

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

**(ORIGINALLY ISSUED IN TURKISH)**



**CONVENIENCE TRANSLATION INTO ENGLISH OF  
INDEPENDENT AUDITOR'S REPORT  
ORIGINALLY ISSUED IN TURKISH**

**INDEPENDENT AUDITOR'S REPORT**

To the General Assembly of Türk Traktör ve Ziraat Makineleri A.Ş.

**A. Audit of the Financial Statements**

**1. Opinion**

We have audited the accompanying financial statements of Türk Traktör ve Ziraat Makineleri A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements and a summary of significant accounting policies and financial statement notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

**2. Basis for Opinion**

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

**3. Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



<b>Key audit matters</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Warranty expense provisions</b></p> <p>The Company has warranty expense provision amounting to TRY56,504,868 as of 31 December 2020 and the explanations related to the accounting policies and warranty expense provision are included in Notes 2.4, 2.5 and 12.</p> <p>The Company calculates warranty expense provisions by estimating the repair and maintenance costs, including labor and material costs to be incurred, for goods sold with a warranty commitment, and the probability of return of goods sold in following years. The probability the goods will be returned for repair and maintenance as well as the repair and maintenance levels and costs used in the warranty provision calculation are estimated based on the Company’s actual statistics from previous years.</p> <p>“Recognition of the warranty expense provisions” has been determined as a key audit matter since the accuracy and completeness of these warranty provisions are mainly based on management’s judgement and estimations as summarized above and total amount of the provisions are material for the financial statements as of 31 December 2020.</p>	<p>In brief, the audit procedures we performed for the warranty expense provisions include the following; understanding the process of calculation and accounting for the provisions, test of details performed for the accuracy and completeness of the data used in the calculations and procedures performed for the assessment of the accuracy of management’s estimations and assumptions included in the provision calculations.</p> <p>Test of details were performed to determine the accuracy and completeness of the number of goods sold, whose warranty period was in effect, the accuracy of the periods in which warranty coverage of these goods starts and ends, and the accuracy of the scope of warranty committed, all of which are used in the warranty provision calculation and the data was compared to sales contracts and no material exceptions were noted.</p> <p>In order to test the accuracy of estimations used in provision calculations, test of details were performed for the realized return rate of goods and costs incurred in previous years, which are used as a base of estimations of Company management regarding the probability and scope of maintenance and repair of the goods under warranty and costs to be incurred for these processes and no material differences compared to the estimates and assumptions used were noted.</p> <p>Total costs incurred for the transactions performed within the scope of warranty in current year were compared to the warranty expense provisions accounted for in the financial statements of previous years, and no material exceptions related to cost estimations were noted.</p> <p>In addition, we concluded that the disclosures for the warranty provisions are in compliance with TAS 37 - “Provisions, Contingent Liabilities and Contingent Assets”.</p>



#### **4. Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **5. Auditor's Responsibilities for the Audit of the Financial Statements**

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## **B. Other Responsibilities Arising From Regulatory Requirements**

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code (“TCC”) No. 6102 and that causes us to believe that the Company’s bookkeeping activities concerning the period from 1 January to 31 December 2020 period are not in compliance with the TCC and provisions of the Company’s articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor’s report on the early risk identification system and committee was submitted to the Company’s Board of Directors on 10 February 2021.

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

**ORIGINALLY ISSUED IN TURKISH**

Murat Sancar, SMMM  
Partner

İstanbul, 10 February 2021

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

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

<b>CONTENTS</b>	<b>PAGE</b>
<b>STATEMENT OF FINANCIAL POSITION</b> .....	<b>1 - 2</b>
<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b> .....	<b>3</b>
<b>STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY</b> .....	<b>4 - 5</b>
<b>STATEMENT OF CASH FLOWS</b> .....	<b>6</b>
<b>EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS</b> .....	<b>7 - 63</b>
NOTE 1 ORGANISATION AND NATURE OF OPERATIONS OF THE COMPANY .....	7
NOTE 2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS .....	7 - 23
NOTE 3 CASH AND CASH EQUIVALENTS .....	23
NOTE 4 FINANCIAL LIABILITIES .....	24 - 26
NOTE 5 TRADE RECEIVABLES AND PAYABLES .....	27
NOTE 6 INVENTORIES .....	28
NOTE 7 PROPERTY, PLANT AND EQUIPMENT .....	29 - 30
NOTE 8 RIGHT OF USE ASSETS .....	30
NOTE 9 INTANGIBLE ASSETS .....	31 - 32
NOTE 10 OTHER ASSETS AND LIABILITIES .....	32
NOTE 11 PREPAID EXPENSES AND DEFERRED INCOME .....	33
NOTE 12 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS .....	33 - 37
NOTE 13 EMPLOYEE BENEFITS .....	38
NOTE 14 SHAREHOLDERS’ EQUITY .....	38 - 40
NOTE 15 REVENUE AND COST OF SALES .....	41
NOTE 16 RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES .....	42 - 43
NOTE 17 EXPENSES BY NATURE .....	43
NOTE 18 OTHER INCOME/EXPENSE FROM OPERATING ACTIVITIES .....	44
NOTE 19 FINANCIAL INCOME .....	44
NOTE 20 FINANCIAL EXPENSE .....	44
NOTE 21 TAX ASSETS AND LIABILITIES .....	45 - 47
NOTE 22 EARNINGS PER SHARE .....	47
NOTE 23 RELATED PARTY EXPLANATIONS .....	48 - 52
NOTE 24 FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS .....	53 - 62
NOTE 25 SUBSEQUENT EVENTS .....	63

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2020

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

	Notes	<i>Audited</i> 31 December 2020	<i>Audited</i> 31 December 2019
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	1,890,430,861	746,806,508
Trade receivables			
- Related parties	5, 23	200,103,564	66,762,265
- Other parties	5	595,542,835	400,237,204
Inventories	6	870,863,728	631,694,053
Prepaid expenses	11	893,204	713,774
Current tax assets	21	-	14,218,962
Other current assets	10	110,915,366	75,398,426
<b>TOTAL CURRENT ASSETS</b>		<b>3,668,749,558</b>	<b>1,935,831,192</b>
<b>NON-CURRENT ASSETS</b>			
Trade receivables			
- Other parties	5	109,458	908,760
Other receivables			
- Other parties		381,635	390,365
Property, plant and equipment	7	554,083,801	584,676,374
Right of use assets	8	25,528,912	25,878,400
Intangible assets	9	336,745,515	295,718,210
Prepaid expenses	11	2,249,848	1,043,485
Deferred tax assets	21	4,156,834	71,324,643
<b>TOTAL NON - CURRENT ASSETS</b>		<b>923,256,003</b>	<b>979,940,237</b>
<b>TOTAL ASSETS</b>		<b>4,592,005,561</b>	<b>2,915,771,429</b>

The financial statements prepared as at and for the period ended 31 December 2020 have been approved by the Board of Directors on 10 February 2021. These financial statements will be finalised following their approval in the General Assembly.

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



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2020

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

	Notes	<i>Audited</i> 31 December 2020	<i>Audited</i> 31 December 2019
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Short-term financial liabilities			
Other parties			
- Bank borrowings	4	70,029,167	17,729
Short-term portion of long-term financial liabilities			
Related parties			
- Lease liabilities	4	11,260,714	5,522,687
Other parties			
- Bank borrowings	4	167,824,796	388,047,179
- Lease liabilities	4	3,363,004	3,510,525
Trade payables			
- Related parties	5, 23	80,229,217	52,475,109
- Other parties	5	1,397,935,795	556,368,934
Payables related to employee benefits	13	44,957,543	28,873,543
Other payables			
- Other parties		29,161,492	13,310,653
Government incentives and aids	10	3,633,916	4,113,292
Deferred income	11	157,136,571	16,153,833
Taxes on income	21	19,392,412	-
Short - term provision			
- Provision for employee benefits	12	4,645,214	1,688,128
- Other provisions	12	35,450,292	24,956,722
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,025,020,133</b>	<b>1,095,038,334</b>
<b>NON - CURRENT LIABILITIES</b>			
Long-term financial liabilities			
Related parties			
- Lease liabilities	4	14,561,328	13,647,550
Other parties			
-Bank borrowings	4	1,026,898,224	979,761,447
- Lease liabilities	4	353,134	6,002,410
Long - term provision			
- Provision for employee benefits	12	50,255,628	39,946,649
- Other provisions	12	33,750,677	17,360,774
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,125,818,991</b>	<b>1,056,718,830</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Parent's equity</b>			
Paid-in share capital	14	53,369,000	53,369,000
Adjustments to share capital	14	39,014,356	39,014,356
Merger reserve		(5,569,000)	(5,569,000)
Restricted profit reserves		145,353,605	135,620,450
<b>Other accumulated comprehensive income and expense not to be reclassified to profit or loss</b>			
- Actuarial loss arising from defined benefit plans		(46,432,579)	(42,973,914)
<b>Other accumulated comprehensive income and expense to be reclassified to profit or loss</b>			
- Losses on cash flow hedging		(42,851,846)	(47,019,640)
Retained earnings		521,839,858	519,679,547
Net profit for the year		776,443,043	111,893,466
<b>TOTAL LIABILITIES</b>		<b>4,592,005,561</b>	<b>2,915,771,429</b>

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	<i>Audited</i> 1 January - 31 December 2020	<i>Audited</i> 1 January - 31 December 2019
Revenue	15	6,243,308,297	3,806,474,633
Cost of sales (-)	15	(4,935,311,548)	(3,257,839,047)
<b>GROSS PROFIT</b>		<b>1,307,996,749</b>	<b>548,635,586</b>
Marketing, selling and distribution expenses (-)	16	(204,493,061)	(164,224,875)
General administrative expenses (-)	16	(135,978,315)	(105,574,123)
Research and development expenses (-)	16	(39,482,108)	(31,033,484)
Other income from operating activities	18	375,061,140	303,591,801
Other expenses from operating activities (-)	18	(368,209,225)	(263,301,884)
<b>OPERATING PROFIT</b>		<b>934,895,180</b>	<b>288,093,021</b>
Income from investment activities		1,547,174	2,314,080
<b>OPERATING INCOME BEFORE FINANCIAL INCOME</b>		<b>936,442,354</b>	<b>290,407,101</b>
Financial income	19	200,138,332	184,293,121
Financial expenses (-)	20	(262,870,030)	(365,442,550)
<b>PROFIT BEFORE TAXATION ON INCOME</b>		<b>873,710,656</b>	<b>109,257,672</b>
Taxes on income (-)	21	(30,299,815)	-
Deferred tax income/(expense)	21	(66,967,798)	2,635,794
<b>NET PROFIT FOR THE YEAR</b>		<b>776,443,043</b>	<b>111,893,466</b>
Earnings per share (TRY)	22	0.1455	0.0210
<b>Other comprehensive income/(expense)</b>			
<b>Other comprehensive expense not to be reclassified to profit or loss:</b>			
Actuarial loss arising from defined benefits plans	12	(4,434,186)	(8,072,861)
<b>Other comprehensive expense not to be reclassified to profit or loss, tax effect</b>			
Actuarial gain/ loss arising from defined benefit plans, tax effect	21	975,521	1,776,029
<b>Other comprehensive expense to be reclassified to profit or loss:</b>			
Profit/(Losses) on cash flow hedging		5,343,326	8,410,140
<b>Other comprehensive expense to be reclassified to profit or loss, tax effect</b>			
Losses on cash flow hedging, tax effect	21	(1,175,532)	(1,850,231)
<b>Other comprehensive income/(expense) after tax</b>		<b>709,129</b>	<b>263,077</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>777,152,172</b>	<b>112,156,543</b>

