

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY -
31 DECEMBER 2021
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 2021 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 2021, 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.

Key audit matters	How our audit addressed the key audit matter
<p>Warranty expense provisions</p> <p>The Company has warranty expense provision amounting to TRY102,547,391 as of 31 December 2021 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 2021.</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>



Key audit matters	How our audit addressed the key audit matter
<p>Cash flow hedge transactions</p> <p>The Company is exposed to foreign currency risk due to its foreign currency borrowings. As explained in Notes 2.4 and 2.5, the Company uses its borrowings amounting to EUR9,833,333 as a hedging instrument against the Euro spot exchange rate risk that the Company is exposed to, due to highly probable export sales income and applies cash flow hedge accounting as a result of the effectiveness tests performed. The company keeps the foreign exchange risk that it is exposed to due to the production costs of the tractors and the tractor orders received with a sales commitment in Turkish Lira, by keeping a plus Euro balance sheet position in its accounts and eliminates the exchange rate difference that will occur when production is realized. Since it has Euros equal to the order amount received and production cost in its accounts, it applies cash flow hedge accounting as a result of efficiency tests.</p> <p>The Company accounts for foreign exchange gains and losses of related long-term borrowings, qualified as effective, under equity as “Gain/(Losses) on cash flow hedging”. As of 31 December 2021, the amount of foreign exchange rate losses recognized under equity as “Gain/(Losses) on cash flow hedging” is TRY110,720,788 after tax.</p> <p>We focused on this matter in our audit for the following reasons:</p> <ul style="list-style-type: none"> - Due to the recent macroeconomic conditions, fluctuations, especially in foreign exchange rates may significantly affect foreign exchange rate risk and cash flow hedge transactions in the financial statements of the Company. 	<p>The audit procedures performed for cash flow hedge transactions include; understanding the accounting process of the transactions, confirmation of borrowings with financial institutions, assessment of possibility of export sales income to meet the foreign currency borrowings, test of details performed for the completeness and accuracy of effectiveness tests prepared by management and the assessments of management assumptions and estimations used in calculations with the support of specialists. The possibility of the Company’s export sales income to cover the borrowings which form the basis for the cash flow hedge has been reviewed by considering the performance in previous years and following years and it was concluded that the export sales income covers the related borrowing payments when sensitivity analysis are also considered.</p> <p>The compliance of the hedge accounting documentation prepared by the Company, the mathematical accuracy of the effectiveness tests and the reasonableness of the key assumptions used in the effectiveness tests were checked with the support of our experts and no inconsistencies were detected. The product prices and export sale quantities which form the basis of the prospective budget estimates used in the effectiveness test were compared with previous period performances, and the key management assumptions were compared with independent data resources and no significant inconsistency was detected.</p> <p>In the same way, it was examined whether there is enough Euro balance position to cover the tractor order amount and production costs in the Company's accounts, and it was understood that it met, considering the sensitivity tests.</p> <p>The borrowings and Euro deposit accounts were reconciled with the confirmation letters obtained</p>



<p>- The calculations used for the Company’s effectiveness tests of cash flow hedge transactions include key management judgements and estimations, such as product prices and export sales quantity.</p> <p>“Cash flow hedge transactions” was considered as key audit matter, since related management estimations, by their nature, include inherent uncertainties and the assessment of effectiveness tests requires specialist involvement.</p>	<p>from financial institutions, interest and foreign exchange accruals of the borrowings were recalculated in accordance with the relevant borrowing agreements and the mathematical accuracy of the accruals was tested; orders, invoices and payments for tractors were provided and samples were selected and their accuracy was checked and no significant inconsistency was detected.</p> <p>In addition, we concluded that the disclosures for the cash flow hedge transactions are in compliance with related TAS.</p>
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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 2021 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 14 February 2022.

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

ORIGINALLY ISSUED IN TURKISH

Murat Sancar, SMMM
Partner

Istanbul, 14 February 2022

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2021

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021

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

	Notes	<i>Audited</i> 31 December 2021	<i>Audited</i> 31 December 2020
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	1,566,586,803	1,890,430,861
Trade receivables:			
- Trade receivables from related parties	5, 23	635,170,444	200,103,564
- Trade receivables from third parties	5	629,307,137	595,542,835
Inventories	6	1,739,360,491	870,863,728
Prepaid expenses	11	2,657,912	893,204
Other current assets	10	366,839,583	110,915,366
TOTAL CURRENT ASSETS		4,939,922,370	3,668,749,558
NON - CURRENT ASSETS			
Trade receivables			
- Trade receivables from third parties	5	109,458	109,458
Other receivables:			
- Other receivables from third parties		956,197	381,635
Property, plant and equipment	7	629,264,236	554,083,801
Right of use assets	8	23,215,525	25,528,912
Intangible assets	9	438,576,994	336,745,515
Prepaid expenses	11	44,979,811	2,249,848
Deferred tax assets	21	33,622,002	4,156,834
TOTAL NON - CURRENT ASSETS		1,170,724,223	923,256,003
TOTAL ASSETS		6,110,646,593	4,592,005,561

The financial statements prepared as at and for the period ended 31 December 2021 have been approved by the Board of Directors on 14 February 2022. 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 2021

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

	Notes	Audited 31 December 2021	Audited 31 December 2020
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities			
Short-term financial liabilities to other parties			
- Bank borrowings	4	-	70,029,167
Short-term portion of long-term financial liabilities			
Short-term portion of long-term financial liabilities from related parties			
- Lease liabilities	4	8,085,198	11,260,714
Short-term portion of long-term financial liabilities from third parties			
- Bank borrowings	4	569,077,930	167,824,796
- Lease liabilities	4	2,414,639	3,363,004
Trade payables			
- Trade payables to related parties	5, 23	180,945,657	80,229,217
- Trade payables to third parties	5	2,228,517,987	1,397,935,795
Payables related to employee benefits	13	77,664,295	44,957,543
Other payables			
- Other payables to third parties		61,519,026	29,161,492
Government incentives and aids	10	3,692,202	3,633,916
Deferred income	11	173,947,802	157,136,571
Tax liability for the period	21	17,838	19,392,412
Short - term provision			
- Short term provision for employee benefits	12	6,501,091	4,645,214
- Other short term provisions	12	54,374,044	35,450,292
TOTAL CURRENT LIABILITIES		3,366,757,709	2,025,020,133
NON - CURRENT LIABILITIES			
Long-term financial liabilities			
Long-term financial liabilities from related parties			
- Lease liabilities	4	17,605,800	14,561,328
Long-term financial liabilities from third parties			
- Bank borrowings	4	537,231,153	1,026,898,224
- Lease liabilities	4	426,967	353,134
Long - term provisions			
- Long term provision for employee benefits	12	76,294,116	50,255,628
- Other long term provisions	12	61,336,750	33,750,677
TOTAL NON-CURRENT LIABILITIES		692,894,786	1,125,818,991
EQUITY		2,050,994,098	1,441,166,437
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		118,969,138	145,353,605
Other accumulated comprehensive income and expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		(62,365,129)	(46,432,579)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
- Gain/(Losses) on cash flow hedging		110,720,788	(42,851,846)
Retained earnings		474,667,368	521,839,858
Net profit for the year		1,322,187,577	776,443,043
TOTAL LIABILITIES		6,110,646,593	4,592,005,561

