

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

**Convenience translation into English of condensed  
financial statements and independent review report  
for the interim period between  
January 1 – June 30, 2016 (originally issued in  
Turkish)**

(Convenience translation of a review report originally issued in Turkish (Note 2.6))

## REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL INFORMATION

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

### ***Introduction***

We have reviewed the accompanying statement of financial position and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the six-month-period then ended and explanatory notes (“interim condensed financial information”) of Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) as of June 30, 2016. The management of the Company is responsible for the preparation and fair presentation of the interim condensed financial information in accordance with the Turkish Accounting Standard – 34 Interim Financial Reporting Standard (“TAS 34”). Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

### ***Scope of review***

We conducted our review in accordance with the Standard on Review Engagements (“SRE”) 2410, “Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of interim condensed financial information is substantially less in scope than an independent audit performed in accordance with the Turkish Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review on the interim condensed financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention which may cause us to conclude that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with TAS 34.

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

Necati Tolga Kirelli, SMMM  
Partner

August 8, 2016  
Istanbul, Turkey

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.  
INTERIM STATEMENTS OF FINANCIAL POSITION  
FOR JANUARY 1 - JUNE 30, 2016**

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

**INTERIM STATEMENT OF FINANCIAL POSITION**

**AS OF JUNE 30, 2016**

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

		<b>Current period Reviewed</b>	Prior period Audited
	<b>Notes</b>	<b>June 30, 2016</b>	December 31, 2015
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
		<b>1.491.382.595</b>	1.374.126.059
Cash and cash equivalents	3	<b>91.025.656</b>	244.280.765
Trade receivables:			
- <i>Other parties</i>	5	<b>455.211.762</b>	362.584.747
- <i>Related parties</i>	20	<b>131.188.837</b>	107.740.947
Inventories	6	<b>646.713.116</b>	517.663.175
Prepaid expenses	9	<b>2.032.845</b>	554.894
Assets related to current period taxes	18	-	15.947.252
Other current assets	9	<b>165.210.379</b>	125.354.279
<b>NON-CURRENT ASSETS</b>			
		<b>708.411.567</b>	641.922.277
Trade receivables, other parties	5	<b>4.007.727</b>	5.310.473
Other receivables, other parties		<b>486.672</b>	358.030
Property, plant and equipment	7	<b>466.459.032</b>	469.389.061
Intangible assets	8	<b>128.544.635</b>	120.890.449
Prepaid expenses	10	<b>6.122.619</b>	2.082.459
Deferred tax assets	18	<b>102.790.882</b>	43.891.805
<b>TOTAL ASSETS</b>			
		<b>2.199.794.162</b>	2.016.048.336

The financial statements prepared as at and for the period ended June 30, 2016 have been approved by the Board of Directors on August 8, 2016.

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

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

**INTERIM STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2016**

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

		<b>Current period Reviewed</b>	Prior period Audited
	<b>Notes</b>	<b>June 30, 2016</b>	December 31, 2015
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
		<b>1.113.510.330</b>	853.636.480
Short-term financial liabilities	4	<b>605.416</b>	-
Short-term portion of long term financial liabilities	4	<b>373.946.356</b>	206.845.070
Trade payables:			
- <i>Other parties</i>	5	<b>594.337.274</b>	508.366.554
- <i>Related parties</i>	20	<b>23.196.785</b>	44.000.627
Employee benefit obligations	12	<b>13.023.724</b>	15.551.267
Other payables, other parties		<b>9.711.237</b>	14.022.497
Government incentives and aids	9	<b>3.217.607</b>	3.066.415
Deferred income	9	<b>23.669.880</b>	21.273.777
Current income tax liabilities	18	<b>23.952.551</b>	-
Short-term provisions:			
- <i>Provision for employee benefits</i>	11	<b>4.214.974</b>	1.561.738
- <i>Other provisions</i>	11	<b>43.634.526</b>	38.948.535
<b>NON-CURRENT LIABILITIES</b>			
		<b>522.066.907</b>	511.504.451
Long-term financial liabilities	4	<b>474.416.771</b>	465.936.348
Long-term provisions:			
- <i>Provision for employee benefits</i>	11	<b>15.305.246</b>	15.598.307
- <i>Other provisions</i>	11	<b>32.344.890</b>	29.969.796
<b>SHAREHOLDERS' EQUITY</b>			
		<b>564.216.925</b>	650.907.405
<b>Equity attributable to parent</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>199.995.507</b>	170.262.352
Other accumulated comprehensive income/expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		<b>(11.312.793)</b>	(10.547.680)
Retained earnings		<b>74.645.222</b>	147.578.812
Net income for the period		<b>214.074.633</b>	256.799.565
<b>TOTAL LIABILITIES</b>			
		<b>2.199.794.162</b>	2.016.048.336

Provisions, contingent assets and liabilities 11

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

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

**INTERIM STATEMENTS OF PROFIT  
OR LOSS AND OTHER COMPREHENSIVE INCOME JUNE 30, 2016**

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

	Notes	Current period Reviewed		Prior period Reviewed	
		January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
Revenue	14	1.823.447.520	937.614.123	1.491.258.120	797.870.224
Cost of sales (-)	14	(1.453.131.502)	(747.926.632)	(1.222.777.820)	(646.775.798)
<b>GROSS PROFIT</b>		<b>370.316.018</b>	<b>189.687.491</b>	268.480.300	151.094.426
Marketing, selling and distribution expenses (-)		(90.725.273)	(42.519.577)	(70.917.366)	(33.640.351)
General administrative expenses (-)		(36.485.171)	(19.344.204)	(26.719.200)	(14.110.256)
Research and development expenses (-)		(6.669.081)	(3.656.458)	(4.856.298)	(2.380.225)
Other income from operating activities	15	77.931.599	51.437.665	225.902.478	130.694.915
Other expenses from operating activities (-)	15	(71.874.238)	(46.106.256)	(218.981.003)	(126.810.622)
<b>OPERATING PROFIT</b>		<b>242.493.854</b>	<b>129.498.661</b>	172.908.911	104.847.887
Income from investing activities		-	-	21.438	-
Expenses from investing activities (-)		(17.885)	(15.789)	(1.725)	-
<b>OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSES)</b>		<b>242.475.969</b>	<b>129.482.872</b>	172.928.624	104.847.887
Financial income	16	20.543.365	11.398.112	32.452.260	16.190.584
Financial expenses (-)	17	(56.592.207)	(33.004.106)	(71.745.241)	(42.271.076)
<b>PROFIT BEFORE TAXATION ON INCOME</b>		<b>206.427.127</b>	<b>107.876.878</b>	133.635.643	78.767.395
Taxes on income (-)	18	(51.060.293)	(16.168.162)	(38.242.935)	(12.593.270)
Deferred tax income	18	58.707.799	42.112.546	17.065.363	2.188.819
<b>NET PROFIT FOR THE PERIOD</b>		<b>214.074.633</b>	<b>133.821.262</b>	112.458.071	68.362.944
<b>Attribution of net profit for the period:</b>					
Non-controlling interest		-	-	-	-
Equity holders of the parent		214.074.633	133.821.262	112.458.071	68.362.944
<b>Other comprehensive income/ (expense)</b>					
Actuarial loss arising from defined benefit plans	11	(956.391)	(615.534)	(8.928.490)	(8.949.452)
Actuarial loss arising from defined benefit plans, tax effect	18	191.278	123.107	1.785.698	1.789.890
<b>Other comprehensive expense after tax</b>		<b>(765.113)</b>	<b>(492.427)</b>	(7.142.792)	(7.159.562)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>213.309.520</b>	<b>133.328.835</b>	105.315.279	61.203.382
Earnings per share (TL)	19	0,0401	0,0251	0,0211	0,0128

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

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE INTERIM PERIOD BETWEEN JANUARY 1 – JUNE 30, 2016**

