

# **Türk Traktör ve Ziraat Makineleri A.Ş.**

**Convenience translation into English of financial  
statements at December 31, 2015 together with  
independent auditor's report  
(originally issued in Turkish)**

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**  
**STATEMENTS OF FINANCIAL POSITION FOR JANUARY 1 - DECEMBER 31, 2015**

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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Türk Traktör ve Ziraat Makineleri A.Ş.;

**Report on Financial Statements**

We have audited the accompanying statement of financial position of Türk Traktör ve Ziraat Makineleri A.Ş. ("Türk Traktör" or the "Company") as at December 31, 2015 and the related 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 a summary of significant accounting policies and explanatory notes.

***Management's responsibility for the financial statements***

Company's management is responsible for the preparation and fair presentation of financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") and for such internal controls as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error and/ or fraud.

***Independent auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and standards on auditing issued by POA. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Türk Traktör ve Ziraat Makineleri A.Ş. as at December 31, 2015 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

### **Reports on other responsibilities arising from regulatory requirements**

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on February 11, 2016.
- 2) In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period January 1 – December 31, 2015 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with subparagraph 4, Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited

Necati Tolga Kirelli, SMMM  
Partner

February 11, 2016  
İstanbul, Turkey

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

**STATEMENTS OF FINANCIAL POSITION**

**AS OF DECEMBER 31, 2015**

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

		<b>Current year Audited December 31, 2015</b>	<b>Prior year Audited December 31, 2014</b>
	<b>Notes</b>		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
		<b>1.374.126.059</b>	1.319.190.508
Cash and cash equivalents	3	<b>244.280.765</b>	269.229.023
Trade receivables:			
- <i>Other parties</i>	5	<b>362.584.747</b>	362.442.800
- <i>Due from related parties</i>	22	<b>107.740.947</b>	98.446.054
Inventories	6	<b>517.663.175</b>	436.283.247
Prepaid expenses	9	<b>554.894</b>	5.032.605
Assets related to current period taxes	20	<b>15.947.252</b>	2.796.797
Other current assets	9	<b>125.354.279</b>	144.959.982
<b>NON-CURRENT ASSETS</b>			
		<b>641.922.277</b>	594.856.341
Trade receivables, other parties	5	<b>5.310.473</b>	-
Other receivables, other parties		<b>358.030</b>	357.419
Property, plant and equipment	7	<b>469.389.061</b>	454.154.723
Intangible assets	8	<b>120.890.449</b>	93.760.081
Prepaid expenses	10	<b>2.082.459</b>	832.613
Deferred tax assets	20	<b>43.891.805</b>	45.751.505
<b>TOTAL ASSETS</b>		<b>2.016.048.336</b>	1.914.046.849

The financial statements prepared as at and for the period ended December 31, 2015 have been approved by the Board of Directors on February 11, 2016.

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

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

**STATEMENTS OF FINANCIAL POSITION**

**AS OF DECEMBER 31, 2015**

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

		<b>Current year Audited December 31, 2015</b>	<b>Prior year Audited December 31, 2014</b>
	<b>Notes</b>		
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>		<b>853.636.480</b>	737.879.961
Short-term financial liabilities	4	-	121.626.528
Short-term portion of long-term financial liabilities	4	<b>206.845.070</b>	94.964.073
Trade payables:			
- <i>Other parties</i>	5	<b>508.366.554</b>	403.905.945
- <i>Due to related parties</i>	22	<b>44.000.627</b>	44.766.757
Employee benefit obligations	12	<b>15.551.267</b>	16.273.738
Other payables, other parties		<b>14.022.497</b>	11.740.493
Government incentives and aids	9	<b>3.066.415</b>	3.183.083
Deferred income	9	<b>21.273.777</b>	11.859.067
Short-term provisions:			
- Short-term provision for employee benefits	11	<b>1.561.738</b>	1.488.479
- Other provisions	11	<b>38.948.535</b>	28.071.798
<b>NON-CURRENT LIABILITIES</b>		<b>511.504.451</b>	471.304.173
Long-term financial liabilities	4	<b>465.936.348</b>	441.660.937
Long-term provisions:			
- Long-term provision for employee benefits	11	<b>15.598.307</b>	8.986.321
- Other provisions	11	<b>29.969.796</b>	20.656.915
<b>SHAREHOLDERS' EQUITY</b>		<b>650.907.405</b>	704.862.715
<b>Parent's equity</b>			
Paid-in share capital	13	<b>53.369.000</b>	53.369.000
Adjustments to share capital	13	<b>39.014.356</b>	39.014.356
Merger reserve		<b>(5.569.000)</b>	(5.569.000)
Restricted profit reserves		<b>170.262.352</b>	143.902.267
Other comprehensive income/ expense not to be reclassified to profit or loss			
- Actuarial (loss)/ gain arising from defined benefit plans		<b>(10.547.680)</b>	207.195
Retained earnings		<b>147.578.812</b>	212.851.625
Net profit for the year		<b>256.799.565</b>	261.087.272
<b>TOTAL LIABILITIES</b>		<b>2.016.048.336</b>	1.914.046.849
Provisions, contingent assets and contingent liabilities	11		

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

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

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

		<b>Current year Audited</b>	<b>Prior year Audited</b>
	<b>Notes</b>	<b>January 1 - December 31, 2015</b>	<b>January 1 - December 31, 2014</b>
Revenue	14	<b>3.102.561.637</b>	2.723.317.809
Cost of sales (-)	14	<b>(2.497.656.039)</b>	(2.234.163.502)
<b>GROSS PROFIT</b>		<b>604.905.598</b>	489.154.307
Marketing, selling and distribution expenses (-)	15	<b>(158.793.903)</b>	(124.101.198)
General administrative expenses (-)	15	<b>(70.072.523)</b>	(56.382.394)
Research and development expenses (-)	15	<b>(12.171.545)</b>	(11.928.352)
Other income from operating activities	17	<b>400.386.038</b>	563.688.910
Other expenses from operating activities (-)	17	<b>(379.235.940)</b>	(558.977.074)
<b>OPERATING PROFIT</b>		<b>385.017.725</b>	301.454.199
Income from investment activities		<b>34.085</b>	1.751.090
Expenses from investment activities (-)		<b>(4.051)</b>	(60.118)
<b>OPERATING INCOME BEFORE FINANCIAL INCOME/ (EXPENSE)</b>		<b>385.047.759</b>	303.145.171
Financial income	18	<b>106.754.229</b>	63.135.514
Financial expenses (-)	19	<b>(190.191.723)</b>	(72.833.800)
<b>PROFIT BEFORE TAXATION ON INCOME</b>		<b>301.610.265</b>	293.446.885
Taxes on income (-)	20	<b>(40.262.281)</b>	(41.682.033)
Deferred tax (expense)/ income	20	<b>(4.548.419)</b>	9.322.420
<b>NET PROFIT FOR THE YEAR</b>		<b>256.799.565</b>	261.087.272
<b>Attribution of net profit for the year:</b>			
Non-controlling interest		-	-
Equity holders of the parent		<b>256.799.565</b>	261.087.272
<b>Other comprehensive (expense)/ income</b>			
Other comprehensive income/expense not to be reclassified to profit or loss:			
Actuarial (loss)/ gain arising from employee benefits		<b>(13.443.594)</b>	572.165
Deferred tax effect		<b>2.688.719</b>	(114.444)
<b>Other comprehensive (expense)/ income after tax</b>		<b>(10.754.875)</b>	457.721
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>246.044.690</b>	261.544.993
Earnings per share (TL)	21	<b>0,0481</b>	0,0490

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

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

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

				Other comprehensive income or expense items not to be reclassified to profit or loss				
	Paid-in share capital	Adjustment to share capital	Merger reserve	Actuarial gain/ (loss) arising from defined benefit plans	Restricted profit reserves	Retained earnings	Net profit for the year	Total shareholders' equity
<b>January 1, 2015</b>	<b>53.369.000</b>	<b>39.014.356</b>	<b>(5.569.000)</b>	<b>207.195</b>	<b>143.902.267</b>	<b>212.851.625</b>	<b>261.087.272</b>	<b>704.862.715</b>
<b>Transfers</b>	-	-	-	-	<b>26.360.085</b>	<b>234.727.187</b>	<b>(261.087.272)</b>	-
<b>Dividends paid</b>	-	-	-	-	-	<b>(300.000.000)</b>	-	<b>(300.000.000)</b>
<b>Comprehensive income</b>								
Net profit for the year	-	-	-	-	-	-	256.799.565	256.799.565
<b>Other comprehensive income</b>								
Actuarial loss from employee benefit	-	-	-	(10.754.875)	-	-	-	(10.754.875)
<b>Total other comprehensive income</b>	-	-	-	<b>(10.754.875)</b>	-	-	-	<b>(10.754.875)</b>
<b>Total comprehensive income</b>	-	-	-	<b>(10.754.875)</b>	-	-	<b>256.799.565</b>	<b>246.044.690</b>
<b>December 31, 2015</b>	<b>53.369.000</b>	<b>39.014.356</b>	<b>(5.569.000)</b>	<b>(10.547.680)</b>	<b>170.262.352</b>	<b>147.578.812</b>	<b>256.799.565</b>	<b>650.907.405</b>