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

	Notes	<i>Audited</i> 1 January - 31 December 2021	<i>Audited</i> 1 January - 31 December 2020
Revenue	15	11,644,197,445	6,243,308,297
Cost of sales (-)	15	(9,511,285,881)	(4,935,311,548)
GROSS PROFIT		2,132,911,564	1,307,996,749
Marketing expenses	16	(316,661,914)	(204,493,061)
General administrative expenses	16	(191,813,873)	(135,978,315)
Research and development expenses	16	(51,902,978)	(39,482,108)
Other income from operating activities	18	1,132,298,876	375,061,140
Other expenses from operating activities	18	(1,291,514,344)	(368,209,225)
OPERATING PROFIT		1,413,317,331	934,895,180
Income from investment activities		2,134,084	1,547,174
OPERATING INCOME BEFORE FINANCIAL INCOME		1,415,451,415	936,442,354
Financial income	19	545,799,348	200,138,332
Financial expenses	20	(451,017,713)	(262,870,030)
PROFIT BEFORE TAXATION ON INCOME		1,510,233,050	873,710,656
Taxes on income (-)	21	(259,399,849)	(30,299,815)
Deferred tax income/(expense)	21	71,354,376	(66,967,798)
NET PROFIT FOR THE PERIOD		1,322,187,577	776,443,043
Earnings per share (TRY)	22	0,2477	0,1455
Other comprehensive income/(expense)			
Not to be reclassified to profit or loss:			
Actuarial loss arising from defined benefits plans	12	(19,915,687)	(4,434,186)
Other comprehensive expense not to be reclassified to profit or loss, tax effect			
Actuarial gain/ loss arising from defined benefit plans, tax effect	21	3,983,137	975,521
To be reclassified to profit or loss :			
Profit/(Losses) on cash flow hedging		199,444,979	5,343,326
Other comprehensive expense to be reclassified to profit or loss, tax effect			
Losses on cash flow hedging, tax effect	21	(45,872,345)	(1,175,532)
Other comprehensive income/(expense)		137,640,084	709,129
TOTAL COMPREHENSIVE INCOME		1,459,827,661	777,152,172

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

				Other accumulated income or expense items not be reclassified to profit or loss	Other accumulated income or expense items to be reclassified to profit or loss				
	Paid in share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Losses on cash flow hedges	Restricted profit reserves	Retained earnings	Net profit for the period	Equity
1 January 2021	53,369,000	39,014,356	(5,569,000)	(46,432,579)	(42,851,846)	145,353,605	521,839,858	776,443,043	1,441,166,437
Transfers	-	-	-	-	-	74,631,552	701,811,491	(776,443,043)	-
Dividends	-	-	-	-	-	(101,016,019)	(748,983,981)	-	(850,000,000)
Net profit for the period	-	-	-	-	-	-	-	1,322,187,577	1,322,187,577
Other comprehensive income									
Actuarial loss arising from defined benefits plans	-	-	-	(15,932,550)	-	-	-	-	(15,932,550)
Losses on cash flow hedging	-	-	-	-	153,572,634	-	-	-	153,572,634
Total other comprehensive Income/(expense)	-	-	-	(15,932,550)	153,572,634	-	-	-	137,640,084
Total comprehensive income	-	-	-	(15,932,550)	153,572,634	-	-	1,322,187,577	1,459,827,661
31 December 2021	53,369,000	39,014,356	(5,569,000)	(62,365,129)	110,720,788	118,969,138	474,667,368	1,322,187,577	2,050,994,098

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

				Other accumulated income or expense items not be reclassified to profit or loss	Other accumulated income or expense items to be reclassified to profit or loss				
	Paid in share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Losses on cash flow hedges	Restricted profit reserves	Retained earnings	Net profit for the period	Equity
1 January 2020	53,369,000	39,014,356	(5,569,000)	(42,973,914)	(47,019,640)	135,620,450	519,679,547	111,893,466	764,014,265
Transfers	-	-	-	-	-	9,733,155	102,160,311	(111,893,466)	-
Dividends	-	-	-	-	-	-	(100,000,000)	-	(100,000,000)
Net profit for the period	-	-	-	-	-	-	-	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
31 December 2020	53,369,000	39,014,356	(5,569,000)	(46,432,579)	(42,851,846)	145,353,605	521,839,858	776,443,043	1,441,166,437

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

	Notes	<i>Audited</i> 1 January- 31 December 2021	<i>Audited</i> 1 January- 31 December 2020
A. CASH FLOWS FROM OPERATING ACTIVITIES		843,316,971	1,599,211,443
Net profit for the period		1,322,187,577	776,443,043
Adjustments to reconcile profit for the period		429,890,825	383,670,183
Amortization and depreciation		160,556,364	129,088,130
Provision for impairment on inventories	6	(312,025)	(774,117)
Provision for employee benefits	12	13,093,709	11,393,587
Provision for doubtful receivables	5	36,756	752,991
Other provisions	12	46,509,825	26,883,472
Government incentives and aids		(575,891)	(653,689)
Interest income and expense	19, 20	(37,014,065)	17,489,642
Tax income/expense	21	188,045,473	97,267,613
(Gain)/loss from sales of property plant and Equipment		(2,134,084)	(1,547,174)
Other adjustments to reconcile profit		61,684,763	103,769,728
Changes in working capital		(644,264,389)	452,567,328
Trade receivables		(33,801,058)	(195,259,320)
Due from related parties		(435,066,880)	(147,405,390)
Inventories		(868,184,738)	(202,661,286)
Other current assets		(275,316,629)	(21,297,978)
Other receivables		(574,562)	8,730
Prepaid expenses		(44,494,671)	(1,385,793)
Due to related parties		100,716,440	27,754,108
Trade payables		830,582,192	819,896,680
Deferred income		16,811,231	140,982,738
Other liabilities		32,357,534	15,850,839
Debt for employee termination benefits		32,706,752	16,084,000
Net cash provided by operating activities		1,107,814,013	1,612,680,554
Employee termination benefits paid	12	(5,115,031)	(2,561,708)
Taxes paid	21	(259,382,011)	(10,907,403)
B. CASH FLOWS FROM INVESTING ACTIVITIES		(319,476,112)	(125,416,337)
Proceeds from sales of property, plant and equipment and intangible assets		2,781,594	4,112,189
Payments for purchases of property, plant and equipment and intangible assets		(322,891,883)	(129,702,839)
Proceeds from government grants	10	634,177	174,313
C. CASH FLOWS FROM FINANCING ACTIVITIES		(1,078,247,103)	(335,742,822)
Proceeds from bank borrowings	4	50,000,000	1,044,500,000
Repayment of bank borrowings	4	(299,087,228)	(1,218,448,256)
Dividends paid	14	(850,000,000)	(100,000,000)
Interest paid		(121,108,669)	(142,230,931)
Interest received		165,209,491	97,740,979
Repayment of lease liabilities		(23,260,697)	(17,304,614)
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		(554,406,244)	1,138,052,284
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		238,142,513	(7,434,767)
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(316,263,731)	1,130,617,517
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3	1,876,062,927	745,445,410
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	3	1,559,799,196	1,876,062,927

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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 2021, major shareholders of the Company are Koç Holding and CNHI Österreich GmbH (“CNHI Österreich”) (Note 14). The number of personnel working within the Company as of 31 December 2021 is 2,882 (Permanent: 2,720 , temporary: 162) (31 December 2020: 2,834 (Permanent 2,078, temporary: 756). The average number of personnel working within the Company for the year ended 31 December 2021 is 2,846 (31 December 2020: 2,383).

The Company conducts marketing and selling activities in the domestic market, through its 131 tractor sales dealers, 147 spare part dealers and 35 construction equipment dealers (31 December 2020 : 124 tractor sales dealers, 134 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 2021, 25% of the shares of the Company are quoted on Borsa Istanbul (“BIST”) (31 December 2020: 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:

Basis of presentation

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

The financial statements are presented in accordance with “Announcement regarding with TFRS Taxonomy” which was published on 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 PERIOD 1 JANUARY - 31 DECEMBER 2021

(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 2021 are consistent with those used in the preparation of financial statements for the year ended 31 December 2020.