(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 period	Total shareholders' equity
<b>January 1, 2016</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>
<b>Transfers</b>	-	-	-	-	<b>29.733.155</b>	<b>227.066.410</b>	<b>(256.799.565)</b>	-
<b>Dividends paid</b>	-	-	-	-	-	<b>(300.000.000)</b>	-	<b>(300.000.000)</b>
<b>Comprehensive income</b>								
Net profit for the period	-	-	-	-	-	-	214.074.633	214.074.633
<b>Other comprehensive income</b>								
Actuarial loss arising from defined benefit plans	-	-	-	(765.113)	-	-	-	(765.113)
<b>Total other comprehensive expense</b>	-	-	-	<b>(765.113)</b>	-	-	-	<b>(765.113)</b>
<b>Total comprehensive income</b>	-	-	-	<b>(765.113)</b>	-	-	<b>214.074.633</b>	<b>213.309.520</b>
<b>June 30, 2016</b>	<b>53.369.000</b>	<b>39.014.356</b>	<b>(5.569.000)</b>	<b>(11.312.793)</b>	<b>199.995.507</b>	<b>74.645.222</b>	<b>214.074.633</b>	<b>564.216.925</b>

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

(CONVENIENCE TRANSLATION INTO ENGLISH OF CONDENSED INTERIM FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE 2.6))

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

**CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE INTERIM PERIOD BETWEEN JANUARY 1 – JUNE 30, 2016**

(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 period	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>
Transfers	-	-	-	-	19.733.155	241.354.117	(261.087.272)	-
Dividends paid	-	-	-	-	-	(200.000.000)	-	(200.000.000)
<b>Comprehensive income</b>								
Net profit for the period	-	-	-	-	-	-	112.458.071	112.458.071
<b>Other comprehensive income</b>								
Actuarial loss arising from defined benefit plans	-	-	-	(7.142.792)	-	-	-	(7.142.792)
<b>Total other comprehensive expense</b>	-	-	-	<b>(7.142.792)</b>	-	-	-	<b>(7.142.792)</b>
<b>Total comprehensive income</b>	-	-	-	<b>(7.142.792)</b>	-	-	<b>112.458.071</b>	<b>105.315.279</b>
<b>June 30, 2015</b>	<b>53.369.000</b>	<b>39.014.356</b>	<b>(5.569.000)</b>	<b>(6.935.597)</b>	<b>163.635.422</b>	<b>254.205.742</b>	<b>112.458.071</b>	<b>610.177.994</b>

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



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

**CASH FLOWS**

**FOR THE INTERIM PERIOD BETWEEN JANUARY 1 – JUNE 30, 2016**

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

		<b>Current period Reviewed</b>	Prior period Reviewed
	<b>Notes</b>	<b>January 1 – June 30, 2016</b>	January 1 – June 30, 2015
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
		<b>39.417.944</b>	<b>25.640.739</b>
<b>Net profit for the period</b>		<b>214.074.633</b>	<b>112.458.071</b>
<b>Adjustments to reconcile net profit:</b>		<b>73.188.410</b>	<b>61.919.395</b>
Amortization and depreciation		26.928.689	23.451.093
Provision for impairment on inventories	6	191.802	5.203.133
Provision for employee termination benefits		4.363.412	3.152.526
Provision for doubtful receivables	15	1.194.297	2.159.348
Other provision		7.061.080	13.526.221
Interest income and expense	16, 17	33.567.636	21.155.551
Tax expense	18	(7.647.506)	21.177.572
Gain/ loss from sales of property plant and equipment		17.885	(19.713)
Non-cash items		7.511.115	(27.886.336)
<b>Changes in working capital</b>		<b>(233.724.981)</b>	<b>(125.180.370)</b>
Trade receivables		(94.854.881)	(102.023.378)
Due from related parties		(25.403.026)	18.553.014
Inventories		(129.888.895)	(58.191.392)
Other current assets		(39.856.100)	17.556.633
Other receivables		(128.642)	(374)
Prepaid expenses		(5.518.111)	3.554.805
Due to related parties		(20.740.498)	(32.088.132)
Trade payables		87.293.375	33.222.474
Deferred income		2.210.600	3.358.832
Other liabilities		(4.311.260)	(8.529.338)
Employee termination benefits liabilities		(2.527.543)	(593.514)
<b>Net cash provided by operating activities</b>		<b>53.538.062</b>	<b>49.197.096</b>
Provision for employee termination benefits paid	11	(2.959.628)	(7.287.280)
Tax paid		(11.160.490)	(16.269.077)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
		<b>(31.334.036)</b>	<b>(24.339.812)</b>
Proceeds from sales of property, plant and equipment and intangible assets		55.220	138.675
Payments for purchases of property, plant and equipment and intangible assets		(31.725.951)	(24.478.487)
Proceeds from government grants	9	336.695	-
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
		<b>(162.150.749)</b>	<b>(75.641.998)</b>
Proceeds from bank borrowings		532.937.929	403.637.912
Repayment of bank borrowings		(362.921.163)	(259.497.260)
Dividends paid	13	(300.000.000)	(200.000.000)
Interest paid		(36.993.853)	(24.456.651)
Interest received		4.826.338	4.674.001
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)</b>		<b>(154.066.841)</b>	<b>(74.341.071)</b>
<b>D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>		(1.000.757)	3.307.497
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>(155.067.598)</b>	<b>(71.033.574)</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	3	<b>244.162.165</b>	<b>268.594.918</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)</b>	3	<b>89.094.567</b>	<b>197.561.344</b>

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

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - JUNE 30, 2016

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

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

Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. (“Koç Holding”). As of June 30, 2016, 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 June 30, 2016 is 3.299. (Permanent: 2.948 temporary: 351) (December 31 2015: 3.129 (Permanent: 2.612, temporary: 517)).

The Company conducts marketing and selling activities in the domestic market, through its 133 sales dealers and 101 spare part dealers and 57 heavy construction equipment dealers (December 31, 2015: 137 sales dealers, 98 spare part dealers, 52 heavy construction equipment dealers).

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

The Company is registered in Turkey in the following address:

Gazi Mahallesi, Anadolu Bulvarı No:52 – 52 A  
Yenimahalle Ankara

As of June 30, 2016, the free float of the Company whose shares are traded in the Borsa Istanbul (“BİST”) is 24,89% (December 31, 2015: 24,89%) (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”) 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.

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

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)

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

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

##### 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 when necessary.

##### 2.3 Changes in TFRS:

The accounting policies adopted in preparation of the interim financial statements as at June 30, 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2016. 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, 2016 are as follows:*

- 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 (Amendment) – Bearer Plants
- 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

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

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

- TFRS 9 Financial Instruments – Classification and measurement

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
- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)
- 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)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

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

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

**2.4 Summary of significant accounting policies**

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

**Cash and cash equivalents**

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

**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 special consumption tax 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.

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

**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:

	<b>Useful lives</b>
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

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.

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

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 its 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.

**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. 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. They are included in current assets, except for maturities less than 12 months after the balance sheet date which are classified as non-current assets. 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 15).

**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 15).

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

**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 17). 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 17).

**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.

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,
  - (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:
- (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,

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

**EXPLANATORY NOTES TO THE  
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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)**

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity,
- (vi) The entity is controlled or jointly controlled by a person identified in (a),
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

**Foreign currency transactions and balances**

Transactions in foreign currencies during the period have been translated into 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 15).

**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 19).

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 after balance sheet date**

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 22).



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

**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).

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.

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

**Research and development expenses**

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

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, 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 two incentives for the modernization of Ankara and Adapazarı facilities as of June 30, 2016 (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) Support for employer's national insurance contribution,
- h) Incentive of environmental costs support by law 9715,
- i) Patent incentives,
- j) Corporate tax exemption based on investment contribution rates.

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

**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 18).

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 18).

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 18).

**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).

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

**Statement of cash flow**

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

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

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

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

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

**Share capital and dividends**

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

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

**Warranties**

Warranty expenses and provisions 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 under 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 6).

**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 June 30, 2016 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 18).