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

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

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

	Paid-in share capital	Adjustment to share capital	Merger reserve	Other comprehensive income or expense items not to be reclassified to profit or loss Actuarial gain/ (loss) arising from defined benefit plans	Restricted profit reserves	Retained earnings	Net profit for the year	Total shareholders' equity
<b>January 1, 2014</b>	<b>53.369.000</b>	<b>39.014.356</b>	<b>(5.569.000)</b>	<b>(250.526)</b>	<b>114.169.112</b>	<b>262.678.841</b>	<b>279.905.939</b>	<b>743.317.722</b>
<b>Transfers</b>	-	-	-	-	<b>29.733.155</b>	<b>250.172.784</b>	<b>(279.905.939)</b>	-
<b>Dividends paid</b>	-	-	-	-	-	<b>(300.000.000)</b>	-	<b>(300.000.000)</b>
<b>Comprehensive income</b>								
Net profit for the year	-	-	-	-	-	-	261.087.272	261.087.272
<b>Other comprehensive income</b>								
Actuarial gain from employee benefit	-	-	-	457.721	-	-	-	457.721
<b>Total other comprehensive income</b>	-	-	-	<b>457.721</b>	-	-	-	<b>457.721</b>
<b>Total comprehensive income</b>	-	-	-	<b>457.721</b>	-	-	<b>261.087.272</b>	<b>261.544.993</b>
<b>December 31, 2014</b>	<b>53.369.000</b>	<b>39.014.356</b>	<b>(5.569.000)</b>	<b>207.195</b>	<b>143.902.267</b>	<b>212.851.625</b>	<b>261.087.272</b>	<b>704.862.715</b>

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

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

		<b>Current year</b>	<b>Prior year</b>
		<b>Audited</b>	<b>Audited</b>
	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>424.645.913</b>	<b>313.038.119</b>
<b>Net profit for the year</b>		<b>256.799.565</b>	<b>261.087.272</b>
<b>Adjustments to reconcile net profit:</b>		<b>212.713.954</b>	<b>111.157.831</b>
Amortization and depreciation	16	52.117.064	34.062.179
Provision for impairment on inventories	6	25.442.878	1.441.643
Provision for employee termination benefits	11	2.505.847	(437.936)
Provision for doubtful receivables	17	4.498.569	-
Expense accruals		20.189.623	10.223.593
Interest income and expense	18, 19	46.014.869	31.619.562
Tax expense	20	44.810.700	32.359.613
Gain/ loss from sales of property plant and equipment		(30.034)	(1.690.972)
Foreign exchange effect		17.164.438	3.580.149
<b>Changes in working capital</b>		<b>8.545.130</b>	<b>(6.203.576)</b>
Trade receivables		(8.659.538)	(77.647.217)
Due from related parties		(3.816.459)	(20.298.504)
Inventories		(103.190.818)	(25.311.783)
Other current assets		19.605.703	(45.297.296)
Other receivables		(611)	(2.317)
Prepaid expenses		3.227.865	14.812.347
Due to related parties		(1.023.823)	15.517.588
Trade payables		101.063.770	127.576.834
Deferred income		9.043.704	(9.261)
Other liabilities		2.282.004	4.070.726
Short-term provision for employee termination benefits		73.259	509.111
Debt for employee termination benefits		(722.471)	5.315.141
Employee termination benefits paid	11	(9.337.455)	(5.438.945)
<b>Net cash provided by operating activities</b>		<b>478.058.649</b>	<b>366.041.527</b>
Tax paid		(53.412.736)	(53.003.408)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(94.197.398)</b>	<b>(228.287.521)</b>
Proceeds from sales of property, plant and equipment and intangible assets		152.170	3.126.226
Payments for purchases of property, plant and equipment and intangible assets		(94.603.906)	(231.922.734)
Proceeds from government grants	9	254.338	508.987
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(361.077.114)</b>	<b>(22.426.914)</b>
Proceeds from bank borrowings		393.277.014	761.063.122
Repayment of bank borrowings		(409.323.628)	(453.414.650)
Dividends paid	13	(300.000.000)	(300.000.000)
Interest paid		(53.304.972)	(39.099.280)
Interest received		8.274.472	9.023.894
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)</b>		<b>(30.628.599)</b>	<b>62.323.684</b>
<b>D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>		<b>6.195.846</b>	<b>(2.726.062)</b>
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>(24.432.753)</b>	<b>59.597.622</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>3</b>	<b>268.594.918</b>	<b>208.997.296</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)</b>	<b>3</b>	<b>244.162.165</b>	<b>268.594.918</b>

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

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

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

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#### NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. (“Koç Holding”). As of December 31, 2015, major shareholders of the Company are Koç Holding and CNHI Osterreich GmbH (“CNHI Osterreich”) (Note 13). The number of personnel working within the Company as of December 31, 2015 is 3.129 (Permanent: 2.612, temporary: 517) (2014: 3.040 (Permanent 2.572, temporary 468)).

The Company conducts marketing and selling activities in the domestic market, through its 137 tractor sales dealers, 98 spare part dealers and 52 construction equipment dealers (2014: 136 tractor sales dealers, 96 spare part dealers, 10 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:

Güvercin Yolu No: 111-112  
06560 – Gazi, Ankara

As of December 31, 2015, the free float of the Company whose shares are traded in the Borsa Istanbul (“BIST”) is 24,89% (2014: 24,77%) (Note 13).

#### NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

##### 2.1 Basis of presentation

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

##### Principles governing the preparation of financial statements

The financial statements and disclosures have been prepared in accordance 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 (“CMB”) (hereinafter will be referred to as “the CMB Accounting Standards”) on June 13, 2013 which is published on Official Gazette numbered 28676. In accordance with article 5th of the CMB Accounting Standards, companies should apply Turkish Accounting Standards/ Turkish Financial Reporting Standards (“TAS/ TFRS”) and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

Pursuant to the decree taken in the CMB’s meeting dated June 7, 2013 and numbered 20/670, for capital market board institutions within the scope of the Communiqué on Principles Regarding Financial Reporting in the Capital Market, financial statement templates and a user guide have been published, effective as of the periods ended after March 31, 2013. The accompanying financial statements are prepared in accordance with these templates and a user guide. The financial statements are presented in TRY, which is the functional and presentation currency of the Company.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)

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

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

The financial statements for the year ended at December 31, 2015 are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the 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.

#### 2.2 Comparatives and restatement of prior periods' financial statements

To allow for the detection of financial position and performance trends, the financial statements of the Company for the current period are prepared comparatively with the previous period. To ensure compliance with the presentation of the financial statements for the current period, comparative information may be reclassified or readjusted when necessary.

The classifications made in the statement of financial position and statement of cash flow of the Company as of December 31, 2014 is as follows:

- Prepaid taxes amounting to TL 2.796.797 previously classified in other current assets account has been classified under assets related to current period taxes.
- The foreign exchange differences from bank borrowings amounting to TL 1.066.835 in statement of cash flow has been classified under proceeds from bank borrowings.
- Prepaid taxes amounting to TL 2.796.797 previously classified in other current assets account in statement of cash flow has been classified under taxes paid.
- Government grants amounting to TL 96.596 previously classified in deferred income account in statement of cash flow has been classified under proceeds from government grants.

#### 2.3 Changes in TFRS:

The accounting policies adopted in preparation of the financial statements as at December 31, 2015 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of January 1, 2015. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

*The new standards, amendments and interpretations which are effective as at January 1, 2015 are as follows:*

- TAS 19 Defined Benefit Plans: Employee Contributions (Amendment)
- Annual Improvements - 2010–2012 Cycle
- Annual Improvements - 2011–2013 Cycle

These amendments did not have an impact on the financial statements of the Company.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)

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

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

##### *Standards issued but not yet effective and not early adopted:*

- TFRS 9 Financial Instruments – Classification and Measurement
- TFRS 11 - Acquisition of an Interest in a Joint Operation (Amendment)
- TAS 16 and TAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)
- TAS 16 Property, Plant and Equipment and TAS 41 Agriculture: Bearer Plants (Amendment)
- TAS 27 - Equity Method in Separate Financial Statements (Amendments to TAS 27)
- TFRS 10 and TAS 28- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)
- TFRS 10, TFRS 12 and TAS 28 - Investment Entities: Applying the Consolidation Exception (Amendments to TFRS 10 and TAS 28)
- TAS 1: Disclosure Initiative (Amendments to TAS 1)
- Annual Improvements to TFRSs - 2012-2014 Cycle

The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

##### *The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)*

- Annual Improvements – 2010–2012 Cycle
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments - Final standard (2014)
- IFRS 16 Leases
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
- IAS 7 Statement of Cash Flows (Amendments)

The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

#### **2.4 Summary of significant accounting policies**

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

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

Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less (Note 3). Deposits with Turkish lira is recognised with cost, foreign currency deposits are translated into Turkish lira by using of the buying exchange rate of the Central Bank of the Republic of Turkey. Time deposits include interest accrued as of balance sheet date.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)

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

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

##### Recognition of income

Sales is recorded on the basis of accrual over the fair value of the amount received or receivable when product is delivered or services are rendered, the transfers of the risks and benefits related to the product have been made, the amount of income can be determined reliably and it is probable that economic benefits related to the transaction will flow to the Company. Net sales are calculated by deducting the estimated or realized returns and discounts over the sales of products. Sales taxes such as VAT and SCT are not included in revenue (Note 14).

Other revenues such as interest income is recognised on an accrual basis using the effective interest rate method, rent income under operating lease agreements is recognised on an accrual basis and dividend income is recognised when the right to receive dividend is established.

##### Inventories

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

##### Prepaid expenses

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

##### Property, plant and equipment

Property, plant and equipment acquired before January 1, 2005 are carried at cost in purchasing power of TL as at December 31, 2004 less accumulated depreciation and impairment losses. Property, plant and equipment acquired after January 1, 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	4-10 years
Motor vehicles	4-5 years
Furniture and fixtures	5-6 years
Special costs	4-10 years

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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

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 rights and computer software. Those acquired before January 1, 2005 are carried at cost in the purchasing power of TL as at December 31, 2004; less accumulated depreciation and impairment losses. Those acquired after January 1, 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 8).

#### **Impairment of assets**

Property, plant and equipment and other non-current assets including intangible assets, except deferred tax assets, are reviewed for impairment losses at each balance sheet date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset or any cash generating unit of that asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. Impairment losses are accounted for in the statement of income.