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 2021 are consistent with those of the previous financial year, except for the new and amended TFRS standards which are valid as of 1 January 2021 and Turkey Financial Reporting Interpretations Committee's ("TFRIC") interpretations summarised below.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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 2021:

- **Amendments to 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 Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. The amendments did not have a significant impact over financial position or performance of the Company.
- **Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9;** effective from annual periods beginning on or after 1 January 2023. 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 amendment did not have a significant impact over financial position or performance of the Company.

b. Standards, amendments and interpretations that are issued but not effective as at 31 December 2021:

- **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions Extension of the Practical expedient;** as of March 2021, this amendment extended till June 2022 and effective from 1 April 2021. 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 amendments are not expected to have significant impact over financial position or performance of the Company.
- **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 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 PERIOD 1 JANUARY - 31 DECEMBER 2021

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

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

2.3 Changes in TFRS (Continued)

- **Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities;** effective date deferred until accounting periods starting not earlier than 1 January 2024. 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 amendments are not expected to have 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.

- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;** effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The amendments are not expected to have significant impact over financial position or performance of the Company.
- **Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction;** from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. 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 PERIOD 1 JANUARY - 31 DECEMBER 2021

(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

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

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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.

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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.

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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.

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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 to profit or loss.

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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.

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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).

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

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

2.4 Summary of significant accounting policies (Continued)

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.

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 2 incentives for Ankara and Adapazarı facilities numbered of 130713 and 510975 respectively as of 31 December 2021 (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 substantially 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.

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(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 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.

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 equity 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).

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(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)

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).

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:

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

2.5 Significant accounting estimates and judgments (Continued)

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.

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 EUR9,833,333 as a hedging instrument against the Euro spot exchange rate risk the Company is exposed to due to highly probable export sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed until 31 December 2021. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities and sales prices. The Company also applies cash flow hedge accounting to hedge the currency risk arising from the production costs of tractors in Euro and the orders received with sales commitments in TRY.

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).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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)

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).

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Banks:		
- TRY denominated demand deposits	28,481,505	34,854,756
- TRY denominated time deposits	797,872,607	1,623,077,545
- Foreign currency denominated demand deposits	46,393,184	4,238,375
- Foreign currency denominated time deposits	693,839,507	228,260,185
	1,566,586,803	1,890,430,861

As of 31 December 2021, the weighted average effective annual interest rates for TRY ,Euro (“EUR”) and USD time deposits are 18.76% , 0.58% and 0.85% (31 December 2020: TRY: 17.29% EUR: 1.11% USD: None).

31 December 2021 and 2020 remaining time to maturity of time deposits is less than three months.

The Company has no blocked deposits as of 31 December 2021 (31 December 2020: None).

The cash and cash equivalents included in the statement of cash flows at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Banks	1,566,586,803	1,890,430,861
Less: Interest accruals	(6,787,607)	(14,367,934)
Cash and cash equivalents	1,559,799,196	1,876,062,927

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**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021**

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

NOTE 4 - FINANCIAL LIABILITIES

	31 December 2021	31 December 2020
Short-term financial liabilities		
Short-term bank borrowings	-	70,029,167
Short-term portions of long-term financial	569,077,930	167,824,796
Short-term lease liabilities	10,499,837	14,623,718
	579,577,767	252,477,681
Long-term financial liabilities		
Long-term bank borrowings	537,231,153	1,026,898,224
Long-term lease liabilities	18,032,767	14,914,462
	555,263,920	1,041,812,686

a) Short - term financial liabilities

Short - term bank borrowings

	Original currency		Weighted average effective interest rate p.a.(%)		TRY Equivalent	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
TRY borrowings	-	70,029,167	-	7.50	-	70,029,167
					-	70,029,167

Short - term portions of long term borrowings

	Original currency		Weighted average effective interest rate p.a.(%)		TRY Equivalent	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
EUR borrowings	11,146,218	14,488,965	1.83	1.92	168,462,824	130,515,145
TRY borrowings	400,615,106	37,309,651	8.32	7.97	400,615,106	37,309,651
					569,077,930	167,824,796

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

b) Long - term financial liabilities

Long - term bank borrowings

	Original currency		Weighted average effective interest rate p.a.(%)		TRY Equivalent	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
EUR borrowings	1,754,187	12,833,333	3.50	2.06	26,512,607	115,601,383
TRY borrowings	510,745,899	911,324,194	9.33	8.94	510,745,899	911,324,194
Prepaid borrowing commissions for debt (*)					(27,353)	(27,353)
Total long-term financial liabilities					537,231,153	1,026,898,224

(*) 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 2021 and 2020 are as follows:

Year	2021	2020
2022	-	449,754,502
2023	528,696,931	571,661,313
2024	8,534,222	5,482,409
	537,231,153	1,026,898,224

As of 31 December 2021, the Company has investment loan with fixed interest rate amounting to EUR5,833,333 and operating loan with fixed interest rate amounting to EUR7,000,000. The loan of EUR5,833,333 has a maturity of 6 years (maturity date 15 July 2022), with an interest and principal payment of every 6 months and with interest rate of 0.95%. EUR7,000,000 fixed interest operating loan; EUR4,000,000 of the loan has a maturity of 5 years (maturity 14 November 2022), the principal and interest repayment every 6 months and the interest rate is 2.60%; EUR3,000,000 of the loan is to pay the principal and interest every 6 months, the interest rate is 3.50% and the maturity is 29 March 2024. 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 31 December 2021

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 4 - FINANCIAL LIABILITIES (Continued)

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

	<u>Carrying values</u>		<u>Fair value</u>	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Bank borrowings	1,106,309,083	1,264,752,187	992,766,596	1,210,797,953

As of 31 December 2021, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 0.61% for EUR loans and 28.12% for TRY denominated bank borrowings respectively (31 December 2020: EUR 0.63%, TRY: 14.03%).

The movement of the borrowings for the years 2021 and 2020 are as follows:

	2021	2020
1 January	1,294,290,367	1,396,509,527
Borrowing received during the period	50,000,000	1,044,500,000
Repayment of lease liabilities	(23,260,697)	(17,304,614)
Effect of new lease contracts	13,010,518	13,727,628
Principal payments	(299,087,228)	(1,218,448,256)
Change of interest accruals	(493,570)	(13,993,474)
Change of exchange rates	100,382,297	89,299,556
31 December	1,134,841,687	1,294,290,367

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	31 December 2021	31 December 2020
Short-term trade receivables:		
Trade receivables	681,006,167	649,155,148
Notes receivables	2,852,777	4,868,452
	683,858,944	654,023,600
Less: Provision for doubtful receivables	(50,907,510)	(50,870,754)
Unearned financial income	(3,644,297)	(7,610,011)
Short-term trade receivables	629,307,137	595,542,835
Due from related parties (Note 23)	635,170,444	200,103,564
Total short-term trade receivables	1,264,477,581	795,646,399

As of 31 December 2021, the average maturity of trade receivables and payables are not longer than one year (31 December 2020 not longer than one year) and weighted average effective annual interest rates for discount of TRY, USD and EUR are 14.50%, 0.15% and 0.59% (31 December 2020: 17.10%, 0.19% and 0.56%).

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)

Movements of the provisions for doubtful receivables for the years ended 31 December 2021 and 2020 are as shown below:

	2021	2020
1 January	(50,870,754)	(50,117,763)
Cancelled during the year (Note 18)	1,910,863	922,377
Charge during the year (Note 18)	(1,947,619)	(1,675,368)
31 December	(50,907,510)	(50,870,754)
	31 December 2021	31 December 2020
Long - term trade receivables:		
Notes receivables	109,458	109,458
	109,458	109,458
	31 December 2021	31 December 2020
Trade payables:		
Trade payables	2,271,295,826	1,431,333,592
Less: Unincurred financial expense	(42,777,839)	(33,397,797)
Trade payables	2,228,517,987	1,397,935,795
Due to related parties (Note 23)	180,945,657	80,229,217
Total trade payables	2,409,463,644	1,478,165,012

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NOTE 6 – INVENTORIES

	31 December 2021	31 December 2020
Raw materials	812,333,865	453,966,371
Work in progress	22,930,923	15,965,272
Finished goods	215,484,816	119,210,355
Commercial goods	294,347,494	64,380,548
Spare parts	79,612,000	84,134,244
Goods in transit (*)	344,331,158	163,198,728
Less: Provision for impairment of inventory (-)	(29,679,765)	(29,991,790)
Inventories	1,739,360,491	870,863,728

The cost of inventories recognised as expense in the current period is amounting to TRY8,923,371,986 (31 December 2020: TRY4,518,763,114).