**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.

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**NOTE 3 - CASH AND CASH EQUIVALENTS**

	<b>June 30, 2016</b>	December 31, 2015
Cash	<b>16.897</b>	-
Banks:		
- TL denominated demand deposits	<b>14.059.807</b>	4.271.107
- TL denominated time deposits	<b>66.849.856</b>	128.646.337
- Foreign currency denominated demand deposits	<b>3.690.122</b>	1.414.498
- Foreign currency denominated time deposits	<b>6.408.974</b>	109.948.823
	<b>91.025.656</b>	244.280.765

As of June 30, 2016, the weighted average effective annual interest rate for TL and Euro (“EUR”) time deposits are 10,87% and 1% respectively (December 31, 2015: TL: 10,59%, EUR: 1,28%). As of June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015 is as follows:

	<b>June 30, 2016</b>	December 31, 2015
Cash	<b>16.897</b>	-
Banks	<b>91.008.759</b>	244.280.765
Less: Interest accruals	<b>(20.031)</b>	(50.204)
Less: Restricted bank deposits (*)	<b>(1.911.058)</b>	(68.396)
<b>Cash and cash equivalents</b>	<b>89.094.567</b>	244.162.165

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

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**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	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
TL loans	605.416	-	-	-	605.416	-
					605.416	-

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

	Original currency amount		Weighted average effective interest rate p.a. (%)		TL equivalent	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
EUR loans	18.749.861	25.464.365	2,20	2,20	60.082.056	80.915.566
TL loans	313.864.300	125.929.504	10,49	10,80	313.864.300	125.929.504
					373.946.356	206.845.070

**b) Long-term financial liabilities**

**Long-term bank borrowings**

	Original currency amount		Weighted average effective interest rate p.a. (%)		TL equivalent	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
EUR loans	22.762.084	48.227.103	2,20	2,20	72.938.821	153.246.443
TL loans	402.532.778	313.984.200	12,97	10,80	402.532.778	313.984.200
					475.471.599	467.230.643
Prepaid commission for debt (*)					(1.054.828)	(1.294.295)
<b>Total long-term financial liabilities</b>					<b>474.416.771</b>	<b>465.936.348</b>

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

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

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

Redemption schedule of the long-term bank borrowings as of June 30, 2016 and December 31, 2015 is as follows:

<b>Year</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
2017	<b>28.986.200</b>	406.469.834
2018	<b>395.138.904</b>	59.466.514
2019	<b>50.291.667</b>	-
	<b>474.416.771</b>	465.936.348

As of June 30, 2016; the Company has long-term investment loans with variable interest rate amounting to EUR 21.428.572 and EUR 20.000.000 (December 31, 2015: EUR 53.571.428 and EUR 20.000.000). The EUR 21.428.572 loan's maturity is 5 years with an interest payment of every 6 months and with an interest rate of 2.20% + Euribor. The EUR 20.000.000 loan's maturity is 4 years with an interest payment of every 6 months and with an interest rate of 2,20% + Euribor. There are no principle payments for the following 2 years for both loans. In accordance with the agreement signed with respect to the investment loan used by the Company, there is an obligation of not exceeding the below mentioned rate calculated over the financial statements prepared in accordance with the Turkish Financial Reporting Standards:

Obligation rate is;

- Net financial liability (\*) / Earnings before interest, taxes, depreciation and amortization: 3,75.

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

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

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

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Bank borrowings	<b>850.023.371</b>	674.075.713	<b>845.681.287</b>	657.558.399

As of June 30, 2016, fair values of the bank borrowings, for EUR and TL bank borrowings are annually 2,20% and 12,86% determined by using the discounted cash flow method over weighted effective discount rates respectively (December 31, 2015: EUR: 2,20% and TL: 14,91%).



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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 5 - TRADE RECEIVABLES AND PAYABLES**

	<b>June 30, 2016</b>	December 31, 2015
<b>Short-term trade receivables:</b>		
Customer current accounts	<b>487.430.747</b>	403.804.406
Notes receivables	<b>16.640.471</b>	5.531.406
Protested notes	<b>6.923</b>	206.497
	<b>504.078.141</b>	409.542.309
Less: Provision for doubtful receivables	<b>(44.148.429)</b>	(43.414.424)
Unearned financial income	<b>(4.717.950)</b>	(3.543.138)
<b>Short-term trade receivables</b>	<b>455.211.762</b>	362.584.747
Trade receivables from third parties (Note 20)	<b>131.188.837</b>	107.740.947
<b>Total short-term trade receivables</b>	<b>586.400.599</b>	470.325.694
Movements of the provisions for short-term doubtful receivables for the periods ended June 30, 2016 and 2015 are as follows:		
	<b>2016</b>	2015
<b>January 1</b>	<b>(43.414.424)</b>	(39.866.049)
Cancelled during the period (Note 15)	<b>460.292</b>	593.053
Charge during the period (Note 15)	<b>(1.194.297)</b>	(2.159.348)
<b>June 30</b>	<b>(44.148.429)</b>	(41.432.344)
	<b>June 30, 2016</b>	December 31, 2015
<b>Long-term trade receivables:</b>		
Notes receivables	<b>4.003.600</b>	5.320.942
Unearned financial income	<b>4.127</b>	(10.469)
	<b>4.007.727</b>	5.310.473

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

	<b>June 30, 2016</b>	December 31, 2015
<b>Trade payables:</b>		
Supplier current accounts	<b>598.489.694</b>	514.311.575
Less: Unincurred financial expense	<b>(4.152.420)</b>	(5.945.021)
<b>Trade payables</b>	<b>594.337.274</b>	508.366.554
Due to related parties (Note 20)	<b>23.196.785</b>	44.000.627
<b>Total trade payables</b>	<b>617.534.059</b>	552.367.181

**NOTE 6 - INVENTORIES**

	<b>June 30, 2016</b>	December 31, 2015
Raw materials	<b>173.647.414</b>	178.103.854
Work in progress	<b>3.745.189</b>	3.313.690
Finished goods	<b>227.460.866</b>	117.087.043
Commercial goods	<b>197.284.581</b>	156.532.173
Spare parts	<b>48.075.398</b>	31.835.883
Goods in transit (*)	<b>35.093.562</b>	69.192.624
<b>Gross</b>	<b>685.307.010</b>	556.065.267
Provision for impairment of inventories (-)	<b>(38.593.894)</b>	(38.402.092)
<b>Net</b>	<b>646.713.116</b>	517.663.175

The cost of inventories recognised as expense in the current period is amounting to TL 1.412.311.945 (June 30, 2015: TL 1.085.408.739).

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

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

	<b>2016</b>	2015
<b>January 1</b>	<b>(38.402.092)</b>	(12.959.214)
Cancelled due to sales inventory during the period	<b>1.197.531</b>	530.620
Charge during the period	<b>(1.389.333)</b>	(5.733.753)
<b>June 30</b>	<b>(38.593.894)</b>	(18.162.347)

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 6 – INVENTORIES (Continued)**

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

	<b>June 30, 2016</b>	June 30, 2015
Raw materials	<b>(22.467.428)</b>	(14.322.947)
Finished goods	<b>(339.589)</b>	-
Commercial goods	<b>(12.748.802)</b>	(1.566.658)
Spare parts	<b>(3.038.075)</b>	(2.272.742)
	<b>(38.593.894)</b>	(18.162.347)

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

	<b>January 1, 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>June 30, 2016</b>
<b><u>Cost</u></b>					
Land	<b>37.740.200</b>	-	-	-	<b>37.740.200</b>
Land improvements	<b>11.000.199</b>	-	-	-	<b>11.000.199</b>
Buildings	<b>233.223.415</b>	-	-	-	<b>233.223.415</b>
Machinery and equipment	<b>538.492.812</b>	<b>6.616.814</b>	-	-	<b>545.109.626</b>
Special costs	<b>3.925.826</b>	<b>1.344.830</b>	-	-	<b>5.270.656</b>
Motor vehicles	<b>5.765.808</b>	<b>219.015</b>	<b>(84.286)</b>	-	<b>5.900.537</b>
Furniture and fixtures	<b>61.098.414</b>	<b>2.008.058</b>	<b>(5.018)</b>	-	<b>63.101.454</b>
Construction in progress	<b>10.751.099</b>	<b>8.323.008</b>	-	-	<b>19.074.107</b>
	<b>901.997.773</b>	<b>18.511.725</b>	<b>(89.304)</b>	-	<b>920.420.194</b>
<b><u>Accumulated depreciation</u></b>					
Land improvements	<b>4.102.669</b>	<b>176.792</b>	-	-	<b>4.279.461</b>
Buildings	<b>46.132.970</b>	<b>2.551.065</b>	-	-	<b>48.684.035</b>
Machinery and equipment	<b>341.775.030</b>	<b>14.236.476</b>	-	-	<b>356.011.506</b>
Special costs	<b>2.821.035</b>	<b>170.386</b>	-	-	<b>2.991.421</b>
Motor vehicles	<b>2.247.517</b>	<b>442.672</b>	<b>(14.040)</b>	-	<b>2.676.149</b>
Furniture and fixtures	<b>35.529.491</b>	<b>3.791.258</b>	<b>(2.159)</b>	-	<b>39.318.590</b>
	<b>432.608.712</b>	<b>21.368.649</b>	<b>(16.199)</b>	-	<b>453.961.162</b>
<b>Net book value</b>	<b>469.389.061</b>				<b>466.459.032</b>