Impairment loss on assets can be reversed to the extent of previously recorded impairment losses, in cases where increases in the recoverable value of the asset can be associated with events that occur subsequent to the period when the impairment loss was recorded.

#### **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**

Financial assets are classified in accordance with the intention at acquisition. Company management determines appropriate classification of its investments at the time of purchase and re-evaluates these classifications in each financial year end.

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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

##### **Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Receivables are included in trade and other receivables in the balance sheet. Receivables are recognised initially at the proceeds received, net of any transaction costs incurred. In subsequent periods, receivables are stated at amortised cost using the effective yield method. Maturity differences related to trade receivables are presented in other income/expense from main operations (Note 5, Note 17).

##### **Impairment of receivables**

A risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the 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.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income.

##### **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 17).

##### **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 19). When there are assets which take a significant amount of time to be available for use or sale, the borrowing costs directly attributable to their purchase, manufacture or production are included in the cost of the asset until the asset is available for use or sale. Borrowing costs include interest and other costs (Note 4, Note 19).

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

The Company reflects financial asset or liability reflects the balance sheet when the Company becomes a part of financial instrument agreement. The Company derecognises a part of all financial instruments, only if the Company loses controls rights over the related financial asset. The Company derecognise a financial instrument if only when obligation is removed, cancelled or expired.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)

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

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

All financial instruments are reflected to the financial statements at the commitment date of sales or purchase. Related sales and purchases are generally transactions required delivery of financial assets, regulated by the regulation and forms in the market within the time allowed.

#### 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 YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

##### **Foreign currency transactions and balances**

Transactions in foreign currencies during the period have been translated into TL at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL 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 TL 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 17).

##### **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 21).

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 24).

##### **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 11).

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)

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

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

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

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

#### Leases

*The Company - as the lessee*

##### Financial leases

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities and reduced as they are paid. The interest element of the finance cost is charged to the statement of income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the assets.

##### Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

#### Research and development expenses

Research expenditure is recognized as an expense as incurred (Note 15). 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 YEAR ENDED AT DECEMBER 31, 2015 (Continued)

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

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#### NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (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, not exceeding five years (Note 8).

Development assets are tested for impairment annually, in accordance with TAS 36.

#### 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 three incentives Ankara Modernization, Adapazarı Investment and Adapazarı Modernization as of December 31, 2015 (Note 9).

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) Exemption of taxes and funds,
- h) Incentive of environmental costs support by law 9715,
- i) Patent incentives,
- j) Corporate tax exemption based on investment contribution rates.

#### 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 20).

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 20).

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

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.

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.

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 20).

**Payables 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 12).

**Provisions related to employee benefits**

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 11).

**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.

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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

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 13).

#### **2.5 Significant accounting estimates and judgments**

Preparation of the financial statements requires the usage of the estimates and judgments affecting the amounts of the assets and liabilities as of the balance sheet date and the income and expenses recorded through the year and explanations of contingent assets and liabilities. Estimations and assumptions can differ from actual results in spite of these estimations and assumptions are based on Company management's best knowledge.

The significant accounting estimates and assumptions are as follows:

#### **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 (Note 2.4).

#### **Provision for doubtful receivables**

Company management reviews customer collection history and their current economic situations in order to provide estimates regarding doubtful receivables within Company's trade receivables portfolio (Note 5).

#### **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 11).

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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

##### **Warranties**

Warranty expenses are recorded as a result of repair and maintenance expenses for products produced and sold, authorised services' labour and material costs for products under the scope of the warranty terms without any charge to the customers, initial maintenance costs and estimated costs based on statistical information for possible future warranty services and returns of products with respect to the products sold during the period (Note 11). 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.

##### **Provision for lawsuits**

The Company determines lawsuit provision for ongoing legal cases at the preparation date of the Company's statement of financial position by consulting with Company's legal counsel on cases that could potentially lead to a cash outflow (Note 11).

##### **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 7).

##### **Deferred tax assets**

Deferred tax assets represent the amounts that are recoverable in the future periods which are related to taxes collected over the income as a result of deductible temporary differences, accumulated financial losses transferred into future periods and accumulated tax advantages transferred into future periods.

Deferred tax asset item cannot be used for amounts which are not deductible (constant) in terms of tax regulations.

The Company has recorded its deferred tax asset as of December 31, 2015 since it is highly probable that sufficient profit will be made which will cause a tax liability which may be offsetted in the subsequent periods (Note 20).

#### **2.6 Convenience translation into English of financial statements originally issued in Turkish**

The accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, classification of some balance sheet, income statement items and also for certain disclosures requirement of the POA.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 3 - CASH AND CASH EQUIVALENTS**

	<b>2015</b>	<b>2014</b>
Cash	-	1.596
Banks:		
- TL denominated demand deposits	<b>4.271.107</b>	4.403.897
- TL denominated time deposits	<b>128.646.337</b>	144.825.231
- Foreign currency denominated demand deposits	<b>1.414.498</b>	4.959.334
- Foreign currency denominated time deposits	<b>109.948.823</b>	115.038.965
	<b>244.280.765</b>	269.229.023

As of December 31, 2015, the weighted average effective annual interest rates for TL and Euro (“EUR”) time deposits are 10,59% and 1,28% (2014: TL: 9,58%, EUR: 1,55%). As of December 31, 2015 and 2014, remaining time to maturity of time deposits is less than three months.

The cash and cash equivalents included in the statement of cash flows at December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Cash	-	1.596
Banks	<b>244.280.765</b>	269.227.427
Less: Interest accruals	<b>(50.204)</b>	(556.637)
Less: Restricted bank deposits (*)	<b>(68.396)</b>	(77.468)
<b>Cash and cash equivalents</b>	<b>244.162.165</b>	268.594.918

(\*) This account consists of receivables collected via the direct debit system. The blockage on this account is terminated following the closure of the term.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 4 - FINANCIAL LIABILITIES**

**a) Short-term financial liabilities**

**Short-term bank borrowings**

	Original currency amount		Weighted average effective interest rate p.a. (%)		TL equivalent	
	2015	2014	2015	2014	2015	2014
TL bank borrowings	-	83.859.778	-	8,30	-	83.859.778
USD bank borrowings	-	10.032.699	-	1,78	-	23.264.826
EUR bank borrowings	-	5.141.250	-	2,92	-	14.501.924
					-	121.626.528

**Current portion of long-term bank borrowings**

	Original currency amount		Weighted average effective interest rate p.a. (%)		TL equivalent	
	2015	2014	2015	2014	2015	2014
EUR bank borrowings	<b>25.464.365</b>	26.459.415	<b>2,20</b>	2,44	<b>80.915.566</b>	74.634.073
TL bank borrowings	<b>125.929.504</b>	20.330.000	<b>10,80</b>	10,79	<b>125.929.504</b>	20.330.000
					<b>206.845.070</b>	94.964.073

**b) Long-term financial liabilities**

**Long-term bank borrowings**

	Original currency amount		Weighted average effective interest rate p.a. (%)		TL equivalent	
	2015	2014	2015	2014	2015	2014
EUR bank borrowings	<b>48.227.103</b>	83.705.125	<b>2,20</b>	2,44	<b>153.246.443</b>	236.107.047
TL bank borrowings	<b>313.984.200</b>	207.328.209	<b>10,80</b>	10,79	<b>313.984.200</b>	207.328.209
					<b>467.230.643</b>	443.435.256
Prepaid commission for debt (*)					<b>(1.294.295)</b>	(1.774.319)
<b>Total long-term financial liabilities</b>					<b>465.936.348</b>	441.660.937

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

Redemption schedule of the long-term bank borrowings as of December 31, 2015 and 2014 are as follows:

<b>Year</b>	<b>2015</b>	<b>2014</b>
2016	-	305.864.380
2017	<b>406.469.834</b>	83.009.171
2018	<b>59.466.514</b>	52.787.386
	<b>465.936.348</b>	441.660.937

As of December 31, 2015 the Company has long-term investment loans with floating interest rate amounting to EUR 53.571.428 and EUR 20.000.000 (2014: EUR 75.000.000 and EUR 20.000.000). The EUR 75.000.000 loan's maturity period is 5 years with an interest payment of every 6 months and with an interest rate of 2.20% + Euribor with no principle payments for the following 2 years. The EUR 20.000.000 loan's maturity period is 4 years with an interest payment of every 6 months and with an interest rate of 2.20% + Euribor with no principle payments for the following 2 years. In accordance with the agreements signed with respect to the investment loans 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 Financial Reporting Standards by the Public Oversight Authority:

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 December 31, 2015.

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

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Bank borrowings	<b>674.075.713</b>	660.025.857	<b>657.558.399</b>	659.124.943

As of December 31, 2015, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 2,20% for EUR loans and 14,91% for TL denominated bank borrowings respectively (2014: EUR 2,61%, TL: 10,42% and USD: 1,78%).

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 5 - TRADE RECEIVABLES AND PAYABLES**

	2015	2014
<b>Short-term trade receivables:</b>		
Customer current accounts	403.804.406	402.918.762
Notes receivables	5.531.406	1.320.755
Protested notes	206.497	617.225
	<b>409.542.309</b>	<b>404.856.742</b>
Less: Provision for doubtful receivables	(43.414.424)	(39.866.049)
Unearned financial income	(3.543.138)	(2.547.893)
<b>Short-term trade receivables</b>	<b>362.584.747</b>	<b>362.442.800</b>
Due from related parties (Note 22)	107.740.947	98.446.054
<b>Total short-term trade receivables</b>	<b>470.325.694</b>	<b>460.888.854</b>

Movements of the provisions for short-term doubtful receivables for the years ended December 31, 2015 and 2014 are as shown below:

	2015	2014
<b>January 1</b>	<b>(39.866.049)</b>	<b>(42.169.877)</b>
Transfer from long-term to short-term	-	(139.484)
Cancelled during the year (Note 17)	950.194	2.443.312
Charge during the year (Note 17) (*)	(4.498.569)	-
<b>December 31</b>	<b>(43.414.424)</b>	<b>(39.866.049)</b>

(\*) Occurred as a result of the revaluation of existing doubtful receivables denominated in foreign currency.