(*) 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 2021 and 2020 are as follows

	2021	2020
1 January	(29,991,790)	(30,765,907)
Cancelled due to sales of inventory during the year	1,160,285	9,653,826
Charge during the year for impairment of inventory	(848,260)	(8,879,709)
31 December	(29,679,765)	(29,991,790)

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

	31 December 2021	31 December 2020
Raw materials	(26,846,910)	(26,324,628)
Commercial goods	(1,656,281)	(1,331,389)
Spare parts	(1,176,574)	(2,335,773)
	(29,679,765)	(29,991,790)

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2021	Additions	Disposals	Transfers	31 December 2021
Cost					
Land	52,418,380	-	-	-	52,418,380
Land improvements	19,005,606	1,011,155	-	-	20,016,761
Buildings	251,573,287	7,685,549	-	4,996,386	264,255,222
Machinery and equipment	779,299,242	121,037,974	(8,571,884)	-	891,765,332
Special costs	6,664,109	-	-	-	6,664,109
Motor vehicles	13,652,760	5,833,853	(1,760,389)	-	17,726,224
Furniture and fixtures	105,024,829	26,118,773	(2,152,288)	-	128,991,314
Construction in progress	5,375,103	95,242	-	(5,375,103)	95,242
	1,233,013,316	161,782,546	(12,484,561)	(378,717)	1,381,932,584
Accumulated depreciation					
Land improvements	6,499,963	605,145	-	-	7,105,108
Buildings	71,432,223	5,720,657	-	-	77,152,880
Machinery and equipment	505,983,044	67,122,572	(8,497,775)	-	564,607,841
Special costs	5,685,054	353,828	-	-	6,038,882
Motor vehicles	3,902,876	2,900,876	(1,193,801)	-	5,609,951
Furniture and fixtures	85,426,355	8,872,806	(2,145,475)	-	92,153,686
	678,929,515	85,575,884	(11,837,051)	-	752,668,348
Net book value	554,083,801				629,264,236
	1 January 2020	Additions	Disposals	Transfers	31 December 2020
Cost					
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
	1,197,932,114	41,403,029	(4,953,871)	(1,367,956)	1,233,013,316
Accumulated depreciation					
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
	613,255,740	68,062,631	(2,388,856)	-	678,929,515
Net book value	584,676,374				554,083,801

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NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Allocation of the depreciation expenses of property, plant and equipment for the years ended at 31 December 2021 and 2020 is as follows:

	31 December 2021	31 December 2020
Cost of sales	60,522,745	46,634,267
General administrative expenses	15,437,135	13,519,410
Marketing, selling and distribution expenses	5,123,125	4,085,877
Research and development expenses	4,492,879	3,823,077
	85,575,884	68,062,631

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 2021 (31 December 2020: None).

There is no mortgage on property, plant and equipment as of 31 December 2021 (31 December 2020: None).

NOTE 8 - RIGHT OF USE ASSETS

	1 January 2021	Additions	Disposals (*)	31 December 2021
Cost				
Land and buildings	12,851,727	2,968,628	-	15,820,355
Machinery and equipment	15,980,365	3,298,500	(478,128)	18,800,737
Motor vehicles	20,118,064	6,743,390	(264,117)	26,597,337
	48,950,156	13,010,518	(742,245)	61,218,429
Accumulated depreciation				
Land and buildings	5,554,166	5,456,107	-	11,010,273
Machinery and equipment	8,489,837	3,257,375	(478,128)	11,269,084
Motor vehicles	9,377,241	6,610,423	(264,117)	15,723,547
	23,421,244	15,323,905	(742,245)	38,002,904
Net book value	25,528,912			23,215,525

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

	1 January 2021	Additions	Disposals (*)	31 December 2021
Cost				
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
	39,594,836	13,727,628	(4,372,308)	48,950,156
Accumulated depreciation				
Land and buildings	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
	13,716,436	12,385,039	(2,680,231)	23,421,244
Net book value	25,878,400			25,528,912

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NOTE 8 - RIGHT OF USE ASSETS (Continued)

Depreciation expenses are stated below for the right of use for the periods ending on 31 December 2021 and 2020:

	31 December 2021	31 December 2020
Cost of sales	4,444,251	4,249,872
General administrative expenses	1,495,490	873,377
Marketing, selling and distribution expenses	8,386,320	6,420,810
Research and development expenses	997,844	840,980
	15,323,905	12,385,039

NOTE 9 - INTANGIBLE ASSETS

	1 January 2021	Additions	Disposals	Transfers	31 December 2021
<u>Cost</u>					
Rights	126,703,178	30,424,570	-	378,717	157,506,465
Development costs	326,384,464	-	-	39,081,384	365,465,848
Development costs in progress	92,216,127	137,126,404	-	(39,081,384)	190,261,147
	545,303,769	167,550,974	-	378,717	713,233,460
<u>Accumulated amortisation</u>					
Rights	63,225,818	20,882,755	-	-	84,108,573
Development costs	145,332,436	45,215,457	-	-	190,547,893
	208,558,254	66,098,212	-	-	274,656,466
Net book value	336,745,515				438,576,994
	1 January 2020	Additions	Disposals	Transfers	31 December 2020
<u>Cost</u>					
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
	450,287,199	93,648,614	-	1,367,956	545,303,769
<u>Accumulated amortisation</u>					
Rights	47,586,598	15,639,220	-	-	63,225,818
Development costs	106,982,391	38,350,045	-	-	145,332,436
	154,568,989	53,989,265	-	-	208,558,254
Net book value	295,718,210				336,745,515

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NOTE 9 - INTANGIBLE ASSETS (Continued)

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.

Allocation of the amortization expenses of intangible assets for the years ended at 31 December 2021 and 2020 is as follows:

	31 December 2021	31 December 2020
Cost of sales	15,266,376	11,433,081
General administrative expenses	3,718,099	2,784,507
Marketing, selling and distribution expenses	947,367	709,489
Research and development expenses	39,724,733	33,713,383
Construction in progress effects	6,441,637	5,348,805
	66,098,212	53,989,265

NOTE 10 - OTHER ASSETS AND LIABILITIES

	31 December 2021	31 December 2020
a) Other current assets:		
Deferred value added tax ("VAT")	222,387,904	65,093,377
Reclaimed VAT	144,451,679	45,821,989
	366,839,583	110,915,366
	31 December 2021	31 December 2020
b) Government grants and aids:		
Government grants and aids	3,692,202	3,633,916
	3,692,202	3,633,916
	2021	2020
1 January	3,633,916	4,113,292
Received during the year	634,177	174,313
Utilized during the year (Note 18)	(575,891)	(653,689)
31 December	3,692,202	3,633,916

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NOTE 11 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2021	31 December 2020
a) Prepaid expenses:		
Prepaid expenses for future months	2,657,912	893,204
	2,657,912	893,204
	31 December 2021	31 December 2020
b) Long-term prepaid expenses		
Advances given for purchases of fixed assets (*)	44,979,811	2,249,848
	44,979,811	2,249,848
	31 December 2021	31 December 2020
c) Deferred income:		
Advances received (*)	123,920,302	143,628,518
Income for future periods (**)	50,027,500	13,508,053
	173,947,802	157,136,571

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

(**) Deferred income represents the sales amount of the tractors for which the invoices were issued as of 31 December 2021 and 2020, 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 2021	31 December 2020
Provision for unused vacation	6,501,091	4,645,214
	6,501,091	4,645,214

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

	2021	2020
1 January	4,645,214	1,688,128
Charge/(used) for the year, net	1,855,877	2,957,086
31 December	6,501,091	4,645,214

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

Other short - term provisions

	31 December 2021	31 December 2020
Warranty expense provisions	41,210,641	22,754,191
Provisions for legal cases	13,163,403	12,696,101
	54,374,044	35,450,292

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

	2021	2020
1 January	12,696,101	9,248,815
Charge for the year (Note 18)	8,082,025	6,782,995
Used during the year (Note 18)	(7,614,723)	(3,335,709)
31 December	13,163,403	12,696,101

b) Long-term provisions

Long-term provision for employee benefits

	31 December 2021	31 December 2020
Provision for employee termination benefits	76,294,116	50,255,628
	76,294,116	50,255,628

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 TRY8,284.51 for each year of service as of 31 December 2021 (31 December 2020 : TRY7,117.17).