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

	January 1, 2015	Additions	Disposals	Transfers	June 30, 2015
<b><u>Cost</u></b>					
Land	36.720.200	1.020.000	-	-	37.740.200
Land improvements	10.131.676	6.750	-	-	10.138.426
Buildings	231.094.581	1.673.176	-	-	232.767.757
Machinery and equipment	504.823.284	7.264.703	(207.106)	150	511.881.031
Special costs	3.688.626	165.000	-	-	3.853.626
Motor vehicles	3.871.096	830.334	-	-	4.701.430
Furniture and fixtures	54.885.289	1.069.260	(7.365)	-	55.947.184
Construction in progress	2.281.359	2.538.751	-	(150)	4.819.960
	847.496.111	14.567.974	(214.471)	-	861.849.614
<b><u>Accumulated depreciation</u></b>					
Land improvements	3.772.816	162.110	-	-	3.934.926
Buildings	41.049.056	2.534.430	-	-	43.583.486
Machinery and equipment	315.748.332	12.738.925	(91.925)	-	328.395.332
Special costs	2.694.892	61.154	-	-	2.756.046
Motor vehicles	1.557.280	335.722	-	-	1.893.002
Furniture and fixtures	28.519.012	3.430.985	(3.584)	-	31.946.413
	393.341.388	19.263.326	(95.509)	-	412.509.205
Net book value	454.154.723				449.340.409

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

	<b>June 30, 2016</b>	December 31, 2015
Land improvements	<b>2.216.039</b>	2.212.571
Buildings	<b>16.507.094</b>	16.507.094
Machinery and equipment	<b>280.123.526</b>	278.387.906
Special costs	<b>2.623.444</b>	2.623.444
Motor vehicles	<b>1.382.185</b>	989.114
Furniture and fixtures	<b>20.135.607</b>	19.428.647
	<b>322.987.895</b>	320.148.776

Allocation of the depreciation expenses of property, plant and equipment as of June 30, 2016 and 2015 is as follows:

	<b>June 30, 2016</b>	June 31, 2015
Production costs	<b>15.551.396</b>	14.417.590
General administrative expenses	<b>2.869.730</b>	2.390.987
Marketing, selling and distribution expenses	<b>1.335.087</b>	1.002.120
Research and development expenses	<b>1.612.436</b>	1.452.629
	<b>21.368.649</b>	19.263.326

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

The Company does not have any financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of June 30, 2016 (June 30, 2015: None )

There is not mortgage on property, plant and equipment as of June 30, 2016 (December 31, 2015: None).

**NOTE 8 - INTANGIBLE ASSETS**

	January 1, 2016	Additions	Disposals	Transfers	June 30, 2016
<b><u>Cost</u></b>					
Rights	21.907.706	1.174.284	-	-	23.081.990
Development costs	60.703.150	-	-	12.467.202	73.170.352
Development costs in progress	84.732.997	13.702.913	-	(12.467.202)	85.968.708
	<b>167.343.853</b>	<b>14.877.197</b>	<b>-</b>	<b>-</b>	<b>182.221.050</b>
<b><u>Accumulated amortisation</u></b>					
Rights	14.378.652	1.592.335	-	-	15.970.987
Development costs	32.074.752	5.630.676	-	-	37.705.428
	<b>46.453.404</b>	<b>7.223.011</b>	<b>-</b>	<b>-</b>	<b>53.676.415</b>
<b>Net book value</b>	<b>120.890.449</b>				<b>128.544.635</b>
	January 1, 2015	Additions	Disposals	Transfers	June 30, 2015
<b><u>Cost</u></b>					
Rights	13.633.435	1.341.012	-	-	14.974.447
Development costs	51.732.049	-	-	1.688.053	53.420.102
Development costs in progress	59.344.378	10.025.992	-	(1.688.053)	67.682.317
	<b>124.709.862</b>	<b>11.367.004</b>	<b>-</b>	<b>-</b>	<b>136.076.866</b>
<b><u>Accumulated amortisation</u></b>					
Rights	8.315.558	1.097.899	-	-	9.413.457
Development costs	22.634.223	4.546.359	-	-	27.180.582
	<b>30.949.781</b>	<b>5.644.258</b>	<b>-</b>	<b>-</b>	<b>36.594.039</b>
<b>Net book value</b>	<b>93.760.081</b>				<b>99.482.827</b>

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

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

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

Allocation of the amortization expenses of intangible assets that has suspended as of June 30, 2016 and 2015 is as follows:

	<b>June 30, 2016</b>	June 30, 2015
Production costs	<b>1.158.849</b>	821.720
General administrative expenses	<b>213.845</b>	136.272
Marketing, selling and distribution expenses	<b>99.487</b>	57.116
Research and development expenses	<b>4.087.859</b>	3.172.659
Reflected to development cost in progress	<b>1.662.971</b>	1.456.491
	<b>7.223.011</b>	5.644.258

**NOTE 9 - OTHER ASSETS AND LIABILITIES**

	<b>June 30, 2016</b>	December 31, 2015
<b>a) Prepaid expenses:</b>		
Short-term prepaid expenses	<b>2.032.845</b>	554.894
	<b>2.032.845</b>	554.894

	<b>June 30, 2016</b>	December 31, 2015
<b>b) Other current assets:</b>		
Deferred value added tax ("VAT")	<b>127.008.853</b>	80.338.566
Reclaimed VAT	<b>38.035.062</b>	43.358.216
Other	<b>166.464</b>	1.657.497
	<b>165.210.379</b>	125.354.279

<b>c) Deferred income:</b>		
Deferred income (*)	<b>23.580.445</b>	21.185.090
Advances received	<b>89.435</b>	88.687
<b>Other current liabilities</b>	<b>23.669.880</b>	21.273.777

(\*) Deferred income represents the sales amount of the tractors for which the invoices are issued but are not yet shipped to customers as of June 30, 2016 and December 31, 2015.

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

**d) Government grants and aids:**

	<b>June 30, 2016</b>	December 31, 2015
Government grants and aids	<b>3.217.607</b>	3.066.415
	<b>3.217.607</b>	3.066.415
	<b>2016</b>	2015
<b>January 1</b>	<b>3.066.415</b>	3.183.083
Received during the period	<b>336.695</b>	-
Utilized during the period (Note 15)	<b>(185.503)</b>	(185.503)
<b>June 30</b>	<b>3.217.607</b>	2.997.580

**NOTE 10 - PREPAID EXPENSES**

**Long-term prepaid expenses**

	<b>June 30, 2016</b>	December31, 2015
Advances given for purchases of fixed assets	<b>5.568.577</b>	2.053.099
Prepaid expenses	<b>554.042</b>	29.360
<b>Long-term prepaid expenses</b>	<b>6.122.619</b>	2.082.459

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

**a) Short-term provisions**

**Short-term provision for employee benefits**

	<b>June 30, 2016</b>	December 31, 2015
Provision for unused vacation	<b>4.214.974</b>	1.561.738
	<b>4.214.974</b>	1.561.738

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

	<b>2016</b>	2015
<b>January 1</b>	<b>1.561.738</b>	1.488.479
Charge/ (used) for the period- net	<b>2.653.236</b>	1.923.143
<b>June 30</b>	<b>4.214.974</b>	3.411.622

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

**EXPLANATORY NOTES TO THE  
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BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

**Other short-term provisions**

	<b>June 30, 2016</b>	December 31, 2015
Warranty provision	<b>31.885.054</b>	28.614.153
Provision for legal cases (*)	<b>8.356.665</b>	10.295.723
Other provisions	<b>3.392.807</b>	38.659
	<b>43.634.526</b>	38.948.535

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

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

	<b>2016</b>	2015
<b>January 1</b>	<b>10.295.723</b>	7.343.170
Charge/ (cancelled) for the period- net (Note 15)	<b>(1.939.058)</b>	1.425.352
<b>June 30</b>	<b>8.356.665</b>	8.768.522

**b) Long-term provisions**

**Long-term provision for employee benefits**

	<b>June 30, 2016</b>	December 31, 2015
Provision for employee termination benefits	<b>15.305.246</b>	15.598.307
	<b>15.305.246</b>	15.598.307

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

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

The amount payable consists of one month's salary limited to a maximum of TL 4.092,53 for each year of service as of June 30, 2016 (December 31, 2015: TL 3.828,37).

