
Other	4,433	-
	509,486	7,566,947

(1) Services sold to CNHI Italia is related to engineering and various services.

(2) Services sold to CNHI International is related to engineering, consultancy and various services.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

Significant sales and purchases transactions with related parties for the periods between 1 January - 31 March 2023 and 2022 (Continued):

c) Product purchases from related parties

	1 January- 31 March 2023	1 January- 31 March 2022
Product purchases from group companies		
CNHI International (1)	809,672,973	851,965,907
Opet Fuchs (2)	84,393,467	55,093,896
CNH Italia SPA (3)	13,794,307	5,737,775
Zer (4)	11,750,764	4,262,398
Koç Sistem (5)	8,974,778	2,474,924
Akpa	4,546,316	6,773,594
Opet (2)	4,349,760	2,790,074
CNHI India	1,872,871	195,911
Diğer	4,110,689	1,059,789
	943,465,925	930,354,268

- (1) The Company purchases tractors, agricultural machines and equipments and spare parts.
(2) The Company makes various oil purchases for use in production and fuel purchases for use.
(3) The Company purchases tractor parts from CNH Italia SPA.
(4) The Company purchases direct and indirect materials and services from Zer Merkezi Hizmetler A.Ş..
(5) The Company purchases hardware and software from Koç Sistem.

d) Service purchases from related parties

	1 January- 31 March 2023	1 January- 31 March 2022
Service purchases from shareholders		
Koç Holding (1)	2,815,000	1,564,998
	2,815,000	1,564,998
Service purchase from group companies		
Zer (2)	162,397,028	89,370,458
Eltek (3)	26,650,822	10,639,994
Otokoç (4)	6,945,541	3,004,435
Setur (5)	4,254,781	2,568,829
Ram Sigorta (6)	2,244,602	8,013,858
Token Finansal Teknolojiler A.Ş. (7)	1,394,361	-
Koç Sistem (8)	999,328	593,109
Ingage Dijital Pazarlama Hizmetleri A.Ş.(8)	783,130	-
CNH Italia SPA (9)	-	2,021,866
Other	844,351	268,651
	206,513,944	116,481,200
	209,328,944	118,046,198

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

ii) Significant sales and purchases transactions with related parties for the periods between 1 January - 31 December 2022 and 2021 (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) Service purchased from Eltek is related with electricity expenses.
- (4) Service purchased from Otokoç is related with motor vehicles leasing services.
- (5) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (6) Insurance service purchased from Ram Sigorta Aracılık Hizmetleri A.Ş. includes premium amounts paid and accrued for the year ended on 31 March 2023.
- (7) The service received from Token Financial Technologies Inc. is related to the company's digital meal card.
- (8) Services received from Koç Sistem and Ingage Dijital Pazarlama Hizmetleri A.Ş. mainly includes support services related to repair and maintenance of computers and licences.
- (9) Services purchased from CNH Italia SPA is related with engineering services, strategy development, consulting and brokerage.

iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January - 31 March 2023 and 2022:

Financial income and expense from group companies

	1 January- 31 March 2023	1 January- 31 March 2022
Interest income		
Yapı Kredi	9,068,687	7,504,576

iv) Dividends paid to related parties:

	1 January - 31 March 2023	1 January - 31 March 2022
Koç Holding	787,500,000	450,000,000
CNHI Osterreich	787,500,000	450,000,000
	1,575,000,000	900,000,000

v) Other transactions with related parties for the periods between 1 January - 31 March 2023 and 2022:

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

As of 31 March 2023, the Company paid TRY 9,758,343.12 benefits to the key management personnel (31 March 2022: TRY 5,564,555). All amount consists of short-term benefits.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM INANCIAL 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 loans obtained from banks. 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

The hedging instrument subject to cash flow hedge accounting is imported tractor orders and the exchange rate effect of the amount kept in the bank based on these orders. Türk Traktör imports and sells tractors in Euro. With the application put into use in 2021, the TRY price list for imported tractors was introduced. In this case, hedging started to be applied as of 1 January 2022 in order to eliminate the exchange rate risk at the time of payment on the date of sale of the Euro amount put in the cash register at the date of order. The total amount of foreign exchange losses recognized after tax in equity is TRY69,403,177 (31 December 2022: TRY58,947,006).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 24 - 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 2023 and 31 December 2022 are as follows:

	31 March 2023					
	TRY Equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	1,108,351,427	1,969,755	51,467,808	-	-	-
2. Monetary financial assets (including banks accounts)	1,038,872,540	1,619,286	48,009,686	72,512	7,975	50,591,648
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	2,147,223,966	3,589,041	99,477,494	72,512	7,975	50,591,648
5. Trade receivables	-	-	-	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets (5+6)	-	-	-	-	-	-
8. Total assets (4+7)	2,147,223,966	3,589,041	99,477,494	72,512	7,975	50,591,648
9. Trade payables	748,722,315	1,984,810	34,103,156	(20,972)	33,078	7,695,752
10. Financial liabilities	839,395,580	-	40,351,483	-	-	-
11. Other monetary liabilities	7,709,057	-	370,590	-	-	-
12. Current liabilities (9+10+11)	1,595,826,952	1,984,810	74,825,229	(20,972)	33,078	7,695,752
13. Financial liabilities	288,232,900	-	13,855,952	-	-	-
14. Non-current liabilities (13)	288,232,900	-	13,855,952	-	-	-
15. Total liabilities (12+14)	1,884,059,851	1,984,810	88,681,181	(20,972)	33,078	7,695,752
16. Cash flow hedge accounting amounts	(526,106,806)	-	(25,291,043)	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(262,942,691)	1,604,231	(14,494,730)	93,484	(25,104)	42,895,896
18. Net monetary foreign currency asset/ (liability) position (8-15)	263,164,115	1,604,231	10,796,313	93,484	(25,104)	42,895,896

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 MARCH 2023**

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

**NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(Continued)**

	31 December 2022					
	TRY Equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	1,326,837,883	2,103,196	64,585,811	-	-	-
2. Monetary financial assets (including banks accounts)	701,524,421	3,300,202	31,807,103	185,954	5,920	10,214,290
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	2,028,362,303	5,403,398	96,392,914	185,954	5,920	10,214,290
5. Trade receivables	-	-	-	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets (5+6)	-	-	-	-	-	-
8. Total assets (4+7)	2,028,362,303	5,403,398	96,392,914	185,954	5,920	10,214,290
9. Trade payables	521,212,820	4,247,117	21,364,042	(23,511)	30,032	112,037,227
10. Financial liabilities	693,347,138	-	34,780,568	-	-	-
11. Other monetary liabilities	6,890,908	-	345,671	-	-	-
12. Current liabilities (9+10+11)	1,221,450,866	4,247,117	56,490,280	(23,511)	30,032	112,037,227
13. Financial liabilities	511,407,930	-	25,653,900	-	-	-
14. Non-current liabilities (13)	511,407,930	-	25,653,900	-	-	-
15. Total liabilities (12+14)	1,732,858,796	4,247,117	82,144,180	(23,511)	30,032	112,037,227
16. Cash flow hedge accounting amounts	(634,071,411)	-	(31,807,103)	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(338,567,904)	1,156,282	(17,558,369)	209,465	(24,112)	(101,822,937)
18. Net monetary foreign currency asset/ (liability) position (8-15)	295,503,507	1,156,282	14,248,734	209,465	(24,112)	(101,822,937)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 MARCH 2023

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

NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The import and export amounts of the Company for the years ended 31 March 2023 and 2022 are as follows:

	1 January- 31 March 2023	1 January- 31 March 2022
Total export amount	2,660,332,703	1,560,077,515
Total import amount	2,278,398,700	1,691,631,659

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 2023 and 31 December 2022 under the assumption of the appreciation and depreciation of TRY against other currencies by 10% with all other variables held constant, is as follows:

	31 March 2023		Equity	
	Appreciation of foreign currency	Depreciation foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	3,071,461	(3,071,461)	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	3,071,461	(3,071,461)	-	-
Had TRY appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	22,458,598	(22,458,598)	-	-
Hedged amount against EUR risk (-) (-)	-	-	-	-
Net Effect of EUR	22,458,598	(22,458,598)	-	-
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	864,987	(864,987)	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	864,987	(864,987)	-	-
Total net effect	26,395,047	(26,395,047)	-	-