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

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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

				Other accumulated comprehensive income or expense items to be reclassified profit or loss	Other accumulated income or expense items not be reclassified profit or loss	Actuarial loss arising from defined benefit plans	Losses on cash flow hedging	Restricted profit reserves	Retained earnings	Net profit for the year	Total shareholders' equity
<b>1 January 2020</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>			<b>(42,973,914)</b>	<b>(47,019,640)</b>	<b>135,620,450</b>	<b>519,679,547</b>	<b>111,893,466</b>	<b>764,014,265</b>
Transfers	-	-	-	-	-	-	-	9,733,155	102,160,311	(111,893,466)	-
Dividends paid	-	-	-	-	-	-	-	-	(100,000,000)	-	(100,000,000)
Comprehensive income											
Net profit for the year	-	-	-	-	-	-	-	-	-	776,443,043	776,443,043
Other comprehensive income											
Actuarial loss arising from defined benefits plans	-	-	-	(3,458,665)	-	-	-	-	-	-	(3,458,665)
Losses on cash flow hedging	-	-	-	-	4,167,794	-	-	-	-	-	4,167,794
Total other comprehensive Income/(expense)	-	-	-	(3,458,665)	4,167,794	-	-	-	-	-	709,129
Total comprehensive income	-	-	-	(3,458,665)	4,167,794	-	-	-	-	776,443,043	777,152,172
<b>31 December 2020</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>			<b>(46,432,579)</b>	<b>(42,851,846)</b>	<b>145,353,605</b>	<b>521,839,858</b>	<b>776,443,043</b>	<b>1,441,166,437</b>

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

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Paid in share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Other accumulated income or expense items not be reclassified profit or loss	Other accumulated comprehensive income or expense items to be reclassified profit or loss	Losses on cash flow hedging	Restricted profit reserves	Retained earnings	Net profit for the year	Total shareholders' equity
<b>1 January 2019</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>	<b>(36,677,082)</b>			<b>(53,579,549)</b>	<b>135,620,450</b>	<b>279,572,898</b>	<b>240,106,649</b>	<b>651,857,722</b>
Transfers	-	-	-	-	-	-	-	-	240,106,649	(240,106,649)	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income											
Net profit for the year	-	-	-	-	-	-	-	-	-	111,893,466	111,893,466
Other comprehensive income											
Actuarial loss arising from defined benefits plans	-	-	-	(6,296,832)	-	-	-	-	-	-	(6,296,832)
Losses on cash flow hedging	-	-	-	-	6,559,909	-	-	-	-	-	6,559,909
Total other comprehensive income/ (expense)	-	-	-	(6,296,832)	6,559,909	-	-	-	-	-	263,077
Total comprehensive income	-	-	-	(6,296,832)	6,559,909	-	-	-	-	111,893,466	112,156,543
<b>31 December 2019</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>	<b>(42,973,914)</b>			<b>(47,019,640)</b>	<b>135,620,450</b>	<b>519,679,547</b>	<b>111,893,466</b>	<b>764,014,265</b>

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	<i>Audited</i> 1 January - 31 December 2020	<i>Audited</i> 1 January - 31 December 2019
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>1,599,211,443</b>	<b>1,059,096,190</b>
Net profit for the year		776,443,043	111,893,466
<b>Adjustments to reconcile profit for the period:</b>		<b>383,670,183</b>	<b>301,228,077</b>
Amortization and depreciation	17	129,088,130	125,105,198
Provision for impairment on inventories	6	(774,117)	951,597
Provision for employee benefits	12	11,393,587	8,859,968
Provision for doubtful receivables	5	752,991	(1,429,511)
Other provisions	12	26,883,472	(14,397,366)
Government incentives and aids		(653,689)	(544,059)
Interest income and expense	19, 20	17,489,642	146,876,377
Tax expense	21	97,267,613	(2,635,794)
(Gain)/loss from sales of property plant and equipment		(1,547,174)	(2,314,079)
Other adjustments to reconcile profit		103,769,728	40,755,746
<b>Changes in working capital</b>		<b>452,567,328</b>	<b>671,498,377</b>
Trade receivables		(195,259,320)	(101,179,120)
Due from related parties		(147,405,390)	83,424,438
Inventories		(202,661,286)	451,793,303
Other current assets		(21,297,978)	140,265,784
Other receivables		8,730	(7,793)
Prepaid expenses		(1,385,793)	1,871,459
Due to related parties		27,754,108	14,097,091
Trade payables		819,896,680	82,166,226
Deferred income		140,982,738	(8,802,265)
Other liabilities		15,850,839	245,402
Debt for employee termination benefits		16,084,000	7,623,852
<b>Net cash provided by operating activities</b>		<b>1,612,680,554</b>	<b>1,084,619,920</b>
Employee termination benefits paid	12	(2,561,708)	(11,304,768)
Taxes paid	21	(10,907,403)	(14,218,962)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(125,416,337)</b>	<b>(129,911,612)</b>
Proceeds from sales of property, plant and equipment and intangible assets		4,112,189	6,409,046
Payments for purchases of property, plant and equipment and intangible assets		(129,702,839)	(136,894,791)
Proceeds from government grants	10	174,313	574,133
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(335,742,822)</b>	<b>(597,959,154)</b>
Proceeds from bank borrowings	4	1,044,500,000	1,721,304,200
Repayment of bank borrowings	4	(1,218,448,256)	(2,146,782,943)
Dividends paid	14	(100,000,000)	-
Interest paid		(142,230,931)	(269,141,368)
Interest received		97,740,979	109,523,633
Repayment of lease liabilities	4	(17,304,614)	(12,862,676)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)</b>		<b>1,138,052,284</b>	<b>331,225,424</b>
<b>D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>		<b>(7,434,767)</b>	<b>5,912,161</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>1,130,617,517</b>	<b>337,137,585</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	3	<b>745,445,410</b>	<b>408,307,825</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)</b>	3	<b>1,876,062,927</b>	<b>745,445,410</b>

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 YEAR ENDED AT 31 DECEMBER 2020

(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 December 2020, major shareholders of the Company are Koç Holding and CNHI Osterreich GmbH (“CNHI Osterreich”) (Note 14). The number of personnel working within the Company as of 31 December 2020 is 2,834 (Permanent: 2,078, temporary: 756) (2019: 2,123 (Permanent 2,123, temporary0)). The average number of personnel working within the Company for the year ended 31 December 2020 is 2,383 (2019: 2,243).

The Company conducts marketing and selling activities in the domestic market, through its 124 tractor sales dealers, 134 spare part dealers and 42 construction equipment dealers (31 December 2019 : 123 tractor sales dealers, 143 spare part dealers, 42 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 December 2020, 25% of the shares of the Company are quoted on Borsa Istanbul (“BIST”) (31 December 2019: 25%) (Note 14).

### 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:

#### Principles governing the preparation of financial statements

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

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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.

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

#### Functional and presentation currency

Functional and presentation currency of the Company is TRY.

#### 2.2 Changes in accounting estimates

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

#### 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 December 2020 are consistent with those of the previous financial year, except for the new and amended TFRS standards which are valid as of 1 January 2020 and Turkey Financial Reporting Interpretations Committee's ("TFRIC") interpretations summarised below.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 December 2020:*

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
  - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  - ii) clarify the explanation of the definition of material; and
  - iii) incorporate some of the guidance in IAS 1 about immaterial information.

The amendments did not have a significant impact over financial position or performance of the Company.

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



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 December 2020:*

- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The amendment did not have a significant impact over financial position or performance of the Company.
- **Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities;** effective from 1 January 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability. The amendment did not have a significant impact over financial position or performance of the Company.
- **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’.

The amendments are not expected to have significant impact over financial position or performance of the Company.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 December 2020 (Continued):*

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2;** effective from annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

The amendments are not expected to have significant impact over financial position or performance of the Company.

- **Amendments to IFRS 17 and IFRS 4, ‘Insurance contracts’, deferral of IFRS 9;** effective from annual periods beginning on or after 1 January 2021. These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial Instrument until 1 January 2023.

The amendments are not expected to have significant impact over financial position or performance of the Company.

#### 2.4 Summary of significant accounting policies

The principal accounting policies, consistently applied with prior years, adopted in the preparation of these financial statements are set out below:

##### **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less (Note 3). Deposits with Turkish lira is recognised with cost, foreign currency deposits are translated into Turkish lira by using of the buying exchange rate of the Central Bank of the Republic of Turkey. Time deposits include interest accrued as of balance sheet date. Company measures expected credit loss from these cash and cash equivalents by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Company and its expectations for the future indications.

##### **Revenue recognition**

The Company recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer (Note 15).

The Company recognizes revenue based on the following main principles:

- (a) Identification of customer contracts
- (b) Identification of performance obligations
- (c) Determination of transaction price in the contract
- (d) Allocation of price to performance obligations
- (e) Recognition of revenue when the performance obligations are fulfilled

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

The Company recognized revenue from its customers only when all of the following criteria are met:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) The Company can identify each party's rights regarding the goods or services to be transferred,
- (c) The Company can identify the payment terms for the goods or services to be transferred,
- (d) The contract has commercial substance,
- (e) It is probable that Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

#### *Revenue from sale of goods*

Company recognizes revenue based on the production and sale of tractors, construction equipment, agricultural equipment and spare parts. Revenue is recognized when the control of the goods is transferred to the customer and dealers. In addition, Company provides 2 years legal warranty commitment to its customers. These legal warranty commitments are not a separate price apart from the good and are not separately sold. Therefore, they are not treated as a separate good or service apart from the sale of good.