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



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

**EXPLANATORY NOTES TO THE  
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BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

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

	<b>June 30, 2016</b>	December 31, 2015
Inflation rate (%)	<b>5,50</b>	5,50
Interest rate (%)	<b>10,35</b>	10,35
Turnover rate to estimate the probability of retirement (%)	<b>93,29</b>	93,23

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The Company's provision for employee termination benefit was calculated over TL 4.297,21 valid as of July 1, 2016.

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

	<b>2016</b>	2015
<b>January 1</b>	<b>15.598.307</b>	8.986.321
Interest cost	<b>807.212</b>	366.642
Current period service cost	<b>902.964</b>	862.741
Paid during the period	<b>(2.959.628)</b>	(7.287.280)
Actuarial loss	<b>956.391</b>	8.928.490
<b>June 30</b>	<b>15.305.246</b>	11.856.914

Sensitivity analysis of key assumptions used for termination benefits calculations as at June 30, 2016 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 (%92,76)	%0,5 increase (%93,76)
Rate				
Change in employee benefits liability	494.100	(458.324)	(514.264)	553.511

**Other long-term provisions**

	<b>June 30, 2016</b>	December 31, 2015
Warranty provision	<b>32.344.890</b>	29.969.796
	<b>32.344.890</b>	29.969.796

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

**EXPLANATORY NOTES TO THE  
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BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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

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

	2016	2015
<b>January 1</b>	<b>58.583.949</b>	41.266.231
Used during the period	(26.146.023)	(17.076.784)
Charge for the period	<b>31.792.018</b>	23.446.428
<b>June 30</b>	<b>64.229.944</b>	47.635.875

**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 June 30, 2016 and December 31, 2015; the Company's guarantee/pledge/mortgage positions are as follows:

	June 30, 2016	December 31, 2015
A. The total amount of collaterals given on behalf of its own legal entity	<b>17.963.664</b>	13.758.566
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>17.963.664</b>	13.758.566

As at June 30, 2016, the Company has given its own legal entity on behalf of the original collateral denominated in foreign currency amounts of EUR 2.689.108 (December 31, 2015: EUR 2.698.578 and USD 34.104).

(CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE2.6))

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)

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

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

##### d) Contingent assets

	Original currency amount						TL equivalent	
	June 30, 2016			December 31, 2015			June 30, 2016	December 31, 2015
	EUR	USD	TL	EUR	USD	TL		
Letters of guarantees received	976.386	330.000	505.583.571	576.812	270.000	471.427.665	509.667.190	474.045.595
Direct debit	-	-	286.696.947	-	-	329.727.841	286.696.947	329.727.841
Mortgages	-	-	438.714	-	-	788.714	438.714	788.714
Security bonds	-	-	2.500.000	-	-	2.500.000	2.500.000	2.500.000
Cash TL guarantees	-	-	-	-	-	-	-	-
Cash foreign currency guarantees	-	-	-	-	-	-	-	-
							799.302.851	807.062.150

#### NOTE 12 - PROVISION FOR EMPLOYEE BENEFITS

##### Liabilities for employee benefits

	June 30, 2016	December 31, 2015
Accrued premiums and liabilities to personnel	8.698.338	6.561.102
Taxes payable and liabilities (*)	4.325.386	8.990.165
	13.023.724	15.551.267

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

#### NOT 13 - SHAREHOLDERS' EQUITY

##### Paid-in share capital

The Company's registered share capital amounts to TL 250.000.000 (31 December 2015: 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.

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

**EXPLANATORY NOTES TO THE  
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BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOT 13 - SHAREHOLDERS' EQUITY (Continued)**

The composition of the Company's statutory share capital at June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>		December 31, 2015	
	<b>Participation (%)</b>	<b>Share amount (TL)</b>	Participation (%)	Share amount (TL)
Koç Holding	<b>37,50</b>	<b>20.013.375</b>	37,50	20.013.375
CNHI Osterreich	<b>37,50</b>	<b>20.013.375</b>	37,50	20.013.375
Public quotation in BİST	<b>24,95</b>	<b>13.315.978</b>	24,95	13.315.978
Other	<b>0,05</b>	<b>26.272</b>	0,05	26.272
	<b>100,00</b>	<b>53.369.000</b>	100,00	53.369.000
<b>Adjustments to share capital</b>		<b>39.014.356</b>		39.014.356
		<b>92.383.356</b>		92.383.356

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

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

As of June 11, 2004, the Company has been quoted to BİST and its shares started to be traded in the stock exchange market from that date. As of June 30, 2016, 24,89% (December 31, 2015: 24,89%) of the Company shares are quoted at BİST.

**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.

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

**EXPLANATORY NOTES TO THE  
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(Amounts expressed in Turkish Lira (TL), unless otherwise indicated)

**NOT 13 - SHAREHOLDERS' EQUITY (Continued)**

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 arose due to implementing the communique (such as inflation adjustment differences) shall be disclosed as follows:

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

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

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

**Dividend distribution**

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

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.

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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**NOT 13 - SHAREHOLDERS' EQUITY (Continued)**

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.

In the statutory financial statements of the Company, in addition to the statutory profit amounting to TL 232.384.044 and retained earnings amounting to TL 114.094.362 for the period ended June 30, 2016; 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 10.583.705 if dividend distribution is made.

The dividend payment proposal amounting to TL 300.000.000 were decided, in the Company's General Assembly dated March 22, 2016 and the related payment has been completed to the shareholders in cash starting from April 1, 2016 (Note 20). Dividend payment distribution per share is 5,62 Kr (December 31, 2015: 5,62 Kr).

(CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE2.6))

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
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(Amounts expressed in Turkish Lira (TL), unless otherwise indicated)

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

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	<b>January 1 - June 30, 2015</b>	<b>April 1 - June 30, 2015</b>
Domestic sales	<b>1.494.296.920</b>	<b>781.717.265</b>	1.233.014.265	682.772.914
Export sales	<b>538.541.968</b>	<b>265.416.138</b>	418.152.762	201.239.229
<b>Sales income (gross)</b>	<b>2.032.838.888</b>	<b>1.047.133.403</b>	1.651.167.027	884.012.143
Less: Discount and returns	<b>(209.391.368)</b>	<b>(109.519.280)</b>	(159.908.907)	(86.141.919)
<b>Sales income (net)</b>	<b>1.823.447.520</b>	<b>937.614.123</b>	1.491.258.120	797.870.224
Cost of sales	<b>(1.453.131.502)</b>	<b>(747.926.632)</b>	(1.222.777.820)	(646.775.798)
<b>Gross profit</b>	<b>370.316.018</b>	<b>189.687.491</b>	268.480.300	151.094.426

**Sales quantities:**

	<b>June 30, 2016</b>			<b>June 30, 2015</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>17.917</b>	<b>6.902</b>	<b>24.819</b>	16.675	6.598	23.273
Combine	<b>246</b>	-	<b>246</b>	244	-	244
	<b>18.163</b>	<b>6.902</b>	<b>25.065</b>	16.919	6.598	23.517