	2015	2014
<b>Long-term trade receivables:</b>		
Notes receivables	5.320.942	-
Unearned financial income	(10.469)	-
	<b>5.310.473</b>	<b>-</b>

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)**

Movements of the provisions for long-term doubtful receivables for the years ended December 31, 2015 and 2014 are as shown below:

	2015	2014
<b>January 1</b>	-	(139.484)
Transfer from long-term to short-term	-	139.484
<b>December 31</b>	-	-
	2015	2014
<b>Trade payables:</b>		
Supplier current accounts	<b>514.311.575</b>	407.771.045
Less: Unincurred financial expense	<b>(5.945.021)</b>	(3.865.100)
<b>Trade payables</b>	<b>508.366.554</b>	403.905.945
Due to related parties (Note 22)	<b>44.000.627</b>	44.766.757
<b>Total trade payables</b>	<b>552.367.181</b>	448.672.702

**NOTE 6 - INVENTORIES**

	2015	2014
Raw materials	<b>178.103.854</b>	197.505.879
Work in progress	<b>3.313.690</b>	3.281.225
Finished goods	<b>117.087.043</b>	57.969.537
Commercial goods	<b>156.532.173</b>	77.897.423
Spare parts	<b>31.835.883</b>	26.636.862
Goods in transit (*)	<b>69.192.624</b>	85.951.535
<b>Gross</b>	<b>556.065.267</b>	449.242.461
Provision for impairment of inventory (-)	<b>(38.402.092)</b>	(12.959.214)
<b>Net</b>	<b>517.663.175</b>	436.283.247

The cost of inventories recognised as expense in the current year, amounted to TL 2.242.641.903 (2014: TL 2.027.175.878).

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 6 – INVENTORIES (Continued)**

Movement of provision for impairment of inventory during the period is as follows:

	<b>2015</b>	2014
<b>January 1</b>	<b>(12.959.214)</b>	(11.517.571)
Cancelled due to sales of inventory during the year	-	1.462.705
Charge during the year for impairment of inventory	<b>(25.442.878)</b>	(2.904.348)
<b>December 31</b>	<b>(38.402.092)</b>	(12.959.214)

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

	<b>2015</b>	2014
Raw materials	<b>(22.388.336)</b>	(9.293.104)
Finished goods	<b>(339.589)</b>	-
Commercial goods	<b>(13.646.331)</b>	(2.097.278)
Spare parts	<b>(2.027.836)</b>	(1.568.832)
	<b>(38.402.092)</b>	(12.959.214)

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 7- PROPERTY, PLANT AND EQUIPMENT**

	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
<b><u>Cost</u></b>					
Land	36.720.200	1.020.000	-	-	37.740.200
Land improvements	10.131.676	868.523	-	-	11.000.199
Buildings	231.094.581	2.128.834	-	-	233.223.415
Machinery and equipment	504.823.284	33.941.512	(272.134)	150	538.492.812
Special costs	3.688.626	237.200	-	-	3.925.826
Motor vehicles	3.871.096	1.894.712	-	-	5.765.808
Furniture and fixtures	54.885.289	6.229.010	(15.885)	-	61.098.414
Construction in progress	2.281.359	8.469.890	-	(150)	10.751.099
	<b>847.496.111</b>	<b>54.789.681</b>	<b>(288.019)</b>	<b>-</b>	<b>901.997.773</b>
<b><u>Accumulated depreciation</u></b>					
Land improvements	3.772.816	329.853	-	-	4.102.669
Buildings	41.049.056	5.083.914	-	-	46.132.970
Machinery and equipment	315.748.332	26.183.651	(156.953)	-	341.775.030
Special costs	2.694.892	126.143	-	-	2.821.035
Motor vehicles	1.557.280	690.237	(8.930)	-	2.238.587
Furniture and fixtures	28.519.012	7.019.409	-	-	35.538.421
	<b>393.341.388</b>	<b>39.433.207</b>	<b>(165.883)</b>	<b>-</b>	<b>432.608.712</b>
<b>Net book value</b>	<b>454.154.723</b>				<b>469.389.061</b>

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
<u>Cost</u>					
Land	34.957.864	2.010.500	(248.164)	-	36.720.200
Land improvements	5.967.701	38.717	(75.841)	4.201.099	10.131.676
Buildings	53.297.382	29.801.083	(1.223.080)	149.219.196	231.094.581
Machinery and equipment	409.412.790	58.581.939	(11.439.942)	48.268.497	504.823.284
Special costs	2.712.138	976.488	-	-	3.688.626
Motor vehicles	1.915.576	2.163.460	(207.940)	-	3.871.096
Furniture and fixtures	36.581.561	10.063.690	(123.984)	8.364.022	54.885.289
Construction in progress	108.180.493	104.153.680	-	(210.052.814)	2.281.359
	<b>653.025.505</b>	<b>207.789.557</b>	<b>(13.318.951)</b>	<b>-</b>	<b>847.496.111</b>
<u>Accumulated depreciation</u>					
Land improvements	3.584.995	242.288	(54.467)	-	3.772.816
Buildings	38.195.591	3.205.848	(352.383)	-	41.049.056
Machinery and equipment	309.305.795	17.820.635	(11.378.098)	-	315.748.332
Special costs	2.653.578	41.314	-	-	2.694.892
Motor vehicles	1.416.890	334.930	(194.540)	-	1.557.280
Furniture and fixtures	23.675.359	4.918.154	(74.501)	-	28.519.012
	<b>378.832.208</b>	<b>26.563.169</b>	<b>(12.053.989)</b>	<b>-</b>	<b>393.341.388</b>
Net book value	<b>274.193.297</b>				<b>454.154.723</b>

The costs of property, plant and equipments of which useful lives' are over but still in use are as follows:

	2015	2014
Land improvements	<b>2.212.571</b>	2.083.564
Buildings	<b>16.507.094</b>	16.251.866
Machinery and equipment	<b>278.387.906</b>	271.078.510
Special costs	<b>2.623.444</b>	2.623.444
Motor vehicles	<b>989.114</b>	899.142
Furniture and fixtures	<b>19.428.647</b>	17.380.291
	<b>320.148.776</b>	310.316.817

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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

Allocation of the amortization expenses of property, plant and equipment as of December 31, 2015 and 2014 is as follows:

	2015	2014
Production costs	<b>30.114.247</b>	18.959.958
General administrative expenses	<b>4.642.400</b>	3.762.675
Marketing, selling and distribution expenses	<b>1.906.003</b>	1.231.251
Research and development expenses	<b>2.770.557</b>	2.609.285
	<b>39.433.207</b>	26.563.169

The Company does not have any capitalized financial costs in current year arising from foreign exchange denominated borrowings on construction in progress as of December 31, 2015 (2014: TL 7.263.322). The Company capitalized borrowing cost amounting to TL 16.769.037 in total until December 31, 2014.

There is no mortgage on property, plant and equipment as of December 31, 2015 (2014: None).

**NOTE 8 - INTANGIBLE ASSETS**

	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
<b>Cost</b>					
Rights	13.633.435	8.274.271	-	-	21.907.706
Development costs	51.732.049	-	-	8.971.101	60.703.150
Development costs in progress	59.344.378	34.359.720	-	(8.971.101)	84.732.997
	<b>124.709.862</b>	<b>42.633.991</b>		-	<b>167.343.853</b>
<b>Accumulated amortisation</b>					
Rights	8.315.558	6.063.094	-	-	14.378.652
Development costs	22.634.223	9.440.529	-	-	32.074.752
	<b>30.949.781</b>	<b>15.503.623</b>		-	<b>46.453.404</b>
<b>Net book value</b>	<b>93.760.081</b>				<b>120.890.449</b>

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 8 - INTANGIBLE ASSETS (Continued)**

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
<b><u>Cost</u></b>					
Rights	10.940.879	2.862.848	(170.292)	-	13.633.435
Development costs	37.632.894	-	-	14.099.155	51.732.049
Development costs in progress	49.875.974	23.567.559	-	(14.099.155)	59.344.378
	<b>98.449.747</b>	<b>26.430.407</b>	<b>(170.292)</b>	<b>-</b>	<b>124.709.862</b>
<b><u>Accumulated amortisation</u></b>					
Rights	6.436.499	1.879.059	-	-	8.315.558
Development costs	14.717.042	7.917.181	-	-	22.634.223
	<b>21.153.541</b>	<b>9.796.240</b>	<b>-</b>	<b>-</b>	<b>30.949.781</b>
<b>Net book value</b>	<b>77.296.206</b>				<b>93.760.081</b>

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

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

Allocation of the amortization expenses of intangible assets as of December 31, 2015 and 2014 is as follows:

	2015	2014
Production costs	<b>4.630.247</b>	1.341.213
General administrative expenses	<b>713.797</b>	266.169
Marketing, selling and distribution expenses	<b>293.060</b>	87.098
Research and development expenses	<b>7.046.753</b>	5.804.530
Reflected to development cost in progress	<b>2.819.766</b>	2.297.230
	<b>15.503.623</b>	<b>9.796.240</b>

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 9 - OTHER ASSETS AND LIABILITIES**

	2015	2014
<b>a) Prepaid expenses:</b>		
Short-term prepaid expenses	554.894	392.605
Prepaid taxes	-	4.640.000
	<b>554.894</b>	<b>5.032.605</b>

	2015	2014
<b>b) Other current assets:</b>		
Deferred value added tax ("VAT")	80.338.566	72.988.039
Reclaimed VAT	43.358.216	71.660.884
Other	1.657.497	311.059
	<b>125.354.279</b>	<b>144.959.982</b>

<b>c) Deferred income:</b>		
Deferred income (*)	21.185.090	9.311.734
Advances received	88.687	2.547.333
<b>Other current liabilities</b>	<b>21.273.777</b>	<b>11.859.067</b>

(\*) Deferred income represents the sales amount of the tractors for which the invoices are issued but are not yet shipped to customers as of December 31, 2015 and 2014.