#### *Revenue from sale of extended warranty*

Company sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty is determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, the Company treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

The Company determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. The Company delivers the control of services related to the sale of extended warranty over time and it fulfills the performance obligation of extended warranty over time. Therefore, the Company measures the delivery status of its performance obligation and recognize revenue in the financial statements accordingly. The Company recognizes revenue from the sale of goods in the financial statements when the control of the good is transferred to the customer.

When another party is involved in providing goods or services to a customer, the Company determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for the other party to provide those goods or services. The Company is a principal if it controls a promised good or service before the Company transfers the good or service to a customer. When a company that is a principal satisfies a performance obligation, it recognizes as revenue the gross amount of consideration which it expects to be entitled to in exchange for those goods or services. The Company is an agent if its performance obligation is to arrange for the provision of goods or services by another party.

The Company recognizes revenue when it has right to collect the consideration which is equal to the price of performance obligation fulfilled by the perspective of customer (after the delivery of goods) in an amount of its right to invoice.

Transaction price varies due to favors like discounts and rebates provided to the customers. Transaction price is determined based on the most likely amount method since the Company provides bonus premium to its customers if the customers achieves the limit of sale.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

The Company pays customer premiums to its dealers based on their annual revenue performance results. Amounts calculated as of the balance sheet date are recognized in trade receivables in the balance sheet and in revenue as discounts in revenue in the statement of profit or loss.

The Company does not have any contract assets related to the contracts with customers and any expenses that can be capitalized in accordance with these contracts.

#### Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price, less the costs of completion and selling expenses (Note 6). Cost elements included in inventories comprise total purchase costs and other costs incurred in bringing the inventories to their present location and condition. The unit cost is determined on the weighted average basis.

#### Prepaid expenses

Prepaid expenses are the amounts generally made to suppliers and which will be transferred to expense and cost accounts in the following period or periods.

#### Property, plant and equipment

Property, plant and equipment acquired before 1 January 2005 are carried at cost in purchasing power of TRY as at 31 December 2004 less accumulated depreciation and impairment losses. Property, plant and equipment acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis based on the estimated useful lives of the assets (Note 7). Land is not depreciated as it is deemed to have an indefinite life.

The estimated useful lives for property, plant and equipment are as follows:

	Useful lives
Buildings	25-50 years
Land improvements	10-25 years
Machinery and equipment	4-15 years
Motor vehicles	4-5 years
Furniture and fixtures	5-6 years
Special costs	4-10 years

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Gain or losses on disposals of property, plant and equipment with respect to their restated net book values are included in the related income and expense accounts.

Repair and maintenance expenditures are charged to the income statement as they are incurred. Repair and maintenance expenditures are capitalised if they result in an enlargement or substantial improvement of the respective assets and depreciated over remaining useful life of related asset.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Intangible assets

Intangible assets comprise of research and development expenses which described below, rights and computer software. Those acquired before 1 January 2005 are carried at cost in the purchasing power of TRY as at 31 December 2004; less accumulated depreciation and impairment losses. Those acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses and are depreciated using the straight-line method over their useful lives of four and five years following the acquisition date. Where impairment indicator exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount (Note 9).

##### Research and development expenses

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use,
- management intends to complete the intangible asset and use or sell it,
- there is an ability to use or sell the intangible asset,
- it can be demonstrated how the intangible asset will generate probable future economic benefits,
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available,
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, between 5-10 years (Note 9).

##### Segment reporting

The Company has primary operation of trade of farm tractors, harvesters and other agricultural machinery and equipment to domestic market in Turkey and to related parties in foreign market via shareholder. 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.

##### Financial assets

The Company classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Financial assets (Continued)

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Company's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

The Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, the Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Company and its expectations for the future indications.

##### Trade receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortized cost (Note 5). Receivables with short-term maturities which have no predefined interest rate are measured at the original invoice amount unless the effect of imputed interest is significant.

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The receivables in process of lawsuit or enforcement or in a prior stage, the customer having material financial difficulties, the receivable turning default or the possibility of material and unforeseeable delay in the future collection are included under objective evidences. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. Also, the Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, the Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Company and its expectations for the future indications.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the collection amount is decreased from the doubtful receivable provisions and recorded as other income from operating activities

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Trade payables

Payables are stated at amortised cost in subsequent periods using the effective yield method. Maturity differences and foreign exchange gains/ losses related to trade payables are presented in other income/ expense from main operations (Note 5, Note 18).

##### Borrowings

Borrowings consist of bank loans taken from different banks. Loans are recorded at the value after the transaction costs are deducted from the amount of the loan. Bank loans are presented over the discounted cost value by using the effective interest rate in the subsequent periods. The difference between the amount remaining after the transaction costs are deducted and the discounted cost value is reflected in the financial statements as financing costs during the period of the loan (Note 20). Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

##### Recognition and derecognition of financial assets and liabilities

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the financial statements. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

##### Related parties

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (i) The entity and the company are members of the same group,
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
  - (iii) Both entities are joint ventures of the same third party,
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity,
  - (vi) The entity is controlled or jointly controlled by a person identified in (a),
  - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity),

For the purpose of these financial statements, shareholders, associated entities, key management personnel and Board of Directors members, in each case together with their families and companies controlled or affiliated with them are considered and referred to as related parties. As a result of ordinary business operations, the Company may have business relations with the related parties.

##### Foreign currency transactions and balances

Transactions in foreign currencies during the period have been translated into TRY at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TRY at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of income. Non-monetary assets and liabilities, which are recognised at fair value, have been translated into TRY at the exchange rates prevailing at the dates of fair value determined. Currency differences arising from trade receivables and payables related to main operations are shown in from operating income/ expenses (Note 18).



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Earnings per share

Earnings per share disclosed in the statements of income are determined by dividing net income for the period by the weighted average number of shares that have been outstanding during the period (Note 22).

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

##### Subsequent events

Events after the balance sheet date are those events, even if those events occur after the public announcement of profit or of other selected financial information, that occur between the balance sheet date and the date when the financial statements are authorised for issue. The Company adjusts the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. The events that occur subsequent to the balance sheet date and not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected (Note 25).

##### Provisions, contingent assets and contingent liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are treated as contingent assets or liabilities. The Company does not recognize contingent assets and liabilities. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed, where an inflow of economic benefits is probable (Note 12).

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are not recognised for future operating losses.

In cases where the time value of money is material, provisions are determined as the present value of expenses required to be made to honor the liability. The rate used to discount provisions to their present values is determined taking into account the interest rate in the related markets and the risk associated with the liability. This discount rate does not consider risks associated with future cash flow estimates and should be pre-tax.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Government grants and aids

All government grants, including non-monetary government grants followed up at fair values, are taken into account in the financial statements when there is reasonable assurance that the Company will comply with the conditions attaching to it and that the grant will be received or when the grant is actually received by the Company. Government grants shall be recognized in profit or loss on a systematic and pro rata basis over periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The Company has two incentives for Ankara and Adapazarı facilities numbered of 130713 and 510975 respectively as of 31 December 2020 (Note 10).

The rights of the Company due to these incentives are as follows:

- a) 100% exemption from customs duty on machinery and equipment to be imported,
- b) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
- c) Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
- d) Inward processing permission certificates,
- e) Cash refund from Tübitak - Teydeb for research and development expenses,
- f) Discounted corporate tax incentive,
- g) Insurance premium employer share incentive,
- h) Other export incentives

##### Taxes on income

Taxes on income included in statement of income comprise current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years (Note 21).

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes with the enacted tax rates as of the balance sheet date (Note 21).

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Tax bases of assets and liabilities reflect the amounts affecting the future tax bases under the current tax legislation. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets or liabilities are reflected to the financial statements to the extent that they will provide an increase or decrease in the taxes payable for the future periods where the temporary differences will reverse.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

Deferred income tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. To the extent that deferred income tax assets will not be utilised, the related amounts have been deducted accordingly.

Government incentives enabling reduced corporate tax payments are considered within the scope TAS-12 “Income Taxes” and the deferred tax asset is recognized at the rate of the earned tax benefit under the condition that benefitting from this advantage by earning taxable income in the future is highly probable.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly, if current tax assets can be offset against current tax liabilities (Note 21).

#### Hedge accounting

Hedges of exposures to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit and loss are designated as cash flow hedges by the Company.

Changes in the fair value of derivatives, designated as cash flow hedges and qualified as effective, are recognised in equity as “losses/ (gains) on cash flow hedges”. The inactive part is recognised as loss/gain in profit or loss statement. Where the forecasted transaction or firm commitment results in the recognition of a non financial asset or of a liability, the gains and losses previously recognised under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts recognised under equity are transferred to the income statement in the period in which the hedged firm commitment or forecasted transaction affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or losses previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

#### Provisions related to employee benefits

These are the amounts payable within the scope of employee benefits such as remunerations, wages and social security contributions. These amounts are reflected in personnel expenses in the period when they are accrued (Note 13).

In accordance with the laws in effect, the Company is obliged to pay employment termination benefits to employees whose employment is terminated for reasons other than retirement, resignation or behavior mentioned in the Labour Law. The provision for employment termination benefits has been calculated reflected in the financial statements according to the net current value of the amount of liabilities expected to arise in the future due to the retirement of all employees. Actuarial loss or gain is recognized under other comprehensive expense. According to employment contract, if employment contract ends for any reason, provision of unused vacation has to be paid to employees or right holders. Provision is calculated based on the employee wage when the contract is expired (Note 12).

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

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

#### 2.4 Summary of significant accounting policies (Continued)

##### Statement of cash flow

The statement of cash flows reports cash flows during the year classified by operating, investing and financing activities.

Cash flows from operating activities are derived from the principal revenue producing activities of the Company.

Cash flows related to investing activities represent cash flows generated from and used in the investing activities (fixed assets and financial investments) of the Company.

Cash flows related to financing activities represent cash flows generated from Company's financing activities and re-payment of such generated cash-in flows.

Cash and cash equivalents include cash in hand, bank deposits and other short-term highly liquid investments with original maturities of three months or less.

##### Share capital and dividends

Ordinary shares are classified as capital. Dividends distributed over ordinary shares are recorded by deducting from retained earnings within the year in which they are declared (Note 14).

#### 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 12). 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.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

### 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 investment incentives 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).