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 15 – OTHER OPERATING INCOME/ EXPENSES**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	<b>January 1 - June 30, 2015</b>	<b>April 1 - June 30, 2015</b>
Foreign exchange gain from trade receivable/ payables	<b>53.961.073</b>	<b>36.868.217</b>	210.803.761	122.914.224
Financial income from credit sales	<b>14.775.512</b>	<b>7.198.925</b>	11.749.927	6.448.311
Reversal of provision for doubtful receivables (Note 5)	<b>460.292</b>	<b>379.764</b>	593.053	164.011
Incentive income (Note 9)	<b>185.503</b>	<b>92.751</b>	185.503	92.751
Reversal of provision for litigation expenses (Note 11)	<b>2.264.321</b>	<b>2.264.321</b>	-	-
Other income	<b>6.284.898</b>	<b>4.633.687</b>	2.570.234	1.075.618
<b>Other operating income</b>	<b>77.931.599</b>	<b>51.437.665</b>	225.902.478	130.694.915
Foreign exchange loss from trade receivable/ payables	<b>(57.830.268)</b>	<b>(39.683.626)</b>	(204.414.915)	(118.729.996)
Financial expense on credit purchases	<b>(12.323.305)</b>	<b>(5.429.407)</b>	(10.234.029)	(5.210.167)
Provision for doubtful receivables (Note 5)	<b>(1.194.297)</b>	<b>(814.430)</b>	(2.159.348)	(1.297.559)
Provision for litigation expenses (Note 11)	<b>(325.263)</b>	<b>(172.954)</b>	(1.425.352)	(890.016)
Other expenses	<b>(201.105)</b>	<b>(5.839)</b>	(747.359)	(682.884)
<b>Other operating expenses</b>	<b>(71.874.238)</b>	<b>(46.106.256)</b>	(218.981.003)	(126.810.622)

**NOTE 16 - FINANCIAL INCOME**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	<b>January 1 - June 30, 2015</b>	<b>April 1 - June 30, 2015</b>
Foreign exchange gain	<b>15.747.199</b>	<b>9.955.313</b>	28.306.385	14.451.885
Interest income	<b>4.796.166</b>	<b>1.442.799</b>	4.145.875	1.738.699
<b>Financial income</b>	<b>20.543.365</b>	<b>11.398.112</b>	32.452.260	16.190.584

**NOTE 17 - FINANCIAL EXPENSES**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	<b>January 1 - June 30, 2015</b>	<b>April 1 - June 30, 2015</b>
Foreign exchange loss	<b>(15.485.226)</b>	<b>(9.561.602)</b>	(45.026.029)	(26.848.283)
Interest expenses of bank borrowings	<b>(38.363.802)</b>	<b>(22.060.214)</b>	(25.301.426)	(14.735.247)
Other	<b>(2.743.179)</b>	<b>(1.382.290)</b>	(1.417.786)	(687.546)
<b>Financial expenses</b>	<b>(56.592.207)</b>	<b>(33.004.106)</b>	(71.745.241)	(42.271.076)



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

**EXPLANATORY NOTES TO THE  
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(Amounts expressed in Turkish Lira (TL), unless otherwise indicated)

**NOTE 18 - TAX ASSETS AND LIABILITIES**

	<b>June 30, 2016</b>	December 31, 2015
Corporate tax expenses	<b>51.060.293</b>	40.262.281
Less: Prepaid taxes	<b>(27.107.742)</b>	(56.209.533)
<b>Tax asset/ (tax liability)</b>	<b>23.952.551</b>	(15.947.252)

	<b>January 1 - June 30 2016</b>	<b>April 1 - June 30 2016</b>	January 1 - June 30 2015	April 1 - June 30 2015
Corporate tax expenses	<b>(51.060.293)</b>	<b>(16.168.162)</b>	(38.242.935)	(12.593.270)
Deferred tax income	<b>58.707.799</b>	<b>42.112.546</b>	17.065.363	2.188.819
<b>Tax expenses</b>	<b>7.647.506</b>	<b>25.944.384</b>	(21.177.572)	(10.404.451)

Corporation tax is payable, at a rate of 20% as of 2016 (December 31, 2015: 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% (December 31, 2015: 20%).

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

**EXPLANATORY NOTES TO THE  
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(Amounts expressed in Turkish Lira (TL), unless otherwise indicated)

**NOTE 18 - TAX ASSETS AND LIABILITIES (Continued)**

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) at June 30, 2016 and December 31, 2015 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Property, plant and equipment and intangible assets, restatement and useful life differences	93.568.862	89.654.271	(18.713.772)	(17.930.854)
Provision for employee termination benefits	(15.305.246)	(15.598.307)	3.061.049	3.119.661
Warranty provision	(64.229.944)	(58.583.949)	12.845.989	11.716.790
Provision for lawsuits	(5.876.665)	(6.157.357)	1.175.333	1.231.471
Unearned finance income/ (expense) on trade receivables, payables and due from related parties	(975.443)	1.308.650	195.089	(261.730)
Provision for doubtful receivables	(2.797.515)	(2.086.519)	559.503	417.304
Provision for impairment of inventory	(38.593.894)	(38.402.092)	7.718.779	7.680.418
Sales premium accrued	(113.939.844)	(23.564.101)	22.787.969	4.712.820
Other expense provisions	(36.144.381)	(1.609.702)	7.228.876	321.940
Investment incentive tax assets	-	-	64.886.716	30.339.675
Deferred income	(817.459)	(5.090.707)	163.491	1.018.141
Other	(4.409.302)	(7.630.845)	881.860	1.526.169
<b>Deferred tax assets</b>			<b>102.790.882</b>	<b>43.891.805</b>

In the fourth period of 2012, within the scope of the cabinet decree dated October 3, 2012 and numbered 2012/3305, the Company was granted a large-scaled investment incentive for the new investment in Adapazarı. During the completion visa of the related incentive certificate on May 18, 2016, the investment incentive was closed by increasing to TL 279.094.080. With the investment contribution rate of 30% on this amount, the Company obtained TL 83.728.224 tax advantage. Until December 31, 2015, the Company obtained tax assets amounting to TL 39.456.594 and after the completion visa of the incentive certificate, as of June 30, 2016 it obtained tax assets amounting to TL 44.271.630 and booked under income statements.

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

	2016	2015
<b>January 1</b>	<b>43.891.805</b>	45.751.505
Reflected to profit for the period	58.707.799	17.065.363
Reflected to other comprehensive income/ (expense)	191.278	1.785.698
<b>June 30</b>	<b>102.790.882</b>	64.602.566

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

**EXPLANATORY NOTES TO THE  
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(Amounts expressed in Turkish Lira (TL), unless otherwise indicated)

**NOTE 18 - TAX ASSETS AND LIABILITIES (Continued)**

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

	<b>January 1 - June 30, 2016</b>	January 1 - June 30, 2015
<b>Profit before tax</b>	<b>206.427.127</b>	133.635.643
Tax calculated at enacted tax rate	<b>41.285.425</b>	26.727.128
Investment allowances	<b>(47.403.421)</b>	(4.628.666)
Research and development allowances	<b>(2.386.749)</b>	(1.904.306)
Disallowable expenses	<b>422.940</b>	379.442
Other	<b>434.299</b>	603.974
<b>Total tax (income)/ charge</b>	<b>(7.647.506)</b>	21.177.572

**NOTE 19 - 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 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
Net profit for the period	<b>214.074.633</b>	<b>133.821.262</b>	112.458.071	68.362.944
Weighted average number of the ordinary shares	<b>5.336.900.000</b>	<b>5.336.900.000</b>	5.336.900.000	5.336.900.000
Earnings per share (1 Kr nominal value per share as TL)	<b>0,0401</b>	<b>0,0251</b>	0,0211	0,0128

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  
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**NOTE 20 - RELATED PARTY DISCLOSURES**

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 June 30, 2016 and December 31, 2015 and significant intercompany transactions are as follows:

**i) Balances with related parties as of June 30, 2016 and December 31, 2015:**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>a) Bank deposits and borrowings</b>		
<b>Deposits with related parties:</b>		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	<b>7.897.018</b>	86.866.632
	<b>7.897.018</b>	86.866.632

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Bank borrowings from related parties:</b>		
Yapı Kredi	-	40.048.444
	-	40.048.444

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>b) Due from related parties</b>		
<b>Due from group companies</b>		
CNHI International SA ("CNHI International") (*)	<b>117.432.387</b>	103.326.952
CNHI Argentina SA ("CNHI Argentina")	<b>7.346.417</b>	522.327
CNHI Italy SPA ("CNHI Italy")	<b>4.035.099</b>	2.043.692
CNHI Latin America Ltda.	<b>940.462</b>	413.893
Other	<b>1.370.608</b>	1.411.434
	<b>131.124.973</b>	107.718.298
Less: Unearned financial income	<b>63.864</b>	22.649
	<b>131.188.837</b>	107.740.947