**d) Government grants and aids:**

	2015	2014
Government grants and aids	3.066.415	3.183.083
	<b>3.066.415</b>	<b>3.183.083</b>

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 9 - OTHER ASSETS AND LIABILITIES (Continued)**

	<b>2015</b>	2014
<b>January 1</b>	<b>3.183.083</b>	3.242.469
Received during the year	<b>254.338</b>	508.987
Utilized during the year (Note 17)	<b>(371.006)</b>	(568.373)
<b>December 31</b>	<b>3.066.415</b>	3.183.083

**NOTE 10 - PREPAID EXPENSES**

**Long-term prepaid expenses**

	<b>2015</b>	2014
Advances given for purchases of fixed assets	<b>2.053.099</b>	832.613
Prepaid expenses	<b>29.360</b>	-
<b>Long-term prepaid expenses</b>	<b>2.082.459</b>	832.613

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**a) Short-term provisions**

**Short-term provision for employee benefits**

	<b>2015</b>	2014
Provision for unused vacation	<b>1.561.738</b>	1.488.479
	<b>1.561.738</b>	1.488.479

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)**

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

	2015	2014
<b>January 1</b>	<b>1.488.479</b>	979.368
Charge/(used) for the year, net	<b>73.259</b>	509.111
<b>December 31</b>	<b>1.561.738</b>	1.488.479

**Other short-term provisions**

	2015	2014
Warranty provision	<b>28.614.153</b>	20.609.316
Provision for legal cases (*)	<b>10.295.723</b>	7.343.170
Other provisions	<b>38.659</b>	119.312
	<b>38.948.535</b>	28.071.798

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

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

	2015	2014
<b>January 1</b>	<b>7.343.170</b>	4.097.031
Charge for the year (Note 17)	<b>2.952.553</b>	3.246.139
<b>December 31</b>	<b>10.295.723</b>	7.343.170

**b) Long-term provisions**

**Long-term provision for employee benefits**

	2015	2014
Provision for employee termination benefits	<b>15.598.307</b>	8.986.321
	<b>15.598.307</b>	8.986.321

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)**

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 TL 3.828,37 for each year of service as of December 31, 2015 (2014: TL 3.438,22).

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

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

	2015	2014
Inflation rate (%)	5,50	4,50
Discount rate (%)	10,35	8,16
Turnover rate to estimate the probability of retirement (%)	93,23	93,09

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 TL 4.092,53 which is effective from January 1, 2016 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:

	2015	2014
<b>January 1</b>	<b>8.986.321</b>	15.435.367
Interest cost	733.284	1.466.360
Current year service cost	1.772.563	(1.904.296)
Paid in the year	(9.337.455)	(5.438.945)
Actuarial loss/ (gain)	13.443.594	(572.165)
<b>December 31</b>	<b>15.598.307</b>	8.986.321

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)**

Sensitivity analysis of key assumptions used for termination benefits calculations as at December 31, 2015 are as follows:

Sensitivity level	Net discount rate		Turnover related to the probability of retirement	
	0,5% decrease (4,1%)	0,5% increase (5,1%)	0,5% decrease (92,73%)	0,5% increase (93,73%)
Rate				
Change in employee benefits liability	455.975	(429.277)	(483.480)	509.381

**Other long-term provisions**

	2015	2014
Warranty provision	<b>29.969.796</b>	20.656.915
	<b>29.969.796</b>	20.656.915

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

	2015	2014
<b>January 1</b>	<b>41.266.231</b>	33.069.517
Used during the year	<b>(45.074.148)</b>	(38.455.529)
Charge for the year (Note 15)	<b>62.391.866</b>	46.652.243
<b>December 31</b>	<b>58.583.949</b>	41.266.231

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)**

**c) Contingent liabilities**

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

As of December 31, 2015 and 2014 the Company's guarantee/ pledge/ mortgage positions are as follows:

	<b>2015</b>	2014
A. The total amount of collaterals given on behalf of its own legal entity	<b>13.758.566</b>	101.091.071
B. The total amount of collaterals given in favor of the companies in the scope of full consolidation	-	-
C. The total amount of collaterals given for the purpose of providing debt to third parties in the course of ordinary business activities	-	-
D. The total amount of other collaterals given	-	-
i. The total amount of collaterals given in favor of the parent companies	-	-
ii. The total amount of collaterals given in favor of other group companies which are not in the scope of items B and C	-	-
iii. The total amount of collaterals given in favor of third parties other than the parties stated in item C	-	-
	<b>13.758.566</b>	101.091.071

As at December 31, 2015, the Company has given in its own legal entity on behalf of the original collateral denominated in foreign currency amounts of EUR 2.698.578 and USD 34.104 (2014: EUR 2.676.108 and USD 38.860.836).

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)**

**d) Contingent assets**

	Foreign currency amount						TL equivalent	
	2015			2014			December 31, 2015	December 31, 2014
	EUR	USD	TL	EUR	USD	TL		
Letters of guarantees received	576.812	270.000	471.427.665	1.569.142	303.000	326.287.850	474.045.595	382.027.310
Direct debit	-	-	329.727.841	-	-	244.616.204	329.727.841	295.670.892
Mortgages	-	-	788.714	-	-	5.452.214	788.714	788.714
Security bonds	-	-	2.500.000	-	-	2.722.000	2.500.000	2.500.000
Cash TL guarantees	-	-	-	-	-	-	-	177.530
Cash foreign currency guarantees	-	-	-	-	8.457	-	-	-
							<b>807.062.150</b>	<b>681.164.446</b>

**NOTE 12 - PROVISION FOR EMPLOYEE BENEFITS**

**Liabilities for employee benefits**

	2015	2014
Taxes payable and liabilities (*)	8.990.165	10.330.249
Accrued premiums and liabilities to personnel	6.561.102	5.943.489
	<b>15.551.267</b>	<b>16.273.738</b>

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 13 - SHAREHOLDERS' EQUITY**

**Paid-in Share Capital**

The Company's registered share capital amounts to TL 250.000.000 (2014: TL 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 TL 53.369.000.

The composition of the Company's statutory share capital at December 31, 2015 and December 31, 2014 are as follows:

	2015		2014	
	Participation (%)	Share Amount (TL)	Participation (%)	Share Amount (TL)
Koç Holding	37,50	20.013.375	37,50	20.013.375
CNHI Osterreich	37,50	20.013.375	37,50	20.013.375
Public quotation in BİST	24,95	13.315.978	24,93	13.306.859
Other	0,05	26.272	0,07	35.391
	<b>100,00</b>	<b>53.369.000</b>	<b>100,00</b>	<b>53.369.000</b>
<b>Adjustments to share capital</b>		<b>39.014.356</b>		<b>39.014.356</b>
		<b>92.383.356</b>		<b>92.383.356</b>

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

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

As of June 11, 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 December 31, 2015, 24,89% (2014: 24,77%) of the Company shares are quoted at BIST.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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**NOTE 13 - SHAREHOLDERS' EQUITY (Continued)**

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

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

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

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

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

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

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

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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**NOTE 13 - SHAREHOLDERS' EQUITY (Continued)**

**Dividend distribution**

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

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

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

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

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

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

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 13 - SHAREHOLDERS' EQUITY (Continued)**

In the statutory financial statements of the Company, in addition to the statutory profit amounting to TL 268.425.368 and retained earnings amounting to TL 147.101.101 for the year ended December 31, 2014; there are inflation adjustment difference and other capital reserves that can be subject to a possible tax liability amounting to TL 47.110.422 and TL 11.345.591 if dividend distribution is made.

The Company distributed dividend in 2015 amounting to TL 300.000.000 with net profit for the 2014. The decision of dividend payment amounting to TL 200.000.000 was taken in the Company's 61th General Assembly dated March 18, 2015 and the decision of dividend payment amounting to TL 100.000.000 was taken in the Company's Extraordinary General Assembly dated in October 22, 2015. The payment has been made to the shareholders in cash in 2015. Dividend payment distribution has been 5,62 Kr per share (2014: 5,62 Kr).

**NOTE 14 - SALES AND COST OF SALES**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Domestic sales	<b>2.456.791.983</b>	2.007.494.638
Export sales	<b>949.772.937</b>	944.418.345
<b>Sales income (gross)</b>	<b>3.406.564.920</b>	2.951.912.983
Less: Discounts and returns	<b>(304.003.283)</b>	(228.595.174)
<b>Sales income (net)</b>	<b>3.102.561.637</b>	2.723.317.809
Cost of sales	<b>(2.497.656.039)</b>	(2.234.163.502)
<b>Gross profit</b>	<b>604.905.598</b>	489.154.307

**Sales quantities:**

	<b>2015</b>			<b>2014</b>		
	<b>Domestic sales</b>	<b>Export sales</b>	<b>Total sales</b>	<b>Domestic sales</b>	<b>Export sales</b>	<b>Total sales</b>
Tractor	<b>33.002</b>	<b>14.122</b>	<b>47.124</b>	30.027	15.866	45.893
Combine	<b>315</b>	-	<b>315</b>	391	-	391
	<b>33.317</b>	<b>14.122</b>	<b>47.439</b>	30.418	15.866	46.284