##### Cash flow hedge transactions

As explained in Note 24, the Company used its loans amounting to EUR19,666,667 as a hedging instrument against the Euro spot exchange rate risk the Company is exposed to due to highly probable export sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed until 30 June 2020. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities and sales prices. Based on the sensitivity analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

##### The useful life of tangible and intangible assets

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

##### Provision for employment termination benefits

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

##### Provision for impairment of inventories

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

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

##### 2.6 Significant changes regarding to current period

Due to the COVID-19 epidemic affecting the whole world, in line with the developments/slowdowns in the sector and the general economic activity, there were disruptions in the procurement and sales processes of the Company, temporary stops in production activities and decreases in capacity utilization rates occurred. In this context, production activities were temporarily suspended at the Company's facilities in Ankara and Erenler between 23 March 2020 - 20 April 2020. In this process, the necessary actions were taken by the Company management to minimize the possible effects of COVID-19 on the Company's activities and financial status. Production and sales activities continue uninterrupted as of the date of the balance sheet, with the reduction of restrictions to prevent the spread of the epidemic.

For how long COVID-19 effect will continue in Turkey, and in the world, can not be estimated clearly. As the severity and duration of the effects become clear, it will be possible to make a more clear and healthy assessment for the medium and long term. However, while preparing the financial statements dated 31 December 2020, the possible effects of the COVID-19 outbreak were evaluated and the estimates and assumptions used in the preparation of the financial statements were reviewed. In this context, the Company has tested possible impairments in the financial assets, stocks, and tangible assets in the financial statements dated 31 December 2020 and no impairment has been identified.

#### NOTE 3 - CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand		
Banks:		
- TRY denominated demand deposits	34,854,756	16,600,418
- TRY denominated time deposits	1,623,077,545	611,561,098
- Foreign currency denominated demand deposits	4,238,375	1,261,902
- Foreign currency denominated time deposits	228,260,185	117,383,090
	<b>1,890,430,861</b>	<b>746,806,508</b>

As of 31 December 2020, the weighted average effective annual interest rates for TRY and Euro ("EUR") time deposits are 17.29% and 1.11% (31 December 2019: TRY: 10.96% EUR: 0.13%).

31 December 2020 ve 2019 remaining time to maturity of time deposits is less than three months.

The Company has no blocked deposits as of 31 December 2020 (31 December 2019: None).

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

	31 December 2020	31 December 2019
Banks	1,890,430,861	746,806,508
Less: Interest accruals	(14,367,934)	(1,361,098)
<b>Cash and cash equivalents</b>	<b>1,876,062,927</b>	<b>745,445,410</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 4 - FINANCIAL LIABILITIES

	31 December 2020	31 December 2019
<b>Short-term financial liabilities</b>		
Short-term bank borrowings	70,029,167	17,729
Short-term portions of long-term bonds	-	77,743,352
Short-term portions of long-term financial liabilities	167,824,796	310,303,827
Short-term lease liabilities	14,623,718	9,033,212
	<b>252,477,681</b>	<b>397,098,120</b>
<b>Long-term financial liabilities</b>		
Long-term bank borrowings	1,026,898,224	979,761,447
Long-term lease liabilities	14,914,462	19,649,960
	<b>1,041,812,686</b>	<b>999,411,407</b>

#### a) Short - term financial liabilities

##### Short - term bank borrowings

	<u>Original currency</u>		<u>Weighted average effective interest rate p.a. (%)</u>		<u>TRY equivalent</u>	
	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
TRY borrowings	70,029,167	17,729	7.50	-	70,029,167	17,729
					<b>70,029,167</b>	<b>17,729</b>

##### Short - term portions of long term bonds

	<u>Original currency</u>		<u>Weighted average effective interest rate p.a. (%)</u>		<u>TRY equivalent</u>	
	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
TRY bonds (*)	-	77,743,352	-	15.00	-	77,743,352
<b>Total short-term bonds</b>					<b>-</b>	<b>77,743,352</b>

(\*) The Company issued total of TRY150,000,000 bond, TRY75,000,000 of which is bond with 3 years maturity and floating interest rate and TRY75,000,000 of which is a bond with 2 years maturity and fixed interest rate. The bond was paid and closed on 3 April 2020.

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 31 DECEMBER 2020**

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

**NOTE 4 - FINANCIAL LIABILITIES (Continued)**

**a) Short - term financial liabilities (Continued)**

**Short - term portions of long term financial liabilities**

	<u>Original currency</u>		<u>Weighted average effective interest rate p.a. (%)</u>		<u>TRY equivalent</u>	
	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
EUR bank borrowings	14,488,965	35,622,004	1,92	1,99	130,515,145	236,907,700
TRY bank borrowings	37,309,651	73,396,127	7,97	20,06	37,309,651	73,396,127
					<b>167,824,796</b>	<b>310,303,827</b>

**b) Long - term financial liabilities**

**Long - term bank borrowings**

	<u>Original currency</u>		<u>Weighted average effective interest rate p.a. (%)</u>		<u>TRY equivalent</u>	
	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
EUR bank borrowings	12,833,333	9,451,472	2,06	1,99	115,601,383	62,857,958
TRY bank borrowings	911,324,194	917,003,310	8,94	15,11	911,324,194	917,003,310
					<b>1,026,925,577</b>	<b>979,861,268</b>
Prepaid borrowing commissions for debt (*)					(27,353)	(99,821)
<b>Total long-term financial liabilities</b>					<b>1,026,898,224</b>	<b>979,761,447</b>

(\*) 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 December 2020 and 2019 are as follows:

<u>Year</u>	<u>2020</u>	<u>2019</u>
2021	-	408,046,957
2022	449,754,502	559,743,410
2023	571,661,313	7,980,720
2024	5,482,409	3,990,360
	<b>1,026,898,224</b>	<b>979,761,447</b>



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 4 - FINANCIAL LIABILITIES (Continued)

As of 31 December 2020; the Company has an investment loan with fixed interest rate amounting to EUR11,666,667 an operating loan with fixed interest rate amounting to EUR12,200,000 and an operating loan with variable interest rate amounting to EUR3,333,334. The EUR11,666,667 loan's maturity is 6 years (maturity date of 15 July 2022), with an interest and principal payment of every 6 months and with an interest rate of 0.95%. The EUR12,200,000 of EUR8,000,000 fixed interest operational capital loans is 5 years maturity (maturity date of 14 November 2022), with interest payment of every 6 months and principal payment at maturity date and with an interest rate of 2.60%. The remaining EUR4,200,000 of EUR 12,200,000 loan's maturity is 5 years (maturity date of 29 March 2024), with principal and interest payment of every 6 months and with an interest rate of 3.50%. The EUR3,333,334 floating interest operational capital loan has 3 years maturity (maturity date of 26 March 2021), with an interest payment of every month and without principal payment for the first 2 years and after 2nd year principal payment of every 6 months and with an interest rate of 2.25% + Euribor. In accordance with the agreement signed with respect to the investment loan used by the Company, there is an obligation of not exceeding the below mentioned rate calculated over the financial statements prepared in accordance with the Turkish Financial Reporting Standards. There is no guarantees or mortgages given for the financial liabilities obtained.

Obligation rate is;

- Net financial liability (\*) / Earnings before interest, taxes, depreciation and amortization: 3.75.

(\*) Net financial liability is calculated by deducting the cash and cash equivalents from total of financial liabilities (including short-term and long-term financial debts).

The Company met these conditions as of balance sheet date.

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

	<u>Carrying values</u>		<u>Fair value</u>	
	<u>31 December 2020</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
Bank borrowings	1,264,752,187	1,290,083,003	1,210,797,953	1,375,015,329

As of 31 December 2020, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 0.63% for EUR loans and 14.03% for TRY denominated bank borrowings respectively (31 December 2019: EUR 0.48%, TRY: 11.23%).

The movement of the borrowings for the years ended 31 December 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
<b>1 January</b>	<b>1,396,509,527</b>	<b>1,772,739,304</b>
Borrowing received during the period	1,044,500,000	1,721,304,200
Lease liabilities on the balance sheet for the first time under IFRS 16	-	34,524,390
Repayment of lease liabilities	(17,304,614)	(12,862,676)
Effect of new lease contracts	13,727,628	5,070,446
Principal payments	(1,218,448,256)	(2,146,782,943)
Change of interest accruals	(13,993,474)	(15,740,965)
Change of exchange rates	89,299,556	38,257,771
<b>31 December</b>	<b>1,294,290,367</b>	<b>1,396,509,527</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	31 December 2020	31 December 2019
<b>Short-term trade receivables:</b>		
Trade receivables	649,155,148	448,375,845
Notes receivables	4,868,452	7,600,071
	<b>654,023,600</b>	<b>455,975,916</b>
Less: Provision for doubtful receivables	(50,870,754)	(50,117,763)
Unearned financial income	(7,610,011)	(5,620,949)
<b>Short-term trade receivables</b>	<b>595,542,835</b>	<b>400,237,204</b>
Due from related parties (Note 23)	200,103,564	66,762,265
<b>Total short-term trade receivables</b>	<b>795,646,399</b>	<b>466,999,469</b>

As of 31 December 2020, the average maturity of trade receivables and payables are not longer than one year and weighted average effective annual interest rates for discount of TRY, USD and EUR are 17.10%, 0.19% and 0.56% (31 December 2019: 10.50%, 1.83% and 0.45%).

Movements of the provisions for short-term doubtful receivables for the years ended 31 December 2020 and 2019 are as shown below:

	2020	2019
<b>1 January</b>	<b>(50,117,763)</b>	<b>(51,547,274)</b>
Cancelled during the year (Note 18)	922,377	3,113,376
Charge during the year (Note 18)	(1,675,368)	(1,683,865)
<b>31 December</b>	<b>(50,870,754)</b>	<b>(50,117,763)</b>

	31 December 2020	31 December 2019
<b>Long - term trade receivables:</b>		
Notes receivables	109,458	908,760
	<b>109,458</b>	<b>908,760</b>

	31 December 2020	31 December 2019
<b>Trade payables:</b>		
Trade payables	1,431,333,592	564,842,432
Less: Unincurred financial expense	(33,397,797)	(8,473,498)
<b>Trade payables</b>	<b>1,397,935,795</b>	<b>556,368,934</b>
Due to related parties (Note 23)	80,229,217	52,475,109
<b>Total trade payables</b>	<b>1,478,165,012</b>	<b>608,844,043</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 6 – INVENTORIES

	31 December 2020	31 December 2019
Raw materials	453,966,371	273,588,385
Work in progress	15,965,272	12,231,535
Finished goods	119,210,355	116,648,635
Commercial goods	64,380,548	116,234,947
Spare parts	84,134,244	56,243,482
Goods in transit (*)	163,198,728	87,512,976
Provision for impairment of inventory (-)	(29,991,790)	(30,765,907)
<b>Inventories</b>	<b>870,863,728</b>	<b>631,694,053</b>

The cost of inventories recognised as expense in the current period is amounting to TRY4,518,763,114 (31 December 2019: TRY2,577,545,197).