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

**NOTE 20 - RELATED PARTY DISCLOSURES (Continued)**

	June 30, 2016	December 31, 2015
<b>c) Due to related parties</b>		
Koç Holding	-	3.788.015
<b>Due to shareholders</b>	-	3.788.015
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. ("Opet Fuchs")	<b>10.298.944</b>	14.269.144
Zer Merkezi Hizmetler ve Ticaret A.Ş. ("Zer")	<b>8.949.400</b>	7.931.868
New Holland Fiat India Pvt. Ltd. ("New Holland India")	<b>2.316.888</b>	5.308.655
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ("Koç Sistem")	<b>672.391</b>	7.965.923
Otokoç Otomotiv San. ve Tic. A.Ş. ("Otokoç")	<b>282.913</b>	557.823
Koçtaş Yapı Marketleri A.Ş. ("Koçtaş")	<b>236.756</b>	667.000
Ram Sigorta Aracılık Hizmetleri A.Ş.	<b>172.387</b>	94.611
Setur Servis Turistik A.Ş. ("Setur")	<b>144.872</b>	1.533.866
Otokar Otomotiv ve Savunma Sanayi A.Ş. ("Otokar")	<b>38.232</b>	423.867
Opet Petrolcülük A.Ş. ("Opet")	-	75.491
Eltek Elektrik İth. İhracat ve Toptan Tic. A.Ş. ("Eltek")	-	1.240.769
Other	<b>229.215</b>	621.636
<b>Due to group companies</b>	<b>23.341.998</b>	40.690.653
Less: Unearned financial expenses	<b>(145.213)</b>	(478.041)
	<b>23.196.785</b>	44.000.627

**ii) Significant sales and purchases transactions with related parties for the periods between January 1 – June 30, 2016 and 2015:**

**a) Product sales to related parties**

	January 1 - June 30, 2016	April 1 - June 30, 2016	January 1 - June 30, 2015	April 1 - June 30, 2015
<b>Product sales to group companies:</b>				
CNHI International (*)	<b>525.502.668</b>	<b>257.407.538</b>	411.762.875	197.704.636
CNHI Argentina S.A	<b>4.878.103</b>	<b>3.080.576</b>	1.089.283	328.907
CNHI Italy	<b>4.533.908</b>	<b>1.573.747</b>	2.594.806	1.306.404
CNHI Latin America Ltda.	<b>874.552</b>	<b>740.261</b>	1.716.732	826.451
Other	<b>3.170.511</b>	<b>2.614.016</b>	1.015.527	835.051
	<b>538.959.742</b>	<b>265.416.138</b>	418.179.223	201.001.449

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

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 20 - RELATED PARTY DISCLOSURES (Continued)**

**b) Service sales to related parties**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
<b>Service sales to group companies</b>				
CNHI International (1)	<b>520.405</b>	<b>297.942</b>	1.153.174	271.372
Zer Merkezi Hizmetler ve Ticaret A.Ş.	<b>442.284</b>	<b>442.284</b>	122.859	4.849
CNHI Italy(2)	<b>296.603</b>	-	743.254	241.715
Other	<b>185.603</b>	<b>185.603</b>	20.439	-
	<b>1.444.895</b>	<b>925.829</b>	2.039.726	517.936

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

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

**c) Product purchases from related parties**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
<b>Product purchases from group companies</b>				
CNHI International (1)	<b>274.727.911</b>	<b>125.460.496</b>	198.348.098	134.403.987
Opet Fuchs (2)	<b>25.953.070</b>	<b>12.471.468</b>	20.552.625	10.484.346
New Holland India (3)	<b>15.906.640</b>	<b>5.850.567</b>	17.630.082	11.803.022
Zer	<b>4.795.801</b>	<b>2.781.996</b>	5.028.300	3.265.141
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	<b>2.011.662</b>	<b>1.058.491</b>	1.662.377	785.669
Opet (2)	<b>834.833</b>	<b>468.712</b>	761.182	430.470
Other	<b>6.710.111</b>	<b>4.819.615</b>	4.706.197	3.988.316
	<b>330.940.028</b>	<b>152.911.345</b>	248.688.861	165.160.951

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

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

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

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)**

**d) Service purchases from related parties**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
<b>Service purchases from shareholders</b>				
Koç Holding (1)	<b>5.146.718</b>	<b>2.593.545</b>	2.473.501	1.236.751
	<b>5.146.718</b>	<b>2.593.545</b>	2.473.501	1.236.751
<b>Service purchase from group companies</b>				
Zer (2)	<b>45.754.825</b>	<b>24.343.783</b>	34.470.598	24.957.230
Eltek (3)	<b>7.666.704</b>	<b>3.869.014</b>	5.928.316	3.635.396
Setur (4)	<b>4.442.364</b>	<b>1.159.038</b>	2.895.644	707.053
CNHI International (5)	<b>2.902.542</b>	<b>1.278.809</b>	2.824.057	1.437.307
Ram Sigorta Aracılık Hizmetleri A.Ş. (6)	<b>2.228.440</b>	<b>269.786</b>	1.712.293	233.139
Otokoç	<b>1.333.722</b>	<b>649.476</b>	1.098.263	741.428
Koç Sistem	<b>849.860</b>	<b>625.428</b>	1.514.742	660.660
Otokar (7)	<b>334.790</b>	-	644.561	644.561
Ark İnşaat San. ve Tic. A.Ş. (8)	-	-	1.508.101	-
Other	<b>543.538</b>	<b>400.768</b>	317.107	40.392
	<b>66.056.785</b>	<b>32.596.102</b>	52.913.682	33.057.166
	<b>71.203.503</b>	<b>35.189.647</b>	55.387.183	34.293.917

- (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 Eltek related to electricity.
- (4) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (5) Services purchased from CNHI International are related with engineering services for Tier 4, strategy development, consulting and brokerage.
- (6) As of June 30, 2016, the amounts contain the paid and accrued premiums within the insurance policy signed with insurance companies through the related party Ram Sigorta Aracılık Hizmetleri A.Ş. which is operating as insurance agent.
- (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  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)**

**iii) Financial income and expenses arising from transactions with related parties for the periods between January 1 – June 30, 2016 and 2015:**

**Financial income and expense from group companies**

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
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**Interest income**

Yapı Kredi	<b>950.575</b>	<b>211.819</b>	1.243.693	521.950
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	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
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**Interest expense**

Yapı Kredi	<b>(2.192.111)</b>	<b>(1.090.000)</b>	(2.192.111)	(1.102.111)
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**iv) Dividends paid to shareholders:**

	<b>January 1 - June 30, 2016</b>	January 1 - June 30, 2015
Koç Holding	<b>112.500.000</b>	75.000.000
CNHI Osterreich	<b>112.500.000</b>	75.000.000
	<b>225.000.000</b>	150.000.000

**v) Other transactions with related parties for the periods between January 1 – June 30, 2016 and 2015:**

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

As of June 30, 2016, the Company paid TL 4.225.002 benefits to the key management personnel (June 30, 2015: 2.871.822 TL). TL 899.524 (June 30, 2015: None) of the total payment is for retirement and the rest consists of short-term benefits.



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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

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**NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS**

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

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

a) Market risk

*Foreign currency risk*

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

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 21 - 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 June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>						
	<b>TL equivalent</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>DKK</b>	<b>CHF</b>	<b>YEN</b>
1. Trade receivables	159.098.207	721.330	48.750.931	-	-	-	28.188.691
2. Monetary financial assets (including banks accounts) (Not 3)	10.099.096	112.595	3.043.603	2.008	5.054	1.864	175.463
3. Other	37.642.996	419.759	9.971.181	-	-	-	159.036.922
<b>4. Current assets (1+2+3)</b>	<b>206.840.299</b>	<b>1.253.684</b>	<b>61.765.715</b>	<b>2.008</b>	<b>5.054</b>	<b>1.864</b>	<b>187.401.076</b>
5. Trade receivables	4.007.727	-	1.250.695	-	-	-	-
6. Other	2.949	1.019	-	-	-	-	-
<b>7. Non-current assets (5+6)</b>	<b>4.010.676</b>	<b>1.019</b>	<b>1.250.695</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8. Total assets (4+7)</b>	<b>210.850.975</b>	<b>1.254.703</b>	<b>63.016.410</b>	<b>2.008</b>	<b>5.054</b>	<b>1.864</b>	<b>187.401.076</b>
9. Trade payables	111.505.585	2.360.078	25.949.785	-	-	-	764.608.761
10. Financial liabilities (Note 4)	60.082.056	-	18.749.861	-	-	-	-
11. Other monetary liabilities	24.228.560	250.118	7.335.170	-	-	-	-
<b>12. Current liabilities (9+10+11)</b>	<b>195.816.201</b>	<b>2.610.196</b>	<b>52.034.816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>764.608.761</b>
13. Financial liabilities (Not 4)	72.938.821	-	22.762.084	-	-	-	-
<b>14. Non-current liabilities (13)</b>	<b>72.938.821</b>	<b>-</b>	<b>22.762.084</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>15. Total liabilities (12+14)</b>	<b>268.755.022</b>	<b>2.610.196</b>	<b>74.796.900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>764.608.761</b>
<b>16. Net foreign currency asset/ (liability) position (8-15)</b>	<b>(57.904.047)</b>	<b>(1.355.493)</b>	<b>(11.780.490)</b>	<b>2.008</b>	<b>5.054</b>	<b>1.864</b>	<b>(577.207.685)</b>
<b>17. Net monetary foreign currency asset/ (liability) position (8-15)</b>	<b>(57.904.047)</b>	<b>(1.355.493)</b>	<b>(11.780.490)</b>	<b>2.008</b>	<b>5.054</b>	<b>1.864</b>	<b>(577.207.685)</b>

(CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH (NOTE2.6))

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

**EXPLANATORY NOTES TO THE  
INTERIM FINANCIAL STATEMENTS  
BETWEEN JANUARY 1 - JUNE 30, 2016 (Continued)**

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

**NOTE 21- FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

	December 31, 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	-	-	-	-
4. Current assets (1+2+3)	288.845.171	217.148	90.334.713	4.219	5.045	1.122	47.455.517
5. Trade receivables	5.310.472	-	1.671.221	-	-	-	-
6. Other	2.963	1.019	-	-	-	-	-
7. Non-current assets (5+6)	5.313.435	1.019	1.671.221	-	-	-	-
8. Total assets (4+7)	294.158.606	218.167	92.005.934	4.219	5.045	1.122	47.455.517
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	-	-	-	-
12. Current liabilities (9+10+11)	195.913.222	1.881.159	56.915.141	-	-	-	398.289.476
13. Financial liabilities (Note 4)	153.246.443	-	48.227.103	-	-	-	-
14. Non-current liabilities (13)	153.246.443	-	48.227.103	-	-	-	-
15. Total liabilities (12+14)	349.159.665	1.881.159	105.142.244	-	-	-	398.289.476
16. Net foreign currency asset/ (liability) position (8-15)	(55.001.059)	(1.662.992)	(13.136.310)	4.219	5.045	1.122	(350.833.959)
17. Net monetary foreign currency asset/ (liability) position (8-15)	(55.001.059)	(1.662.992)	(13.136.310)	4.219	5.045	1.122	(350.833.959)

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

**EXPLANATORY NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2016 (Continued)**

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

**NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

The import and export amounts of the Company for the periods ended June 30, 2016 and 2015 are as follows:

	<b>January 1 - June 30, 2016</b>	<b>April 1 - June 30, 2016</b>	January 1 - June 30, 2015	April 1 - June 30, 2015
Total export amount	<b>538.541.968</b>	<b>265.416.138</b>	418.152.762	201.239.229
Total import amount	<b>555.736.554</b>	<b>305.103.837</b>	405.028.901	220.758.670

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 June 30, 2016 and December 31, 2015 under the assumption of the appreciation and depreciation of TL against other currencies by 10% considering all variables are constant, the effect of net profit/loss and shareholder’s equity for the period is as follows:

	<b>June 30, 2016</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>(392.226)</b>	<b>392.226</b>	-	-
Hedged amount against USD risk (-)	-	-	-	-
<b>Net effect of USD</b>	<b>(392.226)</b>	<b>392.226</b>	-	-
<b>Had TL appreciate/ (depreciate) by 10% against EUR</b>				
Profit/ (loss) from EUR net liability position	<b>(3.774.940)</b>	<b>3.774.940</b>	-	-
Hedged amount against EUR risk (-)	-	-	-	-
<b>Net Effect of EUR</b>	<b>(3.774.940)</b>	<b>3.774.940</b>	-	-
<b>Had TL appreciate/ (depreciate) by 10% against other</b>				
Profit/(loss) from other net liability position	<b>(1.623.239)</b>	<b>1.623.239</b>	-	-
Hedged amount against other (-)	-	-	-	-
<b>Net effect of other</b>	<b>(1.623.239)</b>	<b>1.623.239</b>	-	-
<b>Total net effect</b>	<b>(5.790.405)</b>	<b>5.790.405</b>	-	-

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

**EXPLANATORY NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2016 (Continued)**

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

**NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

	December 31, 2015			
	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	(483.532)	483.532	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(483.532)	483.532	-	-
Had TL appreciate/(depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(4.174.194)	4.174.194	-	-
Hedged amount against EUR risk (-)	-	-	-	-
Net effect of EUR	(4.174.194)	4.174.194	-	-
Had TL appreciate/(depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(842.380)	842.380	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(842.380)	842.380	-	-
Total net effect	(5.500.106)	5.500.106	-	-

*Price risk*

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

*Interest rate risk*

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

**Financial instruments with fixed interest rate**

	June 30, 2016	December 31, 2015
Time deposits (Note 3)	<b>73.258.830</b>	238.595.160
Financial liabilities (Note 4)	<b>717.002.494</b>	439.913.704

**Financial instruments with floating interest rate**

	June 30, 2016	December 31, 2015
Financial liabilities (Note 4)	<b>131.966.049</b>	232.867.714

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

**EXPLANATORY NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2016 (Continued)**

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

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**NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

For financial instruments with variable interest rates, if the interest on June 30, 2016 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 1.214 (June 30, 2015: TL 1.680).

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 CONDENSED FINANCIAL STATEMENTS  
FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2016 (Continued)**

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

**NOT 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

The Company’s maximum exposure to credit risk as of June 30, 2016 and December 31, 2015 is as follows:

	June 30, 2016					
	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	130.829.537	424.251.277	-	486.672	91.008.759	-
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	359.300	34.968.212	-	-	-	-
Net book value of impaired assets	-	-	-	-	-	-
- Due dated (gross book value)	-	44.148.429	-	-	-	-
- Provision (-)	-	(44.148.429)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
<b>Amount exposed to maximum credit risk (*)</b>	<b>131.188.837</b>	<b>459.219.489</b>	<b>-</b>	<b>486.672</b>	<b>91.008.759</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 June 30, 2016, the guarantee amount of the maximum exposure to credit risk is TL 598.060.069. 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 CONDENSED FINANCIAL STATEMENTS  
FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2016 (Continued)**

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

**NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

	31 December 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 overdue but not impaired and are impaired are guaranteed.



## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### SELECTED EXPLANATORY NOTES TO THE CONDENSED FINANCIAL STATEMENTS

#### FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2015 (Continued)

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

#### NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

##### c) Liquidity risk

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

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

##### Capital risk management

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

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

	June 30, 2016	December 31, 2015
Cash and cash equivalents (Note 3)	91.025.656	244.280.765
Less: Financial liabilities (Note 4)	(848.968.543)	(672.781.418)
<b>Net financial debt</b>	<b>(757.942.887)</b>	<b>(428.500.653)</b>
Total shareholders’ equity	564.216.925	650.907.405
<b>Net financial debt/ shareholders’ equity</b>	<b>(1,34)</b>	<b>(0,66)</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:

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED FINANCIAL  
STATEMENTS**

**FOR THE INTERIM PERIOD BETWEEN 1 JANUARY-30 JUNE 2015 (Continued)**

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

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**NOTE 21 - FINANCIAL INSTRUMENTS AND NATURE AND EXTENT OF RISKS  
ARISING FROM FINANCIAL INSTRUMENTS (Continued)**

*Financial assets*

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

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

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

*Financial liabilities*

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

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

**NOTE 22 - SUBSEQUENT EVENT AFTER BALANCE SHEET DATE**

The Company signed a loan agreement with Europe Investment Bank (“EIB”), which will be used to finance the research and development investment related to design and production of tractors within the next 5 years. The loan is amounting to EUR 35 million and with a maturity of 6 years having the principal and interest payment for every 6 months period. The Company obtained the loan on July 15, 2016.

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