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.

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NOTE 12 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES(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 2021	31 December 2020
Inflation rate (%)	16.80	8.00
Discount rate (%)	22.00	13.00
Turnover rate to estimate the probability of retirement (%)	92.12	92.94

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 TRY10,848.59 (1 January 2020: TRY7,638.96) which is effective from 1 January 2021 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:

	2021	2020
1 January	50,255,628	39,946,649
Interest cost	6,533,232	4,793,598
Current year service cost	4,704,600	3,642,903
Paid in the year	(5,115,031)	(2,561,708)
Actuarial loss	19,915,687	4,434,186
31 December	76,294,116	50,255,628

Sensitivity analysis of key assumptions used for termination benefits calculations as at 31 December 2021 are as follows:

Sensitivity level	Net discount rate		Turnover related to the probability of retirement	
	%0,5 decrease (%3.95)	%0,5 increase (%4.95)	%0,5 decrease (%91.62)	%0,5 increase (%92.62)
Rate				
Change in employee benefits liability	4,090,200	(3,713,120)	(1,042,593)	1,094,078

Other long - term provisions

	31 December 2021	31 December 2020
Warranty provision	61,336,750	33,750,677
	61,336,750	33,750,677

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

b) Long-term provisions (Continued)

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

	2021	2020
1 January	56,504,868	33,068,681
Used during the year	(64,845,769)	(39,525,408)
Charge for the year (Note 16)	110,888,292	62,961,595
31 December	102,547,391	56,504,868

c) Contingent liabilities

As of 31 December 2021 and 2020 the Company's guarantee/ pledge/ mortgage positions are as follows:

	31 December 2021	31 December 2020
A. The total amount of collaterals given on behalf of its own legal entity	286,689,350	188,074,388
B. The total amount of collaterals given in favor of the companies in the scope of full consolidation	-	-
C. The total amount of collaterals given for the purpose of providing debt to third parties in the course of ordinary business activities	-	-
D. The total amount of other collaterals given	-	-
i. The total amount of collaterals given in favor of the parent companies	-	-
ii. The total amount of collaterals given in favor of other group companies which are not	-	-
iii. The total amount of collaterals given in favor of third parties other than the parties stated in item C	-	-
	286,689,350	188,074,388

As at 31 December 2021, 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 2020: EUR 2,006,350).

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

d) Contingent assets

	Original currency amount						TRY equivalent	
	31 December 2021			31 December 2020			31 December 2021	31 December 2020
	EUR	USD	TRY	EUR	USD	TRY		
Letters of guarantees received	-	270,000	655,412,172	-	270,000	552,671,672	659,011,002	554,653,607
Direct debit	-	-	1,232,025,165	-	-	778,466,671	1,232,025,165	778,466,671
Mortgages	-	-	438,714	-	-	438,714	438,714	438,714
Cash TRY guarantees	-	-	2,445,441	-	-	1,140,874	2,445,441	1,140,874
Guarantee bonds	-	-	615,528	-	-	1,560,000	615,528	1,560,000
							1,894,535,850	1,336,259,866

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 13 - EMPLOYEE BENEFITS

Liabilities for employee benefits

	31 December 2021	31 December 2020
Accrued premiums and liabilities to personnel	39,042,724	28,700,281
Taxes payable and liabilities (*)	38,621,571	16,257,262
	77,664,295	44,957,543

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

NOTE 14 - EQUITY

Paid-in share capital

The Company's registered share capital amounts to TRY250,000,000 (31 December 2020: 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 2021 and 2020 are as follows:

	31 December 2021		31 December 2020	
	Share (%)	Share amount (TRY)	Share (%)	Share amount (TRY)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNH Industrial 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	53,369,000	100.00	53,369,000
Adjustments to share capital		39,014,356		39,014,356
		92,383,356		92,383,356

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

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

As of 11 June 2004, the Company has been quoted to BIST and its shares started to be traded in the stock exchange market from that date. As of 31 December 2021, 25% of the Company shares are quoted at BIST (31 December 2020: 25%)

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 14 - EQUITY (Continued)

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

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

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

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

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

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

Dividend distribution

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

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation.

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

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NOTE 14 - EQUITY (Continued)

In dividend distribution, the Company follows a balanced and consistent policy between the benefits of the shareholders and the benefits of the Company in accordance with the Corporate Management Principles. The Board of Directors of the Company has decided; that at least 60% of the distributable net profit for the period calculated in accordance with the TCC, CMB regulations and the main agreement should be distributed to the shareholders as dividends, taking into consideration the economic conditions, long-term investment financing and business plans as well as profitability; that the dividend to be distributed may be realized in cash or by capital increase through bonus shares or partly in cash and partly through bonus shares.

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

The proposal for the distribution dividends from the profit of 2020 amount of TRY850,000,000 was accepted at the 67th Ordinary General Assembly Meeting held on 22 March 2021. Dividend paid in cash to shareholders as of 25 March 2021 and distributed per share is 15.93 kuruş.

NOTE 15 - REVENUE AND COST OF SALES

	1 January - 31 December 2021	1 January- 31 December 2020
Domestic sales	9,439,570,751	4,563,558,976
Export sales	3,727,908,121	2,321,106,198
Sales income (gross)	13,167,478,872	6,884,665,174
Less: Discounts and returns	(1,523,281,427)	(641,356,877)
Sales income (net)	11,644,197,445	6,243,308,297
Cost of sales	(9,511,285,881)	(4,935,311,548)
Gross profit	2,132,911,564	1,307,996,749

Sales quantities:

	1 January - 31 December 2021			1 January - 31 December 2020		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Tractor	32,605	16,176	48,781	22,384	12,553	34,937
Combine	542	-	542	212	-	212
	33,147	16,176	49,323	22,596	12,553	35,149

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

	1 January - 31 December 2021	1 January - 31 December 2020
Warranty expenses (Note 12)	110,888,292	62,961,595
Personnel expenses	102,485,914	75,282,573
Transportation and insurance expenses	53,706,825	27,835,821
Depreciation and amortisation expenses	14,456,812	11,216,176
Outsourcing expenses	8,105,532	5,189,346
Sales development expenses	7,435,737	3,011,521
Material expenses	4,530,147	2,745,139
Press relations, advertisement and promotion expenses	3,534,273	1,644,374
Travel expenses	3,462,649	2,825,238
Distributors meeting and exposition expenses	3,182,945	6,119,826
Service expenses	1,957,260	1,037,864
Other	2,915,528	4,623,588
	316,661,914	204,493,061