(\*) 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 2020 and 2019 is as follows

	2020	2019
<b>1 January</b>	<b>(30,765,907)</b>	<b>(29,814,310)</b>
Cancelled due to sales of inventory during the year	9,653,826	8,154,437
Charge during the year for impairment of inventory	(8,879,709)	(9,106,034)
<b>31 December</b>	<b>(29,991,790)</b>	<b>(30,765,907)</b>

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

	2020	2019
Raw materials	(26,324,628)	(24,344,490)
Commercial goods	(1,331,389)	(5,220,937)
Spare parts	(2,335,773)	(1,200,480)
	<b>(29,991,790)</b>	<b>(30,765,907)</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2020	Additions	Disposals	Transfers	31 December 2020
<b>Cost</b>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	18,536,808	468,798	-	-	19,005,606
Buildings	244,876,713	2,944,630	-	3,751,944	251,573,287
Machinery and equipment	759,230,922	21,809,906	(1,909,764)	168,178	779,299,242
Special costs	6,664,109	-	-	-	6,664,109
Motor vehicles	10,402,866	6,139,426	(2,889,532)	-	13,652,760
Furniture and fixtures	99,378,769	5,313,140	(154,575)	487,495	105,024,829
Construction in progress	6,423,547	4,727,129	-	(5,775,573)	5,375,103
	<b>1,197,932,114</b>	<b>41,403,029</b>	<b>(4,953,871)</b>	<b>(1,367,956)</b>	<b>1,233,013,316</b>
<b>Accumulated depreciation</b>					
Land improvements	5,912,064	587,899	-	-	6,499,963
Buildings	66,063,267	5,368,956	-	-	71,432,223
Machinery and equipment	457,986,162	49,703,613	(1,706,731)	-	505,983,044
Special costs	5,150,356	534,698	-	-	5,685,054
Motor vehicles	2,888,376	1,545,731	(531,231)	-	3,902,876
Furniture and fixtures	75,255,515	10,321,734	(150,894)	-	85,426,355
	<b>613,255,740</b>	<b>68,062,631</b>	<b>(2,388,856)</b>	-	<b>678,929,515</b>
<b>Net book value</b>	<b>584,676,374</b>				<b>554,083,801</b>
<b>1 January 2019</b>					
	1 January 2019	Additions	Disposals	Transfers	31 December 2019
<b>Cost</b>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	15,920,720	2,616,088	-	-	18,536,808
Buildings	242,860,556	195,783	-	1,820,374	244,876,713
Machinery and equipment	705,553,430	53,120,623	(3,331,388)	3,888,257	759,230,922
Special costs	6,516,202	147,907	-	-	6,664,109
Motor vehicles	8,417,604	6,481,263	(4,496,001)	-	10,402,866
Furniture and fixtures	95,156,839	4,302,271	(82,206)	1,865	99,378,769
Construction in progress	7,439,146	4,694,897	-	(5,710,496)	6,423,547
	<b>1,134,282,877</b>	<b>71,558,832</b>	<b>(7,909,595)</b>	-	<b>1,197,932,114</b>
<b>Accumulated depreciation</b>					
Land improvements	5,370,659	541,405	-	-	5,912,064
Buildings	60,836,089	5,227,178	-	-	66,063,267
Machinery and equipment	406,349,245	53,853,343	(2,216,426)	-	457,986,162
Special costs	4,444,148	706,208	-	-	5,150,356
Motor vehicles	3,449,668	978,629	(1,539,921)	-	2,888,376
Furniture and fixtures	63,596,207	11,717,589	(58,281)	-	75,255,515
	<b>544,046,016</b>	<b>73,024,352</b>	<b>(3,814,628)</b>	-	<b>613,255,740</b>
<b>Net book value</b>	<b>590,236,861</b>				<b>584,676,374</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of the depreciation expenses of property, plant and equipment for the years ended at 31 December 2020 and 2019 is as follows:

	2020	2019
Cost of sales	46,634,267	52,670,612
General administrative expenses	13,519,410	12,502,251
Marketing, selling and distribution expenses	4,085,877	4,148,644
Research and development expenses	3,823,077	3,702,845
	<b>68,062,631</b>	<b>73,024,352</b>

The Company have no financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 31 December 2020 (31 December 2019: None).

There is no mortgage on property, plant and equipment as of 31 December 2020 (31 December 2019: None).

### NOTE 8 -RIGHT OF USE ASSETS

	1 January 2020	Additions	Disposals	31 December 2020
<b>Cost</b>				
Land and buildings	12,790,937	4,215,397	(4,154,607)	12,851,727
Machinery and equipment	14,078,774	2,119,292	(217,701)	15,980,365
Motor vehicles	12,725,125	7,392,939	-	20,118,064
	<b>39,594,836</b>	<b>13,727,628</b>	<b>(4,372,308)</b>	<b>48,950,156</b>
<b>Accumulated depreciation</b>				
Land improvements	4,333,770	3,844,358	(2,623,962)	5,554,166
Machinery and equipment	4,679,223	3,866,883	(56,269)	8,489,837
Motor vehicles	4,703,443	4,673,798	-	9,377,241
	<b>13,716,436</b>	<b>12,385,039</b>	<b>(2,680,231)</b>	<b>23,421,244</b>
<b>Net book value</b>	<b>25,878,400</b>			<b>25,528,912</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 8 -RIGHT OF USE ASSETS (Continued)

	1 January 2019	Additions	31 December 2019
<b>Cost</b>			
Land and buildings	12,325,796	465,141	12,790,937
Machinery and equipment	12,608,603	1,470,171	14,078,774
Motor vehicles	9,589,991	3,135,134	12,725,125
	34,524,390	5,070,446	39,594,836
<b>Accumulated depreciation</b>			
Land improvements	-	4,333,770	4,333,770
Machinery and equipment	-	4,679,223	4,679,223
Motor vehicles	-	4,703,443	4,703,443
	-	13,716,436	13,716,436
<b>Net book value</b>	<b>34,524,390</b>		<b>25,878,400</b>

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

	31 December 2020	31 December 2019
Cost of sales	4,249,872	4,943,789
General administrative expenses	873,377	981,805
Marketing, selling and distribution expenses	6,420,810	7,002,095
Research and development expenses	840,980	788,747
	<b>12,385,039</b>	<b>13,716,436</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 9 - INTANGIBLE ASSETS

	1 January 2020	Additions	Disposals	Transfers	31 December 2020
<b>Cost</b>					
Rights	103,908,396	21,426,826	-	1,367,956	126,703,178
Development costs	294,798,630	-	-	31,585,834	326,384,464
Development costs in progress	51,580,173	72,221,788	-	(31,585,834)	92,216,127
	<b>450,287,199</b>	<b>93,648,614</b>	-	<b>1,367,956</b>	<b>545,303,769</b>
<b>Accumulated amortisation</b>					
Rights	47,586,598	15,639,220	-	-	63,225,818
Development costs	106,982,391	38,350,045	-	-	145,332,436
	<b>154,568,989</b>	<b>53,989,265</b>	-	-	<b>208,558,254</b>
<b>Net book value</b>	<b>295,718,210</b>				<b>336,745,515</b>
	1 January 2019	Additions	Disposals	Transfers	31 December 2019
<b>Cost</b>					
Rights	88,912,993	14,995,403	-	-	103,908,396
Development costs	232,075,537	-	-	62,723,093	294,798,630
Development costs in progress	58,054,633	56,248,633	-	(62,723,093)	51,580,173
	<b>379,043,163</b>	<b>71,244,036</b>	-	-	<b>450,287,199</b>
<b>Accumulated amortisation</b>					
Rights	34,329,690	13,256,908	-	-	47,586,598
Development costs	75,966,812	31,015,579	-	-	106,982,391
	<b>110,296,502</b>	<b>44,272,487</b>	-	-	<b>154,568,989</b>
<b>Net book value</b>	<b>268,746,661</b>				<b>295,718,210</b>

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

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 9 - INTANGIBLE ASSETS (Continued)

Allocation of the amortization expenses of intangible assets for the years ended at 31 December 2020 and 2019 is as follows:

	2020	2019
Cost of sales	11,433,081	9,691,487
General administrative expenses	2,784,507	2,360,345
Marketing, selling and distribution expenses	709,489	601,413
Research and development expenses	33,713,383	25,711,165
Construction in progress effects	5,348,805	5,908,077
	<b>53,989,265</b>	<b>44,272,487</b>

### NOTE 10 - OTHER ASSETS AND LIABILITIES

	31 December 2020	31 December 2019
<b>a) Other current assets:</b>		
Deferred value added tax ("VAT")	65,093,377	34,130,325
Reclaimed VAT	45,821,989	41,268,101
	<b>110,915,366</b>	<b>75,398,426</b>

	31 December 2020	31 December 2019
<b>b) Government grants and aids:</b>		
Government grants and aids	3,633,916	4,113,292
	<b>3,633,916</b>	<b>4,113,292</b>

	2020	2019
<b>1 January</b>	<b>4,113,292</b>	<b>4,083,218</b>
Received during the year	174,313	574,133
Utilized during the year (Note 18)	(653,689)	(544,059)
<b>31 December</b>	<b>3,633,916</b>	<b>4,113,292</b>



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 11 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2020	31 December 2019
<b>a) Prepaid expenses:</b>		
Prepaid expenses for future months	893,204	713,774
	<b>893,204</b>	<b>713,774</b>

	31 December 2020	31 December 2019
<b>b) Long-term prepaid expenses</b>		
Advances given for purchases of fixed assets	2,249,848	1,043,485
	<b>2,249,848</b>	<b>1,043,485</b>

	31 December 2020	31 December 2019
<b>c) Deferred income:</b>		
Deferred income (*)	13,508,053	16,153,833
Advances received	143,628,518	-
	<b>157,136,571</b>	<b>16,153,833</b>

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

### NOTE 12 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

#### a) Short - term provisions

##### Short - term provision for employee benefits

	31 December 2020	31 December 2019
Provision for unused vacation	4,645,214	1,688,128
	<b>4,645,214</b>	<b>1,688,128</b>

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

	2020	2019
<b>1 January</b>	<b>1,688,128</b>	<b>1,807,491</b>
Charge/(used) for the year, net	2,957,086	(119,363)
<b>31 December</b>	<b>4,645,214</b>	<b>1,688,128</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

#### a) Short - term provisions (Continued)

##### Other short - term provisions

	31 December 2020	31 December 2019
Warranty expense provisions	22,754,191	15,707,907
Provisions for legal cases (*)	12,696,101	9,248,815
	<b>35,450,292</b>	<b>24,956,722</b>

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

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

	2020	2019
<b>1 January</b>	<b>9,248,815</b>	<b>6,881,714</b>
Charge for the year (Note 18)	6,782,995	3,701,851
Used during the year (Note 18)	(3,335,709)	(1,334,750)
<b>31 December</b>	<b>12,696,101</b>	<b>9,248,815</b>

#### b) Long-term provisions

##### Long-term provision for employee benefits

	2020	2019
Provision for employee termination benefits	50,255,628	39,946,649
	<b>50,255,628</b>	<b>39,946,649</b>

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 TRY7,117.17 for each year of service as of 31 December 2020 (31 December 2019 : TRY6,379.86).