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NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2022			
	Profit/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	2,162,050	(2,162,050)	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	2,162,050	(2,162,050)	-	-
Had TRY appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	28,404,709	(28,404,709)	(63,407,142)	63,407,142
Hedged amount against EUR risk (-) (-)	-	-	-	-
Net Effect of EUR	28,404,709	(28,404,709)	(63,407,142)	63,407,142
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(1,118,050)	1,118,050	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(1,118,050)	1,118,050	-	-
Total net effect	29,448,710	(29,448,710)	(63,407,142)	63,407,142

Price risk

The company does not have any financial assets that will expose it to price risk.

Interest rate risk

The table of the financial instruments that have interest rate sensitivity are shown below:

Financial instruments with fixed interest rate

	31 March 2023	31 December 2022
Time deposits (Note 3)	4,357,847,920	4,302,239,315
Financial liabilities (Note 6)	3,182,492,700	3,788,035,605
Lease liabilities (Note 6)	94,290,507	102,157,935

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NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

As of 31 March 2023, there are no financial instruments with floating interest rate.

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 (Note 7).

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NOTE 24 - 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 2023 and 31 December 2022 is as follows:

	31 March 2023					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank deposits	Derivative Instruments
Net book value of financial assets which are undue and not impaired	890,580,809	1,752,511,495	-	412,385	4,514,535,584	
Net book value of due dated but not impaired assets	-	1,514,424	-	-	-	
Net book value of impaired assets	-	-	-	-	-	
- Due dated (gross book value)	-	48,837,527	-	-	-	
- Provision (-)	-	(48,837,527)	-	-	-	
- Undue (gross book value)	-	-	-	-	-	
- Provision (-)	-	-	-	-	-	
Off-balance sheet items exposed to credit risk	-	-	-	-	-	
Amount exposed to maximum credit risk (*)	890,580,809	1,754,025,920	-	412,385	4,514,535,584	

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

As of 31 March 2023, the guarantee amount of the maximum exposure to credit risk is TRY 3,224,563,062. Furthermore, all assets which are due but not impaired are guaranteed.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

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NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2022					
	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	1,274,066,993	826,917,877	-	393,753	4,416,872,941	-
Net book value of due dated but not impaired assets	-	1,032,358	-	-	-	-
Net book value of impaired assets	-	-	-	-	-	-
- Due dated (gross book value)	-	48,786,983	-	-	-	-
- Provision (-)	-	(48,786,983)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Amount exposed to maximum credit risk (*)	1,274,066,993	827,950,235	-	393,753	4,416,872,941	-

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

As of 31 December 2022, the guarantee amount of the maximum exposure to credit risk is TRY3,036,812,026. Furthermore, all assets which are due but not impaired are guaranteed.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

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NOTE 24 - 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 and financial investments. This ratio is calculated as net financial debt divided by total shareholders' equity.

	31 March 2023	31 December 2022
Total Financial liabilities	3,288,449,874	3,890,193,540
Less: Cash and cash equivalents (Note 3)	(4,514,535,584)	(4,416,872,941)
Financial investments	(113,846,752)	(420,033,225)
Net financial debt	(1,339,932,462)	(946,712,626)
Total shareholders' equity	2,956,327,658	3,638,213,829
Total liabilities	1,616,395,196	2,691,501,203
Net financial debt/ total liabilities (%)	(82.90)%	(35.17)%

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

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NOTE 24 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Financial assets

The fair values of cash and cash equivalent are considered to approximate their respective carrying values due to their short-term nature.

The discounted carrying values of trade receivables along with the related allowances for uncollectability are estimated to be their fair values.

Financial liabilities

Trade payables, which are measured at amortised cost, are considered to approximate their carrying value.

Fair value hierarchy table

The Company classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates.

Level 3: Valuation techniques does not contain observable market inputs

Fair value hierarchy table as of March 31, 2023 is as follows:

Financial assets carried at fair value in statement of financial position	Level 1	Level 2	Level 3
Financial investments (Note 5)	-	113,846,752	-

NOTE 25 - SUBSEQUENT EVENT

None.

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