	1 January - 31 December 2021	1 January - 31 December 2020
General administrative expenses:		
Personnel expenses	71,720,517	52,389,255
Service expenses received from shareholders	26,261,748	20,902,852
Depreciation and amortisation expenses	20,650,724	17,177,294
Service expenses	19,164,366	14,672,706
Donations and aids	14,063,673	8,131,599
Outsourcing expenses	12,429,000	6,680,416
Entertainment expenses	4,962,131	1,908,313
Consultancy services	3,698,924	432,563
Insurance expenses	3,574,042	2,665,787
Taxes and other legal expenses	2,894,716	2,766,618
Subscription expenses	2,179,195	1,438,079
Legal consultancy and lawsuit expenses	1,986,325	1,504,290
Material expenses	1,444,413	1,404,245
Travel expenses	385,557	854,235
Other	6,398,542	3,050,063
	191,813,873	135,978,315

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

	1 January - 31 December 2021	1 January - 31 December 2020
Research and development expenses:		
Depreciation and amortisation expenses	45,215,457	38,377,440
Project expenses	4,930,297	342
Personnel expenses	653,795	662,689
Other	1,103,429	441,637
	51,902,978	39,482,108

NOTE 17 - EXPENSES BY NATURE

	1 January - 31 December 2021	1 January - 31 December 2020
Raw materials and goods	8,923,371,986	4,518,763,114
Personnel and provision for employment termination benefits expenses	547,191,499	367,085,252
Depreciation and amortisation expenses	160,556,364	129,088,130
Transportation and insurance expenses	113,798,111	63,824,330
Warranty expenses	110,888,292	62,961,595
Material expense	102,902,070	50,863,503
Energy expenses	40,392,948	22,636,550
Changes in finished goods and work in process	(103,240,112)	(6,295,457)
Donations and aids	14,063,673	8,131,599
Other	161,739,815	98,206,416
	10,071,664,646	5,315,265,032

Independent Audit Firm/Fees for Services Obtained from an Independent Auditor

The Company's explanation regarding the fees for the services rendered by the independent audit firms, which is prepared by the Public Oversight Authority pursuant to the Board Decision published in the Official Gazette on 30 March 2021 and the preparation principles of which are based on the letter of the Public Oversight Authority dated 19 August 2021 are as follows:

	2021	2020
Independent audit fee for the reporting period	99,440	85,800
Fees for tax consultancy services	250,000	165,000
Fee for other assurance services	-	15,344
Fees for services except independent auditing	-	9,275
Total	349,440	275,419

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NOTE 18 – OTHER INCOME/EXPENSE FROM OPERATING ACTIVITIES

	1 January - 31 December 2021	1 January - 31 December 2020
Foreign exchange gain from trade receivables and payables	741,607,320	264,020,786
Interest income from sales	333,866,268	64,129,781
Reversal of provision for litigation expenses (Note 12)	7,614,723	3,335,709
Termination of provision for doubtful receivables (Note 5)	1,910,863	922,377
Incentive income (Note 10)	575,891	653,689
Other income	46,723,811	41,998,798
Other operating income	1,132,298,876	375,061,140
Foreign exchange losses on trade receivables and payables	(779,008,341)	(290,004,004)
Interest expense from trade payables	(500,991,634)	(68,628,035)
Provision for litigation expenses (Note 12)	(8,082,025)	(6,782,995)
Provision for doubtful receivables (Note 5)	(1,947,619)	(1,675,368)
Other expenses	(1,484,725)	(1,118,823)
Other operating expenses	(1,291,514,344)	(368,209,225)

NOTE 19 - FINANCIAL INCOME

	1 January - 31 December 2021	1 January - 31 December 2020
Foreign exchange gain	388,170,184	89,390,517
Interest income	157,629,164	110,747,815
	545,799,348	200,138,332

NOTE 20 - FINANCIAL EXPENSE

	1 January - 31 December 2021	1 January - 31 December 2020
Foreign exchange losses	(328,140,584)	(129,567,241)
Interest expenses of bank borrowings	(120,615,099)	(128,237,457)
Other	(2,262,030)	(5,065,332)
	(451,017,713)	(262,870,030)

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NOTE 21 - TAX ASSETS AND LIABILITIES

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

In accordance with the regulation numbered 7316, published in Official Gazette numbered 31462 on 22 April 2021, “ Law on the Amendment of Some Tax Acts and Some Other Laws”, corporate tax rate for the years 2021 has set for 25%, 2022 for 23%. This change will be effective for corporate tax calculation for the periods starting from 1 January 2021, starting with the declarations that must be submitted as of 1 July 2021. Tax returns are filed between 25th April following the close of the accounting year to which they relate. Corporate tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the relevant year and is paid in one installment until the end of the relevant month. In accordance with the tax legislation, 25% temporary tax is calculated and paid on quarterly earnings, and the paid amounts are deducted from the tax calculated on the annual income.

The law on the amendment of the Tax Procedure Law and the Corporate Tax Law was enacted on 20 January 2022 with the Law No. 7352, including the temporary accounting periods, the conditions regarding the inflation adjustment within the scope of the repeated article 298 for the 2021 and 2022 accounting periods and the 2023 accounting period temporary tax periods, it has been decided that the financial statements will not be subject to inflation adjustment, regardless of whether or not they have occurred. The Public Oversight Authority made a statement on the Implementation of Financial Reporting in Hyperinflationary Economies under TFRS on 20 January 2022, and it was stated that there was no need to make any adjustments within the scope of TAS 29 Financial Reporting in Hyperinflationary Economies in the financial statements for 2021.

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 2021 and 2020.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

NOTE 21 - TAX ASSETS AND LIABILITIES (Continued)

As of 31 December 2021 and 2020, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2021	31 December 2020
Corporate tax expense	259,399,849	30,299,815
Less: Prepaid taxes	(259,382,011)	(10,907,403)
Tax liability	17,838	19,392,412

The breakdown of total tax expense for the years ended 31 December 2021 and 2020 are as follows:

	1 January - 31 December 2021	1 January - 31 December 2020
Corporate tax expense	(259,399,849)	(30,299,815)
Deferred tax income/(expense)	71,354,376	(66,967,798)
Total tax income/(expense)	(188,045,473)	(97,267,613)

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 2021 and 2020 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Property, plant and equipment and intangible assets, restatement				
And useful life differences	230,656,919	331,074,341	(46,131,384)	(72,836,355)
Employee termination benefits	(76,294,116)	(50,255,628)	15,258,823	11,056,238
Warranty provision	(102,547,391)	(56,504,868)	23,585,900	12,431,071
Provision for lawsuits	(13,163,403)	(12,696,101)	3,027,583	2,793,142
Unearned finance income/ expenses on trade receivables, payables and due from related parties	(60,096,798)	23,895,808	13,822,264	(5,257,078)
Provision for doubtful receivables	(36,756)	(752,991)	8,454	165,658
Provision for impairment of inventory	(29,679,765)	(29,991,790)	6,826,346	6,598,194
Sales premium accrued	(57,143,837)	(24,615,876)	13,143,082	5,415,493
Other expense provisions	(6,501,091)	(4,645,214)	1,495,251	1,021,947
Investment incentive tax assets	26,198,663	131,541,901	7,859,599	39,462,570
Deferred income	63,671,398	(13,363,814)	(14,644,422)	2,940,039
Other	(40,741,317)	(1,663,253)	9,370,506	365,915
Deferred tax assets			33,622,002	4,156,834

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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:

	2021	2020
1 January	4,156,834	71,324,643
Reflected to profit for the year	71,354,376	(66,967,798)
Reflected to other comprehensive income/(expense)	(41,889,208)	(200,011)
31 December	33,622,002	4,156,834

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

	1 January- 31 December 2021	1 January- 31 December 2020
Profit before tax	1,510,233,050	873,710,656
Tax calculated at enacted tax rate	377,558,263	192,216,344
Investment incentives	(140,138,052)	(80,840,123)
Research and development incentives	(34,368,363)	(15,913,886)
Disallowable expenses	13,206,397	63,948
The effect of revaluation of tangible fixed assets in accordance with the provisions of Tax Procedure Law	(40,121,895)	-
Tax base increase (*)	16,814,597	-
Other	(4,905,474)	1,741,330
Total tax income/(expense)	188,045,473	97,267,613

(*) It consists of tax expenses arising from tax base increase related to VAT and Withholding Tax liabilities within the scope of Law No. 7326 on Restructuring of Certain Receivables and Amending Certain Laws.