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.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

#### b) Long-term provisions (Continued)

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 December 2020	31 December 2019
Inflation rate (%)	8.00	7.00
Discount rate (%)	13.00	12.00
Turnover rate to estimate the probability of retirement (%)	92.94	93.17

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The maximum amount of TRY7,638.96 (1 January 2019: TRY6,730.15) which is effective from 1 January 2020 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:

	2020	2019
<b>1 January</b>	<b>39,946,649</b>	<b>34,199,225</b>
Interest cost	4,793,598	5,728,370
Current year service cost	3,642,903	3,250,961
Paid in the year	(2,561,708)	(11,304,768)
Actuarial loss	4,434,186	8,072,861
<b>31 December</b>	<b>50,255,628</b>	<b>39,946,649</b>

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

Sensitivity level Rate	Net discount rate		Turnover related to the probability of retirement	
	0.5% decrease (%4.13)	0.5% increase (%5.13)	0.5% decrease (%91.94)	0.5% increase (%92.94)
Change in employee benefits liability	2,568,989	(2,338,462)	(634,542)	660,707

#### Other long - term provisions

	2020	2019
Warranty provision	33,750,677	17,360,774
	<b>33,750,677</b>	<b>17,360,774</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

#### b) Long-term provisions (Continued)

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

	2020	2019
<b>1 January</b>	<b>33,068,681</b>	<b>49,833,149</b>
Used during the year	(39,525,408)	(49,631,002)
Charge for the year (Note 16)	62,961,595	32,866,534
<b>31 December</b>	<b>56,504,868</b>	<b>33,068,681</b>

#### c) Contingent liabilities

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

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

	2020	2019
A. The total amount of collaterals given on behalf of its own legal entity	188,074,388	68,245,082
B. The total amount of collaterals given in favor of the companies in the scope of full consolidation	-	-
C. The total amount of collaterals given for the purpose of providing debt to third parties in the course of ordinary business activities	-	-
D. The total amount of other collaterals given	-	-
i. The total amount of collaterals given in favor of the parent companies	-	-
ii. The total amount of collaterals given in favor of other group companies which are not in the scope of items B and C	-	-
iii. The total amount of collaterals given in favor of third parties other than the parties stated in item C	-	-
	<b>188,074,388</b>	<b>68,245,082</b>

As at 31 December 2020, 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 2019: EUR 2,006,350).

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

##### d) Contingent assets

	Original currency amount						TRY equivalent	
	31 December 2020			31 December 2019			31 December 2020	31 December 2019
	EUR	USD	TRY	EUR	USD	TRY		
Letters of guarantees received	-	270,000	552,671,672	-	270,000	557,136,472	554,653,607	558,740,326
Direct debit	-	-	778,466,671	-	-	460,031,615	778,466,671	460,031,615
Mortgages	-	-	438,714	-	-	438,714	438,714	438,714
Cash TRY guarantees	-	-	1,140,874	-	-	759,019	1,140,874	759,019
Guarantee bonds	-	-	1,560,000	8,000	-	1,584,655	1,560,000	1,637,860
	-	-	-	-	-	-	<b>1,336,259,866</b>	<b>1,021,607,534</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 13 - EMPLOYEE BENEFITS

#### Liabilities for employee benefits

	2020	2019
Accrued premiums and liabilities to personnel	28,700,281	17,290,321
Taxes payable and liabilities (*)	16,257,262	11,583,222
	<b>44,957,543</b>	<b>28,873,543</b>

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

### NOTE 14 - SHAREHOLDERS' EQUITY

#### Paid-in share capital

The Company's registered share capital amounts to TRY250,000,000 (31 December 2019: TRY 250,000,000).

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

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

	2020		2019	
	Participation (%)	Share Amount (TRY)	Participation (%)	Share Amount (TRY)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNHI Osterreich	37.50	20,013,375	37.50	20,013,375
Public quotation in BİST	25.00	13,342,250	25.00	13,342,250
	100.00	<b>53,369,000</b>	100.00	<b>53,369,000</b>
<b>Adjustments to share capital</b>		<b>39,014,356</b>		<b>39,014,356</b>
		<b>92,383,356</b>		<b>92,383,356</b>

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 December 2020, 25% of the Company shares are quoted at BIST (31 December 2019: 25%).

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

### NOTE 14 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

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

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

- if the difference is arising due to the inflation adjustment of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment To Share Capital";
- if the difference is due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been 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.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

---

### NOTE 14 - SHAREHOLDERS' EQUITY (Continued)

#### 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 addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on financial statements of the Company.

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

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

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

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

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

The proposal for the distribution dividends from the profit of 2019 amount of TRY100,000,000 was accepted at the 65<sup>th</sup> Ordinary General Assembly Meeting held on 17 March 2020. Dividend paid in cash to shareholders as of 20 March 2020 and distributed per share is 1.87 kurus.



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 15 - REVENUE AND COST OF SALES

	1 January - 31 December 2020	1 January - 31 December 2019
Domestic sales	4,563,558,976	1,928,112,197
Export sales	2,321,106,198	2,164,874,361
<b>Sales income (gross)</b>	<b>6,884,665,174</b>	<b>4,092,986,558</b>
Less: Discounts and returns	(641,356,877)	(286,511,925)
<b>Sales income (net)</b>	<b>6,243,308,297</b>	<b>3,806,474,633</b>
Cost of sales	(4,935,311,548)	(3,257,839,047)
<b>Gross profit</b>	<b>1,307,996,749</b>	<b>548,635,586</b>

### Sales quantities:

	1 January - 31 December 2020			1 January - 31 December 2019		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Tractor	22,384	12,553	34,937	10,903	15,207	26,110
Combine	212	-	212	66	-	66
	<b>22,596</b>	<b>12,553</b>	<b>35,149</b>	<b>10,969</b>	<b>15,207</b>	<b>26,176</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 16 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2020	1 January - 31 December 2019
<b>Marketing, selling and distribution expenses:</b>		
Personnel expenses	75,282,573	61,254,296
Warranty expenses (Note 12)	62,961,595	32,866,534
Transportation and insurance expenses	27,835,821	19,512,054
Depreciation and amortisation expenses	11,216,176	11,752,152
Distributors meeting and exposition expenses	6,119,826	8,210,492
Outsourcing expenses	5,189,346	5,221,422
Sales development expenses	3,011,521	2,480,418
Travel expenses	2,825,238	6,256,002
Material expenses	2,745,139	3,464,803
Press relations, advertisement and promotion expenses	1,644,374	3,225,774
Service expenses	1,037,864	1,140,602
Rent expenses	323,626	3,660,498
Other	4,299,962	5,179,828
	<b>204,493,061</b>	<b>164,224,875</b>

	1 January - 31 December 2020	1 January - 31 December 2019
<b>General administrative expenses:</b>		
Personnel expenses	52,389,255	43,331,446
Service expenses received from shareholders	20,902,852	19,439,298
Depreciation and amortisation expenses	17,177,294	15,844,401
Service expenses	14,672,706	7,036,508
Donations and aids	8,131,599	1,880,662
Outsourcing expenses	6,680,416	5,735,857
Taxes and other legal expenses	2,766,618	2,598,904
Insurance expenses	2,665,787	1,870,024
Entertainment expenses	1,908,313	1,456,738
Legal consultancy and lawsuit expenses	1,504,290	662,337
Subscription expenses	1,438,079	1,539,031
Material expenses	1,404,245	411,151
Travel expenses	854,235	840,703
Consultancy services	432,563	334,353
Other	3,050,063	2,592,710
	<b>135,978,315</b>	<b>105,574,123</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 16 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (Continued)

	1 January - 31 December 2020	1 January - 31 December 2019
<b>Research and development expenses:</b>		
Depreciation and amortisation expenses	38,377,440	30,202,757
Personnel expenses	662,689	526,361
Outsourcing expenses	23,967	47,605
Project expenses	342	29,350
Other	417,670	227,411
	<b>39,482,108</b>	<b>31,033,484</b>

### NOTE 17 - EXPENSES BY NATURE

	1 January - 31 December 2020	1 January - 31 December 2019
Raw materials and goods	4,518,763,114	2,577,545,197
Personnel and provision for employment termination benefits expenses	367,085,252	301,638,995
Depreciation and amortisation expenses	129,088,130	125,105,198
Transportation and insurance expenses	63,824,330	41,676,139
Warranty expenses	62,961,595	32,866,534
Material expenses	50,863,503	35,820,186
Energy expenses	22,636,550	17,608,202
Changes in finished goods and work in process	(6,295,457)	329,836,990
Donations and aids	8,131,599	1,880,662
Other	98,206,416	94,693,428
	<b>5,315,265,032</b>	<b>3,558,671,531</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 18 – OTHER INCOME/EXPENSE FROM OPERATING ACTIVITIES

	1 January - 31 December 2020	1 January - 31 December 2019
Foreign exchange gain from trade receivables and payables	264,020,786	161,700,921
Interest income from sales	64,129,781	101,101,924
Termination of provision for doubtful receivables (Note 5)	922,377	3,113,376
Reversal of provision for litigation expenses (Note 12)	3,335,709	1,334,750
Incentive income (Note 10)	653,689	544,059
Other income	41,998,798	35,796,771
<b>Other operating income</b>	<b>375,061,140</b>	<b>303,591,801</b>
Foreign exchange losses on trade receivables and payables	(290,004,004)	(167,027,959)
Interest expense from trade payables	(68,628,035)	(88,501,253)
Provision for litigation expenses (Note 12)	(6,782,995)	(3,701,851)
Provision for doubtful receivables (Note 5)	(1,675,368)	(1,683,865)
Other expenses	(1,118,823)	(2,386,956)
<b>Other operating expenses</b>	<b>(368,209,225)</b>	<b>(263,301,884)</b>

### NOTE 19 - FINANCIAL INCOME

	1 January - 31 December 2020	1 January - 31 December 2019
Foreign exchange gain	89,390,517	77,769,095
Interest income	110,747,815	106,524,026
<b>Financial income</b>	<b>200,138,332</b>	<b>184,293,121</b>

### NOTE 20 - FINANCIAL EXPENSE

	1 January - 31 December 2020	1 January - 31 December 2019
Foreign exchange losses	(129,567,241)	(105,547,501)
Interest expenses of bank borrowings	(128,237,457)	(253,400,403)
Other	(5,065,332)	(6,494,646)
<b>Financial expenses</b>	<b>(262,870,030)</b>	<b>(365,442,550)</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

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

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

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 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 2020 and 2019.