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 15 – RESARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>Marketing, selling and distribution expenses:</b>		
Warranty expenses (Note 11)	<b>62.391.866</b>	46.652.243
Personnel expenses	<b>32.909.077</b>	25.911.881
Transportation and insurance expenses	<b>25.291.646</b>	21.407.137
Dealers meeting and fair expenses	<b>8.948.586</b>	6.576.447
Press relations, advertisement and promotion expenses	<b>6.404.262</b>	7.073.610
Transportation and travel expenses	<b>5.293.486</b>	4.261.568
Outsourcing expenses	<b>3.228.838</b>	2.044.999
Rent expenses	<b>2.752.411</b>	1.915.672
Depreciation and amortisation expenses (Note 7, 8) (**)	<b>2.199.063</b>	1.318.349
Material expenses	<b>2.103.408</b>	989.068
Service expenses	<b>1.650.807</b>	1.028.254
Provision for employment termination benefits (Note 11) (*)	<b>230.425</b>	347.441
Other	<b>5.390.028</b>	4.574.529
	<b>158.793.903</b>	124.101.198
	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>General administrative expenses:</b>		
Personnel expenses	<b>23.479.758</b>	18.389.883
Service expenses received from shareholders	<b>16.678.030</b>	9.160.259
Depreciation and amortisation expenses (Note 7, 8) (**)	<b>5.356.197</b>	4.028.844
Outsourcing expenses	<b>5.255.171</b>	3.365.086
Donations and aids	<b>3.967.960</b>	4.400.318
Service expenses	<b>3.040.271</b>	2.197.584
Taxes and other legal expenses	<b>2.141.504</b>	1.583.859
Consultancy services	<b>1.960.142</b>	2.467.419
Material expenses	<b>1.197.682</b>	989.068
Entertainment expenses	<b>1.187.921</b>	4.767.601
Transportation and travel expenses	<b>1.041.952</b>	1.211.215
Subscription expenses	<b>783.216</b>	721.162
Legal consultancy and lawsuit expenses	<b>730.300</b>	549.645
Insurance expenses	<b>677.756</b>	786.700
Provision for employment termination benefits (Note 11) (*)	<b>74.141</b>	235.142
Other	<b>2.500.522</b>	1.528.609
	<b>70.072.523</b>	56.382.394

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 15 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (Continued)**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>Research and development expenses:</b>		
Depreciation and amortisation expenses (Note 7, 8) (**)	<b>9.817.310</b>	8.413.815
Personnel expenses	<b>1.135.229</b>	1.541.716
Project expenses	<b>656.574</b>	883.365
Outsourcing expenses	<b>226.722</b>	703.609
Provision for employment termination benefits (Note 11) (*)	<b>60.025</b>	7.768
Other	<b>275.685</b>	378.079
	<b>12.171.545</b>	11.928.352

(\*) The amount of provision for employment termination benefits allocated to production costs is TL 1.293.211 (2014: TL 2.519.763). The amount capitalized during this period is TL 114.761 (2014: TL 25.116).

(\*\*) The amount of depreciation and amortization expenses allocated to production costs is TL 34.744.494 (2014: TL 20.301.171).

**NOTE 16 - EXPENSES BY NATURE**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Raw materials	<b>1.871.680.300</b>	1.705.898.731
Cost of merchandise sold	<b>363.781.918</b>	302.623.126
Personnel and provision for employment termination benefits expenses	<b>217.392.124</b>	176.271.894
Warranty expenses	<b>62.391.866</b>	46.652.243
Material expenses	<b>60.425.527</b>	49.133.777
Depreciation and amortisation expenses	<b>52.117.064</b>	34.062.179
Transportation and insurance expenses	<b>39.713.604</b>	29.619.232
Energy expenses	<b>21.439.595</b>	14.719.793
Donations and aids	<b>4.044.036</b>	4.400.318
Changes in finished goods and work in process	<b>(59.149.971)</b>	(10.960.157)
Other	<b>104.857.947</b>	74.154.310
	<b>2.738.694.010</b>	2.426.575.446

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 17 - OTHER OPERATING INCOME/ EXPENSES**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Foreign exchange gain from trade receivables and payables	<b>360.881.811</b>	510.896.267
Financial income from credit sales	<b>31.233.983</b>	45.449.197
Termination of provision for doubtful receivables (Note 5)	<b>950.194</b>	2.443.312
Incentive income (Note 9)	<b>371.006</b>	568.373
Other income	<b>6.949.044</b>	4.331.761
<b>Other operating income</b>	<b>400.386.038</b>	563.688.910

  

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Foreign exchange losses on trade receivables and payables	<b>(350.427.299)</b>	(520.603.598)
Financial expense on credit purchases	<b>(19.809.493)</b>	(34.610.581)
Provision for doubtful receivables (Note 5)	<b>(4.498.569)</b>	-
Provision for legal cases (Note 11)	<b>(2.952.553)</b>	(3.246.139)
Other expenses	<b>(1.548.026)</b>	(516.756)
<b>Other operating expenses</b>	<b>(379.235.940)</b>	(558.977.074)

**NOTE 18 - FINANCIAL INCOME**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Foreign exchange gain (*)	<b>98.986.191</b>	53.590.877
Interest income	<b>7.768.038</b>	9.544.637
<b>Financial income</b>	<b>106.754.229</b>	63.135.514

(\*) Consists of foreign exchange rate income from accounts other than trade receivables and payables.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 19 - FINANCIAL EXPENSE**

	<b>1 January - 31 December 2015</b>	1 January - 31 December 2014
Foreign exchange losses (*)	<b>(133.082.871)</b>	(27.426.711)
Interest expenses of bank borrowings	<b>(53.782.907)</b>	(41.164.199)
Other	<b>(3.325.945)</b>	(4.242.890)
<b>Financial expenses</b>	<b>(190.191.723)</b>	(72.833.800)

(\*) Consists of foreign exchange rate expenses from accounts other than trade receivables and payables.

**NOTE 20 - TAX ASSETS AND LIABILITIES**

	<b>2015</b>	2014
Corporate tax expense	<b>40.262.281</b>	41.682.033
Less: Prepaid taxes	<b>(56.209.533)</b>	(44.478.830)
<b>Tax asset - net</b>	<b>(15.947.252)</b>	(2.796.797)

  

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Corporate tax expense	<b>(40.262.281)</b>	(41.682.033)
Deferred tax (expense)/ income	<b>(4.548.419)</b>	9.322.420
<b>Tax expense</b>	<b>(44.810.700)</b>	(32.359.613)

Corporation tax is payable, at a rate of 20% as of 2015 (2014: 20%) on the total income of the companies registered in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances (e.g. R&D allowance).

**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 currently enacted tax rate for deferred tax assets and liabilities is 20% (2014: 20%).

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)**

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) at December 31, 2015 and 2014 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	2015	2014	2015	2014
Property, plant and equipment and intangible assets, restatement and useful life differences	<b>89.654.271</b>	48.938.089	<b>(17.930.854)</b>	(9.787.618)
Provision for employee termination benefits	<b>(15.598.307)</b>	(8.986.321)	<b>3.119.661</b>	1.797.264
Warranty provision	<b>(58.583.949)</b>	(41.266.231)	<b>11.716.790</b>	8.253.246
Provision for lawsuits	<b>(6.157.357)</b>	(5.684.804)	<b>1.231.471</b>	1.136.961
Unearned finance income on trade receivables, payables and due from related parties	<b>1.308.650</b>	1.073.081	<b>(261.730)</b>	(214.616)
Provision for doubtful receivables	<b>(2.086.519)</b>	(2.191.705)	<b>417.304</b>	438.341
Provision for impairment of inventory	<b>(38.402.092)</b>	(12.959.214)	<b>7.680.418</b>	2.591.843
Sales premium accrued	<b>(23.564.101)</b>	(13.443.441)	<b>4.712.820</b>	2.688.688
Other expense provisions	<b>(1.609.702)</b>	(1.524.031)	<b>321.940</b>	304.806
Investment incentive tax assets	-	-	<b>30.339.675</b>	36.794.678
Deferred income	<b>(5.090.707)</b>	(4.552.091)	<b>1.018.141</b>	910.418
Other	<b>(7.630.845)</b>	(4.187.470)	<b>1.526.169</b>	837.494
<b>Deferred tax assets</b>			<b>43.891.805</b>	45.751.505

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

	2015	2014
<b>January 1</b>	<b>45.751.505</b>	36.543.529
Reflected to profit for the year	<b>(4.548.419)</b>	9.322.420
Reflected to other comprehensive income/ (expense)	<b>2.688.719</b>	(114.444)
<b>December 31</b>	<b>43.891.805</b>	45.751.505

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)**

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

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>Profit before tax</b>	<b>301.610.265</b>	293.446.885
Tax calculated at enacted tax rate	<b>60.322.053</b>	58.689.377
Investment incentives	<b>(14.188.215)</b>	(21.464.950)
Research and development incentives	<b>(5.747.196)</b>	(4.930.162)
Disallowable expenses	<b>40.445</b>	191.963
Other	<b>4.383.613</b>	(126.615)
<b>Total tax charge</b>	<b>44.810.700</b>	32.359.613

**NOTE 21 - EARNINGS PER SHARE**

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

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

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

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
Net profit for the year	<b>256.799.565</b>	261.087.272
Weighted average number of the ordinary shares	<b>5.336.900.000</b>	5.336.900.000
Earnings per share (Kr 1 nominal value per share as TL)	<b>0,0481</b>	0,0490

There is no difference between basic and diluted earnings per share in any period.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 22 - 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 December 31, 2015 and 2014 and significant intercompany transactions were as follows:

**i) Balances with related parties as of December 31, 2015 and 2014:**

	<b>2015</b>	2014
<b>a) Bank deposits and borrowings</b>		
<b>Deposits with related parties:</b>		
Yapı ve Kredi Bankası A.Ş. (“Yapı Kredi”)	<b>86.866.632</b>	2.470.743
	<b>86.866.632</b>	2.470.743
	<b>2015</b>	2014
<b>Borrowings from related parties:</b>		
Yapı Kredi	<b>40.048.444</b>	40.072.667
	<b>40.048.444</b>	40.072.667
	<b>2015</b>	2014
<b>b) Due from related parties</b>		
<b>Due from group companies</b>		
CNHI International SA (“CNHI International”) (*)	<b>103.326.952</b>	91.430.770
CNHI Italy SPA (“CNHI Italy”)	<b>2.043.692</b>	4.300.148
CNHI Argentina SA (“CNHI Argentina”)	<b>522.327</b>	494.268
CNHI Latin America Ltda	<b>413.893</b>	1.432.319
Other	<b>1.411.434</b>	794.245
	<b>107.718.298</b>	98.451.750
Less: Unearned financial income	<b>22.649</b>	(5.696)
	<b>107.740.947</b>	98.446.054

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)**

	2015	2014
<b>c) Due to related parties</b>		
<b>Trade payable to shareholders</b>		
Koç Holding	<b>3.788.015</b>	3.711.509
<b>Due to shareholders</b>	<b>3.788.015</b>	3.711.509
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	<b>14.269.144</b>	8.081.328
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	<b>7.965.923</b>	2.373.805
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	<b>7.931.868</b>	12.100.893
New Holland Fiat India Pvt. Ltd. (“New Holland India”)	<b>5.308.655</b>	4.177.625
Setur Servis Turistik A.Ş. (“Setur”)	<b>1.533.866</b>	1.035.020
Eltek Elektrik İth. İhracat ve Toptan Tic. A.Ş. (“Eltek”)	<b>1.240.769</b>	1.680.858
Koçtaş Yapı Marketleri A.Ş. (“Koçtaş”)	<b>667.000</b>	1.153.621
Otokoç Otomotiv San. ve Tic. A.Ş. (“Otokoç”)	<b>557.823</b>	510.667
Otokar Otomotiv ve Savunma Sanayi A.Ş. (“Otokar”)	<b>423.867</b>	7.312
Opet Petrolcülük A.Ş. (“Opet”)	<b>75.491</b>	171.238
Arçelik A.Ş.	<b>20.745</b>	2.201.521
Ark İnşaat Sanayi ve Ticaret A.Ş.	<b>6.794</b>	6.498.031
Other	<b>688.708</b>	1.378.490
<b>Due to group companies</b>	<b>40.690.653</b>	41.370.409
Less: Unearned financial expenses	<b>(478.041)</b>	(315.161)
	<b>44.000.627</b>	44.766.757

**ii) Significant sales and purchases transactions with related parties for the periods between January 1 – December 31, 2015 and 2014:**

**a) Product sales to related parties**

	January 1 - December 31, 2015	January 1 - December 31, 2014
<b>Product sales to group companies</b>		
CNHI International (*)	<b>938.443.234</b>	922.191.761
CNHI Italy	<b>5.519.373</b>	11.119.313
CNHI Latin America Ltda.	<b>2.587.422</b>	5.087.866
CNHI Argentina SA	<b>1.550.179</b>	5.127.373
Other	<b>2.442.493</b>	1.174.208
	<b>950.542.701</b>	944.700.521

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)**

**b) Service sales to related companies**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>Service sales to group companies</b>		
CNHI International (1)	<b>1.230.139</b>	5.756.060
CNHI Italy(2)	<b>651.879</b>	3.873.674
Other	<b>158.087</b>	45.961
	<b>2.040.105</b>	9.675.695

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

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

**c) Product purchases from related parties**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>Product purchases from group companies</b>		
CNHI International (1)	<b>430.129.355</b>	264.355.636
Opet Fuchs (2)	<b>39.807.395</b>	38.120.534
New Holland India (3)	<b>35.246.432</b>	21.438.578
Koç Sistem	<b>17.126.177</b>	10.650.683
Zer	<b>13.236.216</b>	15.296.880
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	<b>3.837.047</b>	4.000.369
Opet (2)	<b>1.566.174</b>	1.333.025
Other	<b>3.171.721</b>	5.749.730
	<b>544.120.517</b>	360.945.435

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

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

(3) The Company purchases ponte and front axles for use in production.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)**

**d) Service purchases from related parties**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
<b>Service purchases from shareholders</b>		
Koç Holding (1)	<b>6.871.131</b>	5.077.442
	<b>6.871.131</b>	5.077.442
<b>Service purchase from group companies</b>		
Zer (2)	<b>84.579.635</b>	60.732.522
CNHI International (3)	<b>19.697.355</b>	8.785.479
Eltek(4)	<b>13.581.820</b>	8.219.613
Setur (5)	<b>5.868.831</b>	6.880.920
Otokoç	<b>2.441.705</b>	1.938.601
Koç Sistem	<b>2.181.799</b>	766.991
Ram Sigorta Aracılık Hizmetleri A.Ş. (6)	<b>2.069.272</b>	1.878.874
Otokar (7)	<b>1.622.482</b>	5.327.189
Ark İnşaat San. ve Tic. A.Ş. (8)	<b>1.514.039</b>	188.194.156
Other	<b>5.070.280</b>	7.185.903
	<b>138.627.218</b>	289.910.248
	<b>145.498.349</b>	294.987.690

- (1) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by our Parent Company "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 for Tier 4, strategy development, consulting and brokerage.
- (4) Services purchased from Eltek related to electricity.
- (5) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (6) Insurance service purchased from Ram Sigorta Aracılık Hizmetleri A.Ş. is related interim period include premium amounts paid and accrued ended on 31 December 2015.
- (7) Service purchased from Otokar is related with assembly and assembly support services.
- (8) Services purchased from Ark İnşaat San. ve Tic. A.Ş. is related to services taken for construction of assembly factory in Sakarya.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

**NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)**

**iii) Financial income and expenses arising from transactions with related parties for the periods between January 1 – December 31, 2015 and 2014:**

**Financial income and expense from group companies**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
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**Interest income**

Yapı Kredi	<b>2.306.187</b>	<b>831.315</b>
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	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
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**Interest expense**

Yapı Kredi	<b>(4.420.556)</b>	<b>(3.224.222)</b>
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**iv) Dividends paid to related parties:**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
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Koç Holding	<b>112.500.000</b>	112.500.000
CNHI Osterreich	<b>112.500.000</b>	112.500.000

	<b>225.000.000</b>	225.000.000
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**v) Other transactions with related parties for the periods between January 1 – December 31, 2015 and 2014:**

	<b>January 1 - December 31, 2015</b>	January 1 - December 31, 2014
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Remuneration of key management personnel (*)	<b>11.481.996</b>	11.976.416
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(\*) Key management personnel are identified as Board of Directors, general manager and vice general managers.

The Company did not make any payment in 2015 for termination of key management personnel. (2014: TL 1.688.812).

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015 (Continued)**

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

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**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

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

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

a) Market Risk

*Foreign currency risk*

The Company is exposed to foreign exchange risks resulting from the foreign currency denominated commercial activities with the foreign companies and 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.

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015****(Continued)**

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

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS  
(Continued)**

The amounts of foreign currency assets, liabilities and TL equivalents of the Company as of December 31, 2015 and 2014 are as follows:

	2015						
	TL Equivalent	USD	EUR	GBP	DKK	CHF	YEN
1. Trade receivables	132.353.097	170.188	41.143.116	-	-	-	46.594.137
2. Monetary financial assets (including banks accounts) (Note 3)	111.363.321	46.960	34.989.447	4.219	5.045	1.122	861.380
3. Other	45.128.753	-	14.202.150	-	-	-	-
<b>4. Current assets (1+2+3)</b>	<b>288.845.171</b>	<b>217.148</b>	<b>90.334.713</b>	<b>4.219</b>	<b>5.045</b>	<b>1.122</b>	<b>47.455.517</b>
5. Trade receivables	5.310.472	-	1.671.221	-	-	-	-
6. Other	2.963	1.019	-	-	-	-	-
<b>7. Non-current assets (5+6)</b>	<b>5.313.435</b>	<b>1.019</b>	<b>1.671.221</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8. Total assets (4+7)</b>	<b>294.158.606</b>	<b>218.167</b>	<b>92.005.934</b>	<b>4.219</b>	<b>5.045</b>	<b>1.122</b>	<b>47.455.517</b>
9. Trade payables	93.574.954	1.825.578	24.759.847	-	-	-	398.289.476
10. Financial liabilities (Note 4)	80.915.566	-	25.464.365	-	-	-	-
11. Other monetary liabilities	21.422.702	55.581	6.690.929	-	-	-	-
<b>12. Current liabilities (9+10+11)</b>	<b>195.913.222</b>	<b>1.881.159</b>	<b>56.915.141</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>398.289.476</b>
13. Financial liabilities (Note 4)	153.246.443	-	48.227.103	-	-	-	-
<b>14. Non-current liabilities (13)</b>	<b>153.246.443</b>	<b>-</b>	<b>48.227.103</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>15. Total liabilities (12+14)</b>	<b>349.159.665</b>	<b>1.881.159</b>	<b>105.142.244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>398.289.476</b>
<b>16. Net foreign currency asset/ (liability) position (8-15)</b>	<b>(55.001.059)</b>	<b>(1.662.992)</b>	<b>(13.136.310)</b>	<b>4.219</b>	<b>5.045</b>	<b>1.122</b>	<b>(350.833.959)</b>
<b>17. Net monetary foreign currency asset/ (liability) position (8-15)</b>	<b>(55.001.059)</b>	<b>(1.662.992)</b>	<b>(13.136.310)</b>	<b>4.219</b>	<b>5.045</b>	<b>1.122</b>	<b>(350.833.959)</b>

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT DECEMBER 31, 2015****(Continued)**