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

NOTE 22 - EARNINGS PER SHARE (Continued)

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.

	2021	2020
Net profit for the year	1,322,187,577	776,443,043
Weighted average number of the ordinary shares	5,336,900,000	5,336,900,000
Earnings per share (TRY)	0,2477	0,1455

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

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 2021 and 2020 and significant intercompany transactions were as follows:

i) Balances with related parties as of 31 December 2021 and 2020:

a) Due from related parties

	31 December 2021	31 December 2020
Due from group companies		
CNHI International SA ("CNHI International") (*)	591,983,017	173,147,157
CNH Industrial Argentina SA	29,155,239	15,853,074
CNHI Italia SPA ("CNHI Italia")	8,911,470	6,145,363
CNH Industrial Brasil Ltda	3,069,818	2,055,259
CNH Industrial (India) Pvt. Ltd.	846,275	1,015,602
Other	1,204,625	1,887,109
	635,170,444	200,103,564

(*) 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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

i) Balances with related parties as of 31 December 2021 and 2020(Continued)

b) Due to related parties

	31 December 2021	31 December 2020
Koç Holding	805,692	2,510,006
Due to shareholders	805,692	2,510,006
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	58,688,298	45,530,678
Fpt Industrial Powertrain Technolog	43,053,172	4,754,639
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	37,703,427	13,823,295
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	25,368,505	3,982,201
Koç Digital Çözümler A.Ş.	4,864,565	1,284,536
Otokoç Otomotiv San. ve Tic. A.Ş (“Otokoç”)	3,688,218	2,852,476
Opet Petrolcülük A.Ş. (“Opet”)	3,098,787	309,537
Ingage Dijital Pazarlama Hizmetleri	1,409,605	680,120
Setur Servis Turistik A.Ş. (“Setur”)	1,154,157	1,022,137
Divan Turizm İşletmeleri (“Divan”)	1,028,627	13,499
Akpa Dayanıkl Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. (“Akpa”)	478,855	777,728
Ram Sigorta Aracılık Hizmetleri A.Ş. (“Ram Sigorta”)	123,312	35,220
Other	866,264	3,493,510
Due to group companies	181,525,792	78,559,576
Less: Unearned financial expenses	(1,385,827)	(840,365)
	180,945,657	80,229,217

c) Lease liabilities to related parties

	31 December 2021	31 December 2020
Otokoç	13,343,173	13,144,302
Zer	11,808,492	12,279,314
Other	539,333	398,426
	25,690,998	25,822,042

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

Significant sales and purchases transactions with related parties for the periods between 1 January - 31 December 2021 and 2020:

a) Product sales to related parties

	1 January - 31 December 2021	1 January- 31 December 2020
Product sales to group companies		
CNHI International (*)	3,599,165,979	2,272,318,900
CNH Industrial Argentina SA	82,469,575	20,209,955
Yapı Kredi Finansal Kiralama A.O.	50,345,234	1,017,146
CNH Italia SPA	33,717,501	17,162,620
CNH Industrial Brasil Ltda	8,952,277	6,253,615
CNH Industrial (India) PV	3,602,788	2,843,658
Other	7,179,460	1,693,787
	3,785,432,814	2,321,499,681

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

b) Service sales to related companies

	1 January- 31 December 2021	1 January- 31 December 2020
Service sales to group companies		
CNH Italia SPA (1)	1,681,953	13,258,578
CNHI International (2)	4,137,014	3,683,941
Other	147,271	-
	5,966,238	16,942,519

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

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

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

Significant sales and purchases transactions with related parties for the periods between 1 January - 31 December 2021 and 2020 (Continued):

c) Product purchases from related parties

	1 January- 31 December 2021	1 January- 31 December 2020
Product purchases from group companies		
CNHI International (1)	2,193,285,398	769,321,493
Opet Fuchs (2)	129,835,264	64,742,780
Koç Sistem (3)	36,378,478	17,061,666
CNH Italia SPA (4)	16,252,023	8,511,288
Zer (5)	13,824,575	23,593,027
Akpa	7,327,903	4,465,927
Opet (2)	7,066,303	2,028,027
Koç Digital Çözümler A.Ş.(3)	3,857,167	1,350,000
CNHI India	493,319	392,778
Other	2,577,073	2,051,414
	2,410,897,503	893,518,400

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

d) Service purchases from related parties

	1 January- 31 December 2021	1 January- 31 December 2020
Service purchases from shareholders		
Koç Holding (1)	15,916,067	11,020,072
	15,916,067	11,020,072
Service purchase from group companies		
Zer (2)	293,927,898	156,566,293
Fpt Industrial Powertrain Technologies (3)	45,509,856	-
Eltek (4)	32,210,985	6,464,403
CNHI International (3)	16,874,237	16,733,635
Otokoç (5)	10,236,867	7,260,363
Koç Sistem (6)	6,726,191	7,856,302
Ram Sigorta (7)	5,766,975	4,058,952
Setur (8)	2,551,397	5,258,773
Entek (4)	8,209	12,046,642
Other	7,417,748	8,655,788
	421,230,363	224,901,151
	437,146,430	235,921,223

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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NOTE 23 - RELATED PARTY EXPLANATIONS (Continued)

ii) Significant sales and purchases transactions with related parties for the periods between 1 January - 31 December 2021 and 2020 (Continued):

- (1) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Koç Holding A.Ş. regarding their related services according to the concealed gain distribution described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1
- (2) Services purchased from Zer are related with security, cleaning, transportation and other services.
- (3) Services purchased from CNHI International is related with engineering services, strategy development, consulting and brokerage.
- (4) Service purchased from Eltek and Entek is related with electricity expenses.
- (5) Service purchased from Otokoç is related with motor vehicles leasing services.
- (6) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licences.
- (7) Insurance service purchased from Ram Sigorta Aracılık Hizmetleri A.Ş. includes premium amounts paid and accrued for the year ended on 31 December 2021.
- (8) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.

iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January - 31 December 2021 and 2020:

Financial income and expense from group companies

	1 January - 31 December 2021	1 January - 31 December 2020
Interest income		
Yapı Kredi	5,431,675	-

iv) Dividends paid to related parties:

	1 January - 31 December 2021	1 January - 31 December 2020
Koç Holding	318,750,000	37,500,000
CNHI Osterreich	318,750,000	37,500,000
	637,500,000	75,000,000

v) Other transactions with related parties for the periods between 1 January - 31 December 2021 and 2020:

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

As of 31 December 2021, the Company paid TRY38,301,557 benefits to the key management personnel (31 December 2020: TRY27,299,795). All amount consists of short-term benefits.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

(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 affective foreign currency cash flow hedge relationship between EUR long term financial borrowing related with investment expenditures and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 1 January 2021. The related long term investment borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/gains on cash flow hedges. The amount of the related investment borrowing as of 31 December 2021 is EUR9,833,333 (31 December 2020: 19,666,667). Another hedging instrument subject to cash flow hedge accounting is imported tractor orders and the exchange rate effect of the amount kept in the bank based on these orders. Türk Traktör imports and sells tractors in Euro. With the application put into use in 2021, the TRY price list for imported tractors was introduced. In this case, hedging started to be applied as of 1 January 2021 in order to eliminate the exchange rate risk at the time of payment on the date of sale of the Euro amount put in the cash register at the date of order. Another hedging instrument, which is subject to cash flow hedge accounting applied for the period after 2 November 2021, is made to hedge the Euro exchange rate effect on the production costs of tractors for which sales commitments are given to domestic customers in TRY. The company gives TRY sales commitment based on tractor orders of its domestic customers. Some of the production costs of the respective tractors are in Euro. It eliminates the exchange rate difference that will occur when production is realized by keeping a plus Euro balance position in company accounts equal to the relevant Euro cost of the open order amount. The company applies hedging accounting in order to prevent the exchange rate fluctuations of the Euro balance it holds until the production takes place. The total amount of foreign exchange losses recognized after tax in equity is TRY110,720,788 (31 December 2020: TRY42,851,846).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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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 2021 and 2020 are as follows:

	31 December 2021					
	TRY Equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	764,913,600	309,478	50,498,192	-	-	-
2. Monetary financial assets (including banks accounts)	740,232,690	905,989	45,470,474	28,253	11,597	359,135,604
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	1,505,146,290	1,215,467	95,968,666	28,253	11,597	359,135,604
5. Trade receivables	-	-	-	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets (5+6)	-	-	-	-	-	-
8. Total assets (4+7)	1,505,146,290	1,215,467	95,968,666	28,253	11,597	359,135,604
9. Trade payables	290,565,485	4,751,465	12,016,398	28,576	-	386,940,715
10. Financial liabilities	174,230,184	-	11,527,811	-	-	-
11. Other monetary liabilities	46,006,070	-	3,112,668	-	-	-
12. Current liabilities (9+10+11)	510,801,739	4,751,465	26,656,877	28,576	-	386,940,715
13. Financial liabilities	35,354,384	-	2,339,197	-	-	-
14. Non-current liabilities (13)	35,354,384	-	2,339,197	-	-	-
15. Total liabilities (12+14)	546,156,123	4,751,465	28,996,074	28,576	-	386,940,71
16. Cash flow hedge accounting amounts	148,620,017	-	9,833,333	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	1,107,610,184	(3,535,998)	76,805,925	(323)	11,597	(27,805,111)
18. Net monetary foreign currency asset/ (liability) position (8-15)	958,990,167	(3,535,998)	66,972,592	(323)	11,597	(27,805,111)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021**

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

	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)	232,498,560	234,516	25,557,811	47,710	8,569	133,712
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	430,118,418	918,164	46,939,214	47,710	8,569	133,712
5. Trade receivables	-	-	-	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets (5+6)	-	-	-	-	-	-
8. Total assets (4+7)	430,118,4218	918,164	46,939,214	47,710	8,569	133,712
9. Trade payables	164,022,745	4,442,032	13,013,356	63,976	-	191,129,775
10. Financial liabilities	135,990,095	-	15,096,759	-	-	-
11. Other monetary liabilities	17,795,656	-	1,975,561	-	-	-
12. Current liabilities (9+10+11)	317,808,496	4,442,032	30,085,676	63,976	-	191,129,775
13. Financial liabilities	126,412,527	-	14,033,518	-	-	-
14. Non-current liabilities (13)	126,412,527	-	14,033,518	-	-	-
15. Total liabilities (12+14)	444,221,023	4,442,032	44,119,194	63,976	-	191,129,775
16. Cash flow hedge accounting amounts	177,155,370	-	19,666,667	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	163,052,765	(3,523,868)	22,486,687	(16,266)	8,569	(190,996,063)
18. Net monetary foreign currency asset/ (liability) position (8-15)	(14,102,605)	(3,523,868)	2,820,020	(16,266)	8,569	(190,996,063)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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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 2021 and 2020 are as follows:

	1 January- 31 December 2021	1 January- 31 December 2020
Total export amount	3,727,908,121	2,321,106,198
Total import amount	4,364,437,992	1,801,827,223

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 2021 and 2020 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 2021		Equity	
	Appreciation of foreign currency	Depreciation foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(4,721,618)	4,721,618	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(4,721,618)	4,721,618	-	-
Had TRY appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	101,221,705	(101,221,705)	11,146,501	(11,146,501)
Hedged amount against EUR risk (-) (-)	1,555,472	(1,555,472)	9,591,029	(9,591,029)
Net Effect of EUR	102,777,177	(102,777,177)	20,737,530	(20,737,530)
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(337,557)	337,557	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(337,557)	337,557	-	-
Total net effect	97,718,002	(97,718,002)	20,737,530	(20,737,530)

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

	31 December 2020			
	Profit/(Loss)		Equity	
	Appreciation of foreign currency	Depreciation foreign currency	Appreciation of foreign currency	Depreciation foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(2,586,695)	2,586,695	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(2,586,695)	2,586,695	-	-
Had TRY appreciate/ (depreciate) by 10% against EUR				
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)
Net Effect of EUR	7,809,867	(7,809,867)	23,855,225	(23,855,225)
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(1,500,192)	1,500,192	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(1,500,192)	1,500,192	-	-
Total net effect	3,722,980	(3,722,980)	23,855,225	(23,855,225)

Price risk

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

Interest rate risk

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

Financial instruments with fixed interest rate

	31 December 2021	31 December 2020
Time deposits (Note 3)	1,491,712,114	1,851,337,730
Financial liabilities (Note 4)	1,106,309,083	1,234,725,848
Lease liabilities (Note 4)	28,532,604	29,538,180

Financial instruments with floating interest rate

	31 December 2021	31 December 2020
Financial liabilities (Note 4)	-	30,026,339

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

As of 31 December 2021, there are no financial instruments with floating interest rate.

b) Credit risk

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

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

The Company's maximum exposure to credit risk as of 31 December 2021 and 2020 is as follows:

	31 December 2021					
	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	635,170,444	628,453,274	-	956,197	1,566,586,803	-
Net book value of due dated but not impaired assets	-	963,321	-	-	-	-
Net book value of impaired assets	-	-	-	-	-	-
- Due dated (gross book value)	-	50,907,510	-	-	-	-
- Provision (-)	-	(50,907,510)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Amount exposed to maximum credit risk (*)	635,170,444	629,416,595	-	956,197	1,566,586,803	-

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

As of 31 December 2021, the guarantee amount of the maximum exposure to credit risk is TRY1,738,990,061. Furthermore, all assets which are due but not impaired are guaranteed.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

	31 December 2020					
	Trade Receivables					
	Related party	Third party	Related party	Third party	Bank deposit	Derivative Instruments
Net book value of financial assets which are undue and not impaired	200,103,564	594,784,812	-	381,635	1,890,430,861	-
	-	867,481	-	-	-	-
Net book value of due dated but not impaired assets						
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						
Amount exposed to maximum credit risk (*)	200,103,564	595,652,293	-	381,635	1,890,430,861	-

(*) 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.

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

c) Liquidity risk

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

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

As of 31 December 2021 and 2020, the undiscounted cash flows and liabilities according to their remaining maturities are presented in the following tables:

	31 December 2021				Total cash outflows according to contract
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	
Financial liabilities (Note 4)	1,134,841,687	172,219,744	396,858,187	537,231,153	1,106,309,084
Trade payables (Note 5)	2,228,517,987	2,271,295,826	-	-	2,271,295,826
Due to related parties (Note 23)	180,945,657	180,945,657	-	-	180,945,657
Other payables	61,519,026	61,519,026	-	-	61,519,026
Non-derivative financial instruments	3,605,824,357	2,685,980,253	396,858,187	537,231,153	3,620,069,593
	31 December 2020				
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	Total cash outflows according to contract
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	-	-	1,431,333,592
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
Non-derivative financial instruments	2,801,616,871	1,640,079,537	168,036,907	1,026,820,555	2,834,936,999

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2021

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

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 2021	31 December 2020
Total Financial liabilities	1,134,841,687	1,294,290,367
Less: Cash and cash equivalents (Note 3)	(1,566,586,803)	(1,890,430,861)
Net financial debt	(431,745,116)	(596,140,494)
Total shareholders' equity	2,050,994,098	1,441,166,437
Total liabilities	1,619,248,982	845,025,943
Net financial debt/ total liabilities (%)	(26.66)%	(70.55)%

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.

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

Financial assets

The fair values of 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.

NOTE 25 - SUBSEQUENT EVENT

None.

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