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

	31 December 2020	31 December 2019
Corporate tax expense	30,299,815	-
Less: Prepaid taxes	(10,907,403)	(14,218,962)
<b>Tax liability/(Current tax assets)</b>	<b>19,392,412</b>	<b>(14,218,962)</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 21 - TAX ASSETS AND LIABILITIES (Continued)

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

	1 January - 31 December 2020	1 January - 31 December 2019
Corporate tax expense	(30,299,815)	-
Deferred tax income/(expense)	(66,967,798)	2,635,794
<b>Total tax income/(expense)</b>	<b>(97,267,613)</b>	<b>2,635,794</b>

#### 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 December 2020 and 2019 are as follows:

	<u>Temporary Differences</u>		<u>Deferred tax assets/ (liabilities)</u>	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Property, plant and equipment and intangible assets, restatement and useful life differences	331,074,341	292,238,713	(72,836,355)	(64,292,517)
Provision for employee termination benefits	(50,255,628)	(39,946,649)	11,056,238	8,788,263
Warranty provision	(56,504,868)	(33,068,681)	12,431,071	7,275,110
Provision for lawsuits	(12,696,101)	(9,248,815)	2,793,142	2,034,739
Unearned finance income/ expenses on trade receivables, payables and due from related parties	23,895,808	1,403,858	(5,257,078)	(308,849)
Provision for doubtful receivables	(752,991)	1,429,511	165,658	(314,492)
Provision for impairment of inventory	(29,991,790)	(30,765,907)	6,598,194	6,768,500
Sales premium accrued	(24,615,876)	(28,361,687)	5,415,493	6,239,571
Other expense provisions	(4,645,214)	(1,688,128)	1,021,947	371,388
Investment incentive tax assets	131,541,901	272,465,249	39,462,570	81,739,575
Research and development incentives	-	38,936,391	-	8,566,006
Deferred income	(13,363,814)	(16,153,833)	2,940,039	3,553,843
Other	(1,663,253)	(49,561,390)	365,915	10,903,506
<b>Deferred tax assets</b>			<b>4,156,834</b>	<b>71,324,643</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 21 - TAX ASSETS AND LIABILITIES (Continued)

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

	2020	2019
<b>1 January</b>	<b>71,324,643</b>	<b>68,763,051</b>
Reflected to profit for the year	(66,967,798)	2,635,794
Reflected to other comprehensive income/(expense)	(200,011)	(74,202)
<b>31 December</b>	<b>4,156,834</b>	<b>71,324,643</b>

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

	1 January - 31 December 2020	1 January - 31 December 2019
<b>Profit before tax</b>	<b>873,710,656</b>	<b>109,257,672</b>
Tax calculated at enacted tax rate	192,216,344	24,036,688
Investment incentives	(80,840,123)	(14,580,806)
Research and development incentives	(15,913,886)	(11,271,064)
Disallowable expenses	63,948	35,284
Other	1,741,330	(855,896)
<b>Total tax income/(expense)</b>	<b>97,267,613</b>	<b>(2,635,794)</b>

### NOTE 22 - EARNINGS PER SHARE

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

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

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue. Nominal value of one share of company is 1 Kr.

	2020	2019
Net profit for the year	776,443,043	111,893,466
Weighted average number of the ordinary shares	5,336,900,000	5,336,900,000
Earnings per share (TRY)	0.1455	0.0210

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### 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 December 2020 and 2019 and significant intercompany transactions were as follows:

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

##### a) Due from related parties

	31 December 2020	31 December 2019
<b>Due from group companies</b>		
CNHI International SA (“CNHI International”) (*)	173,147,157	59,747,532
CNH Industrial Argentina SA	15,853,074	1,856,620
CNHI Italy SPA (“CNHI Italia”)	6,145,363	3,393,956
CNH Industrial Brasil Ltda	2,055,259	816,094
CNH Industrial (India) Pvt. Ltd.	1,015,602	-
Other	1,887,109	948,063
	<b>200,103,564</b>	<b>66,762,265</b>

(\*) 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.

##### b) Due to related parties

	31 December 2020	31 December 2019
Koç Holding	2,510,006	4,940,364
<b>Due to shareholders</b>	<b>2,510,006</b>	<b>4,940,364</b>
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	45,530,678	25,882,104
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	13,823,295	11,934,097
Fpt Industrial Powertrain Technolog	4,754,639	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	3,982,201	6,319,420
Otokoç Otomotiv San. ve Tic. A.Ş. (“Otokoç”)	2,852,476	830,599
Koçtaş Yapı Marketleri A.Ş. (“Koçtaş”)	2,364,267	145,137
Koç Digital Çözümler A.Ş.	1,284,536	-
Setur Servis Turistik A.Ş. (“Setur”)	1,022,137	938,773
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. (“Akpa”)	777,728	482,647
Opet Petrolcülük A.Ş. (“Opet”)	309,537	151,700
Ram Sigorta Aracılık Hizmetleri A.Ş. (“Ram Sigorta”)	35,220	357,139
Divan Turizm İşletmeleri (“Divan”)	13,499	335,896
Other	1,809,363	545,151
<b>Due to group companies</b>	<b>78,559,576</b>	<b>47,922,663</b>
Less: Unearned financial expenses	(840,365)	(387,918)
	<b>80,229,217</b>	<b>52,475,109</b>



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

#### i) Balances with related parties as of 31 December 2020 and 2019 (Continued):

#### c) Lease liabilities to related parties

	31 December 2020	31 December 2019
Otokoç	13,144,302	9,566,438
Zer	12,279,314	8,812,661
Other	398,426	791,138
	<b>25,822,042</b>	<b>19,170,237</b>

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

#### a) Product sales to related parties

	1 January - 31 December 2020	1 January - 31 December 2019
<b>Product sales to group companies</b>		
CNHI International (*)	2,272,318,900	2,129,519,179
CNH Industrial Argentina SA	20,209,955	2,783,066
CNHI Italy	17,162,620	13,043,315
CNH Industrial Brasil Ltda	6,253,615	4,740,096
CNH Industrial (India) PV	2,843,658	2,819,661
Yapı Kredi Finansal Kiralama A.O.	1,017,146	1,972,500
Other	1,693,787	3,875,190
	<b>2,321,499,681</b>	<b>2,158,753,007</b>

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

#### b) Service sales to related companies

	1 January - 31 December 2020	1 January - 31 December 2019
<b>Service sales to group companies</b>		
CNHI Italia (2)	13,258,578	2,752,247
CNHI International (1)	3,683,941	6,927,224
Other	-	962,432
	<b>16,942,519</b>	<b>10,641,903</b>

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

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 2020 and 2019 (Continued):

c) Product purchases from related parties

	1 January - 31 December 2020	1 January- 31 December 2019
<b>Product purchases from group companies</b>		
CNHI International (1)	769,321,493	362,150,090
Opet Fuchs (2)	64,742,780	45,958,565
Zer (3)	23,593,027	10,523,542
Koç Sistem (4)	17,061,666	10,097,485
CNH Italia SPA (5)	8,511,288	2,736,367
Akpa	4,465,927	3,493,445
Opet (2)	2,028,027	2,943,483
CNHI India	392,778	716,923
Other	3,401,414	859,371
	<b>893,518,400</b>	<b>439,479,271</b>

- (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 direct and indirect materials and services from Zer Merkezi Hizmetler A.Ş..
- (4) The Company purchases hardware and software from Koç Sistem.
- (5) The Company purchases tractor parts from CNH Italia SPA.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 2020 and 2019 (Continued):

d) Service purchases from related parties

	1 January - 31 December 2020	1 January- 31 December 2019
<b>Service purchases from shareholders</b>		
Koç Holding (1)	11,020,072	10,182,613
	<b>11,020,072</b>	<b>10,182,613</b>
<b>Service purchase from group companies</b>		
Zer (2)	156,566,293	84,496,072
CNHI International (3)	16,733,635	11,043,958
Entek (4)	12,046,642	-
Koç Sistem (5)	7,856,302	6,672,074
Otokoç (6)	7,260,363	7,676,179
Vehbi Koç Vakfı	6,600,000	800,000
Eltek (4)	6,464,403	13,276,123
Setur (7)	5,258,773	7,116,053
Ram Sigorta (8)	4,058,952	4,206,808
Other	8,655,788	5,686,833
	<b>231,501,151</b>	<b>140,974,100</b>
	<b>242,521,223</b>	<b>151,156,713</b>

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

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

#### Financial income and expense from group companies

	1 January - 31 December 2020	1 January - 31 December 2019
<b>Interest income</b>		
Yapı Kredi	-	8,484,850
iv) <b>Dividends paid to related parties:</b>		
	1 January - 31 December 2020	1 January - 31 December 2019
Koç Holding	37,500,000	-
CNHI Osterreich	37,500,000	-
	<b>75,000,000</b>	<b>-</b>

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

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

As of 31 December 2020, the Company paid TRY27,299,795 benefits to the key management personnel (31 December 2019: TRY26,110,696). All amount consists of short-term benefits.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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*

There is an effective foreign currency cash flow hedge relationship between EUR long term financial borrowings and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 October 2016 until 30 June 2020, and as of 1 July 2020, cash flow hedge accounting was terminated by the decision of Company's Management. The related long-term borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/ (gains) on cash flow hedges" until 30 June 2020, subsequently the Company has been recognized in profit or loss for the periods in which possible future transactions which are hedged from financial risk affect the profit or loss starting from 1 July 2020. The amount of foreign exchange rate losses recognized in equity is TRY42,851,846 (31 December 2019: TRY47,019,640).