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

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS  
(Continued)**

	TL Equivalent	USD	EUR	2014			
				GBP	DKK	CHF	YEN
1. Trade receivables	116.805.527	914.419	40.658.376	-	-	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	119.998.299	765.276	41.723.337	148.301	-	577	-
3. Other	82.285.342	5.957.255	24.274.493	-	-	-	-
4. Current assets (1+2+3)	319.089.168	7.636.950	106.656.206	148.301	-	577	-
5. Trade receivables	-	-	-	-	-	-	-
6. Other	22.760.414	1.019	8.068.228	-	-	-	-
7. Non-current assets (5+6)	22.760.414	1.019	8.068.228	-	-	-	-
8. Total assets (4+7)	341.849.582	7.637.969	114.724.434	148.301	-	577	-
9. Trade payables	53.292.272	-	18.893.279	-	-	-	-
10. Financial liabilities (Note 4)	112.400.823	10.032.699	31.600.665	-	-	-	-
11. Other monetary liabilities	10.034.483	28.362	3.534.128	-	-	-	-
12. Current liabilities (9+10+11)	175.727.578	10.061.061	54.028.072	-	-	-	-
13. Financial liabilities (Note 4)	236.107.047	-	83.705.125	-	-	-	-
14. Non-current liabilities (13)	236.107.047	-	83.705.125	-	-	-	-
15. Total liabilities (12+14)	411.834.625	10.061.061	137.733.197	-	-	-	-
16. Net foreign currency asset/ (liability) position (8-15)	(69.985.043)	(2.423.092)	(23.008.763)	148.301	-	577	-
17. Net monetary foreign currency asset/ (liability) position (8-15)	(69.985.043)	(2.423.092)	(23.008.763)	148.301	-	577	-

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

**NOTE 23 - 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 December 31, 2015 and 2014 are as follows:

	<b>January 1- December 31, 2015</b>	January 1 - December 31, 2014
Total export amount	<b>949.772.937</b>	944.418.345
Total import amount	<b>950.748.925</b>	736.170.777

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 December 31, 2015 and 2014 under the assumption of the appreciation and depreciation of TL against other currencies by 10% with all other variables held constant, is as follows:

	<b>2015</b>			
	<b>Appreciation of foreign currency</b>	<b>Profit/ Loss Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Shareholders’ equity Depreciation of foreign currency</b>
<b>Had TL appreciate/ (depreciate) by 10% against USD</b>				
Profit/(loss) from USD net asset position	<b>(483.532)</b>	<b>483.532</b>	-	-
Hedged amount against USD risk (-)	-	-	-	-
<b>Net effect of USD</b>	<b>(483.532)</b>	<b>483.532</b>	-	-
<b>Had TL appreciate/ (depreciate) by 10% against EUR</b>				
Profit/ (loss) from EUR net liability position	<b>(4.174.194)</b>	<b>4.174.194</b>	-	-
Hedged amount against EUR risk (-)	-	-	-	-
<b>Net Effect of EUR</b>	<b>(4.174.194)</b>	<b>4.174.194</b>	-	-
<b>Had TL appreciate/ (depreciate) by 10% against other</b>				
Profit/(loss) from other net liability position	<b>(842.380)</b>	<b>842.380</b>	-	-
Hedged amount against other (-)	-	-	-	-
<b>Net effect of other</b>	<b>(842.380)</b>	<b>842.380</b>	-	-
<b>Total net effect</b>	<b>(5.500.106)</b>	<b>5.500.106</b>	-	-

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

	2014			
	Appreciation of foreign currency	Profit/ Loss Depreciation of foreign currency	Appreciation of foreign currency	Shareholders' equity Depreciation of foreign currency
Had TL appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(561.891)	561.891	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(561.891)	561.891	-	-
Had TL appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(6.490.082)	6.490.082	-	-
Hedged amount against EUR risk (-)	-	-	-	-
Net Effect of EUR	(6.490.082)	6.490.082	-	-
Had TL appreciate/ (depreciate) by 10% against other				
Profit/(loss) from other net liability position	53.469	(53.469)	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	53.469	(53.469)	-	-
Total net effect	(6.998.504)	6.998.504	-	-

*Price risk*

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

*Interest rate risk*

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

**Financial instruments with fixed interest rate**

	2015	2014
Time deposits (Note 3)	<b>238.595.160</b>	259.864.196
Financial liabilities (Note 4)	<b>439.913.704</b>	390.336.142

**Financial instruments with floating interest rate**

	2015	2014
Financial liabilities (Note 4)	<b>232.867.714</b>	267.915.396

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

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**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

For financial instruments with variable interest rates, if the interest on December 31, 2015 in all currencies was higher/lower by 100 base points with all other variables held constant, the profit for the period before tax as a result of high/low interest rate income/ expense consisting of loans with variable interest rates would be higher/lower by TL (4.241) (2014: TL 1.783).

b) Credit risk

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

The Company’s maximum exposure to credit risk as of December 31, 2015 and 2014 is as follows:

	2015					
	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	107.738.947	359.651.002	-	358.030	244.280.765	-
Net book value of restructured financial assets, otherwise that - will be considered as due dated or impaired	-	-	-	-	-	-
Net book value of due dated but not impaired assets	2.000	7.494.602	-	-	-	-
Net book value of impaired assets	-	749.616	-	-	-	-
- Due dated (gross book value)	-	44.132.264	-	-	-	-
- Provision (-)	-	(43.382.648)	-	-	-	-
- Undue (gross book value)	-	31.776	-	-	-	-
- Provision (-)	-	(31.776)	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
<b>Amount exposed to maximum credit risk (*)</b>	<b>107.740.947</b>	<b>367.895.220</b>	<b>-</b>	<b>358.030</b>	<b>244.280.765</b>	<b>-</b>

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

As of December 31, 2015, the guarantee amount of the maximum exposure to credit risk is TL 719.636.766. Besides, all assets which are due but not impaired and are impaired are guaranteed.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

	2014					
	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	98.446.054	359.417.489	-	357.419	269.227.427	-
Net book value of restructured financial assets, otherwise that - will be considered as due dated or impaired	-	-	-	-	-	-
Net book value of due dated but not impaired assets	-	2.752.280	-	-	-	-
Net book value of impaired assets	-	273.031	-	-	-	-
- Due dated (gross book value)	-	39.770.692	-	-	-	-
- Provision (-)	-	(39.497.661)	-	-	-	-
- Undue (gross book value)	-	368.388	-	-	-	-
- Provision (-)	-	(368.388)	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
<b>Amount exposed to maximum credit risk (*)</b>	<b>98.446.054</b>	<b>362.442.800</b>	<b>-</b>	<b>357.419</b>	<b>269.227.427</b>	<b>-</b>

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

As of December 31, 2014, the guarantee amount of the maximum exposure to credit risk is TL 675.364.122. Besides, all assets which are due but not impaired and are impaired are guaranteed.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

As of December 31, 2015 and 2014, assets that are overdue but not impaired are as follows:

2015					
Receivables					
	Trade Receivables	Other Receivables	Bank Deposits	Derivative Instruments	Other
1-30 days past from maturity	3.322.123	-	-	-	-
1-3 months past from maturity	2.906.447	-	-	-	-
3-12 months past from maturity	1.266.032	-	-	-	-
1-5 years past from maturity	-	-	-	-	-
Over 5 years from maturity	-	-	-	-	-
<b>Total overdue</b>	<b>7.494.602</b>	-	-	-	-

  

2014					
Receivables					
	Trade Receivables	Other Receivables	Bank Deposits	Derivative Instruments	Other
1-30 days past from maturity	-	-	-	-	-
1-3 months past from maturity	-	-	-	-	-
3-12 months past from maturity	1.840.538	-	-	-	-
1-5 years past from maturity	911.742	-	-	-	-
Over 5 years from maturity	-	-	-	-	-
<b>Total overdue</b>	<b>2.752.280</b>	-	-	-	-

Consist of guarantees, guarantee letters received from customers, collateral securities and mortgages.

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.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

#### NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

As of December 31, 2015 and 2014, the undiscounted cash flows and liabilities according to their remaining maturities are presented in the following tables:

2015						
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	On Demand	Total cash outflows according to contract
<b>Financial liabilities</b>						
(Note 4)	672.781.418	54.560.688	192.244.056	485.101.835	-	731.906.579
Trade payables (Note 5)	508.366.554	514.311.575	-	-	-	514.311.575
Due to related parties (Note 22)	44.000.627	44.478.668	-	-	-	44.478.668
Other payables	14.022.497	14.022.497	-	-	-	14.022.497
<b>Non-derivative financial instruments</b>	<b>1.239.171.096</b>	<b>627.373.428</b>	<b>192.244.056</b>	<b>485.101.835</b>	<b>-</b>	<b>1.304.719.319</b>
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
2014						
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	On Demand	Total cash outflows according to contract
<b>Financial liabilities</b>						
(Note 4)	658.251.538	103.669.787	139.431.306	476.484.511	-	719.585.604
Trade payables (Note 5)	403.905.945	407.771.043	-	-	-	407.771.043
Due to related parties (Note 22)	44.766.757	45.081.918	-	-	-	45.081.918
Other payables	11.740.493	11.740.495	-	-	-	11.740.495
<b>Non-derivative financial instruments</b>	<b>1.118.664.733</b>	<b>568.263.243</b>	<b>139.431.306</b>	<b>476.484.511</b>	<b>-</b>	<b>1.184.179.060</b>
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-

#### 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.

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD BETWEEN JANUARY 1 – DECEMBER 31, 2015 (Continued)**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated)

**NOTE 23 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

	2015	2014
Cash and cash equivalents (Note 3)	244.280.765	269.229.023
Less: Financial liabilities (Note 4)	(672.781.418)	(658.251.538)
<b>Net financial debt</b>	<b>(428.500.653)</b>	<b>(389.022.515)</b>
Total shareholders’ equity	650.907.405	704.862.715
<b>Net financial debt/ shareholders’ equity ratio</b>	<b>(0,66)</b>	<b>(0,55)</b>

*Fair value of financial assets*

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

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

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

*Financial assets*

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

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

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

*Financial liabilities*

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

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

**NOTE 24 - SUBSEQUENT EVENT**

None.