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 December 2020 and 2019 are as follows:

	31 December 2020					
	TRY Equivalent	USD	EUR	GBP	CHF	YEN
1.Trade receivables	197,619,858	683,648	21,381,403	-	-	-
2.Monetary financial assets (including banks accounts) (Note 3)	232,498,560	234,516	25,557,811	47,710	8,569	133,712
3.Other	-	-	-	-	-	-
<b>4. Current assets (1+2+3)</b>	<b>430,118,418</b>	<b>918,164</b>	<b>46,939,214</b>	<b>47,710</b>	<b>8,569</b>	<b>133,712</b>
5.Trade receivables	-	-	-	-	-	-
6.Other	-	-	-	-	-	-
<b>7.Non-current assets (5+6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8.Total assets (4+7)</b>	<b>430,118,418</b>	<b>918,164</b>	<b>46,939,214</b>	<b>47,710</b>	<b>8,569</b>	<b>133,712</b>
9.Trade payables	164,022,745	4,442,032	13,013,356	63,976	-	191,129,775
10.Financial liabilities (Note 4)	135,990,095	-	15,096,759	-	-	-
11.Other monetary liabilities	17,795,656	-	1,975,561	-	-	-
<b>12.Current liabilities (9+10+11)</b>	<b>317,808,496</b>	<b>4,442,032</b>	<b>30,085,676</b>	<b>63,976</b>	<b>-</b>	<b>191,129,775</b>
13.Financial liabilities (Note 4)	126,412,527	-	14,033,518	-	-	-
<b>14.Non-current liabilities (13)</b>	<b>126,412,527</b>	<b>-</b>	<b>14,033,518</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>15.Total liabilities (12+14)</b>	<b>444,221,023</b>	<b>4,442,032</b>	<b>44,119,194</b>	<b>63,976</b>	<b>-</b>	<b>191,129,775</b>
16. Cash flow hedge accounting amounts	177,155,370	-	19,666,667	-	-	-
<b>17. Fair value of hedged funds of foreign currency (16+18)</b>	<b>163,052,765</b>	<b>(3,523,868)</b>	<b>22,486,687</b>	<b>(16,266)</b>	<b>8,569</b>	<b>(190,996,063)</b>
<b>18.Net monetary foreign currency asset/ (liability) position (8-15)</b>	<b>(14,102,605)</b>	<b>(3,523,868)</b>	<b>2,820,020</b>	<b>(16,266)</b>	<b>8,569</b>	<b>(190,996,063)</b>

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 31 DECEMBER 2020**

(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 2019**

	TRY Equivalent	USD	EUR	GBP	CHF	YEN
1.Trade receivables	75,065,291	1,516,592	9,932,285	100	-	-
2.Monetary financial assets (including banks accounts) (Note 3)	118,644,992	55,791	17,748,907	26,863	9,642	93,002
3.Other	-	-	-	-	-	-
<b>4. Current assets (1+2+3)</b>	<b>193,710,283</b>	<b>1,572,383</b>	<b>27,681,192</b>	<b>26,963</b>	<b>9,642</b>	<b>93,002</b>
5.Trade receivables	-	-	-	-	-	-
6.Other	-	-	-	-	-	-
<b>7.Non-current assets (5+6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8.Total assets (4+7)</b>	<b>193,710,283</b>	<b>1,572,383</b>	<b>27,681,192</b>	<b>26,963</b>	<b>9,642</b>	<b>93,002</b>
9.Trade payables	98,567,549	2,590,037	12,217,831	53,022	-	27,886,477
10.Financial liabilities (Note 4)	243,004,697	-	36,538,763	-	-	-
11.Other monetary liabilities	20,336,047	-	3,057,776	-	-	-
<b>12.Current liabilities (9+10+11)</b>	<b>361,908,293</b>	<b>2,590,037</b>	<b>51,814,370</b>	<b>53,022</b>	<b>-</b>	<b>27,886,477</b>
13.Financial liabilities (Note 4)	73,649,194	-	11,074,068	-	-	-
<b>14.Non-current liabilities (13)</b>	<b>73,649,194</b>	<b>-</b>	<b>11,074,068</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>15.Total liabilities (12+14)</b>	<b>435,557,487</b>	<b>2,590,037</b>	<b>62,888,438</b>	<b>53,022</b>	<b>-</b>	<b>27,886,477</b>
16. Cash flow hedge accounting amounts	196,192,700	-	29,500,000	-	-	-
<b>17. Fair value of hedged funds of foreign currency (16+18)</b>	<b>(45,654,505)</b>	<b>(1,017,655)</b>	<b>(5,707,245)</b>	<b>(26,059)</b>	<b>9,642</b>	<b>(27,793,475)</b>
<b>18.Net monetary foreign currency asset/ (liability) position (8-15)</b>	<b>(241,847,205)</b>	<b>(1,017,655)</b>	<b>(35,207,245)</b>	<b>(26,059)</b>	<b>9,642</b>	<b>(27,793,475)</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 December 2020 and 2019 are as follows:

	1 January - 31 December 2020	1 January - 31 December 2019
Total export amount	2,321,106,198	2,164,874,361
Total import amount	1,801,827,223	990,481,963

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 December 2020 and 2019 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 December 2020			
	Profit/(Loss)		Shareholders' equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
<b>Had TRY appreciate/ (depreciate) by 10% against USD</b>				
Profit/ (loss) from USD net asset position	(2,586,695)	2,586,695	-	-
Hedged amount against USD risk (-)	-	-	-	-
<b>Net effect of USD</b>	<b>(2,586,695)</b>	<b>2,586,695</b>	<b>-</b>	<b>-</b>
<b>Had TRY appreciate/ (depreciate) by 10% against EUR</b>				
Profit/ (loss) from EUR net liability position	2,540,246	(2,540,246)	10,037,106	(10,037,106)
Hedged amount against EUR risk (-)	5,269,621	(5,269,621)	13,818,119	(13,818,119)
<b>Net Effect of EUR</b>	<b>7,809,867</b>	<b>(7,809,867)</b>	<b>23,855,225</b>	<b>(23,855,225)</b>
<b>Had TRY appreciate/ (depreciate) by 10% against other</b>				
Profit/ (loss) from other net liability position	(1,500,192)	1,500,192	-	-
Hedged amount against other (-)	-	-	-	-
<b>Net effect of other</b>	<b>(1,500,192)</b>	<b>1,500,192</b>	<b>-</b>	<b>-</b>
<b>Total net effect</b>	<b>3,722,980</b>	<b>(3,722,980)</b>	<b>23,855,225</b>	<b>(23,855,225)</b>



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

#### 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:

	31 December 2020	31 December 2019
<b>Financial instruments with fixed interest rate</b>		
Time deposits (Note 3)	1,851,337,730	728,944,188
Financial liabilities (Note 4)	1,234,725,848	1,201,320,355
Lease liabilities (Not 4)	29,538,180	28,683,172
	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Financial instruments with floating interest rate</b>		
Financial liabilities (Note 4)	30,026,339	166,506,000

For financial instruments with variable interest rates, if the interest on 31 December 2020 in all currencies was higher/lower by 100 base points with all other variables held constant, the profit for the period before tax as a result of high/low interest rate income/expense consisting of loans with variable interest rates would be higher/lower by TRY507,397 (31 December 2019: TRY1,350,069).

## **TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020**

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

---

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

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 5).

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

(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 Company's maximum exposure to credit risk as of 31 December 2020 and 2019 is as follows:

	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	200,103,564	594,784,812	-	381,635	1,890,430,861	-
Net book value of due dated but not impaired assets	-	867,481	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	50,870,754	-	-	-	-
- Provision (-)	-	(50,870,754)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
<b>Amount exposed to maximum credit risk (*)</b>	<b>200,103,564</b>	<b>595,652,293</b>	<b>-</b>	<b>381,635</b>	<b>1,890,430,861</b>	<b>-</b>

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

As of 31 December 2020, the guarantee amount of the maximum exposure to credit risk is TRY1,284,323,499. Furthermore, all assets which are due but not impaired are guaranteed.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

	Trade Receivables		31 December 2019 Other Receivables		Bank deposits	Derivative instruments
	Related party	Third party	Related party	Third party		
Net book value of financial assets which are undue and not impaired	66,762,265	400,237,204	-	390,365	746,806,508	-
Net book value of due dated but not impaired assets	-	11,495,284	-	-	-	-
Net book value of impaired assets	-	-	-	-	-	-
- Due dated (gross book value)	-	50,117,763	-	-	-	-
- Provision (-)	-	(50,117,763)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
<b>Amount exposed to maximum credit risk (*)</b>	<b>66,762,265</b>	<b>411,732,488</b>	<b>-</b>	<b>390,365</b>	<b>746,806,508</b>	<b>-</b>

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

As of 31 December 2019, the guarantee amount of the maximum exposure to credit risk is TRY969,940,787. Furthermore, all assets which are due but not impaired are guaranteed.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

### 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.

As of 31 December 2020 and 2019, the undiscounted cash flows and liabilities according to their remaining maturities are presented in the following tables:

	31 December 2020				Total cash outflows according to contract
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	
Financial liabilities (Note 4)	1,294,290,367	99,355,236	168,036,907	1,026,820,555	1,294,212,698
Trade payables (Note 5)	1,397,935,795	1,431,333,592	-	-	1,409,663,411
Due to related parties (Note 23)	80,229,217	80,229,217	-	-	80,229,217
Other payables	29,161,492	29,161,492	-	-	29,161,492
<b>Non-derivative financial instruments</b>	<b>2,801,616,871</b>	<b>1,640,079,537</b>	<b>168,036,907</b>	<b>1,026,820,555</b>	<b>2,813,266,818</b>

	31 December 2019				Total cash outflows according to contract
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	
Financial liabilities (Note 4)	1,396,509,527	127,054,048	305,302,382	1,012,940,509	1,445,296,939
Trade payables (Note 5)	556,368,934	564,842,432	-	-	564,842,432
Due to related parties (Note 23)	52,475,109	52,475,109	-	-	52,475,109
Other payables	13,310,653	13,310,653	-	-	13,310,653
<b>Non-derivative financial instruments</b>	<b>2,018,664,223</b>	<b>757,682,242</b>	<b>305,302,382</b>	<b>1,012,940,509</b>	<b>2,075,925,133</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2020

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

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

#### d) Capital risk management

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

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

	31 December 2020	31 December 2019
Total Financial liabilities (Note 4)	1,294,290,367	1,396,509,527
Less: Cash and cash equivalents (Note 3)	(1,890,430,861)	(746,806,508)
<b>Net financial debt</b>	<b>(596,140,494)</b>	<b>649,703,019</b>
Total shareholders' equity	1,441,166,437	764,014,265
Total liabilities	845,025,943	1,413,717,284
<b>Net financial debt/ total liabilities</b>	<b>(70.55)%</b>	<b>45.96%</b>

#### *Fair value of financial assets*

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

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

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

#### *Financial assets*

The fair values of balances denominated in foreign currencies, which are translated at period-end exchange rates, are considered to approximate carrying value.

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*

The fair values of short-term and long-term bank borrowings are disclosed in Note 4.

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

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 31 DECEMBER 2020**

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

---

**NOTE 25 - SUBSEQUENT EVENT**

None.

.....