TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	*Audited* 31 December 2017	*Audited* 31 December 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	**441,722,150**	228,417,481
Trade receivables:			
- *Other parties*	5	**658,880,236**	577,771,837
- *Related parties*	22	**153,954,997**	73,020,072
Inventories	6	**566,306,204**	556,452,036
Prepaid expenses	10	**1,361,081**	1,085,645
Assets related to current period taxes	20	**16,396,046**	11,986,128
Other current assets	9	**157,747,171**	134,252,178
TOTAL CURRENT ASSETS		**1,996,367,885**	1,582,985,377
NON-CURRENT ASSETS			
Trade receivables:			
- *Other parties*	5	**2,009,169**	3,129,493
Other receivables:			
- *Other parties*		**381,220**	380,004
Property, plant and equipment	7	**497,227,094**	458,901,767
Intangible assets	8	**215,899,286**	178,086,580
Prepaid expenses	10	**7,308,750**	2,655,044
Deferred tax assets	20	**69,507,884**	76,052,805
TOTAL NON-CURRENT ASSETS		**792,333,403**	719,205,693
TOTAL ASSETS		**2,788,701,288**	2,302,191,070

The financial statements prepared as at and for the period ended 31 December 2017 have been approved by the Board of Directors on 12 February 2018. These financial statements will be finalised following their approval in the General Assembly.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

	Notes	***Audited*** **31 December 2017**	*Audited* 31 December 2016
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities	4	**-**	110,427
Short-term portion of long-term financial liabilities	4	**270,982,485**	187,926,529
Trade payables:			
- *Other parties*	5	**666,426,948**	434,331,506
- *Related parties*	22	**59,053,805**	59,798,079
Employee benefit obligations	12	**27,949,120**	16,159,720
Other payables			
- *Other parties*	9	**26,108,488**	21,040,881
Government incentives and aids	9	**3,592,163**	3,031,296
Deferred income	9	**13,963,980**	18,509,273
Short-term provision :			
- *Short-term provision for employee benefits*	11	**2,051,334**	1.959.616
- *Other short-term provisions*	11	**43,146,280**	43,948,628
TOTAL CURRENT LIABILITIES		**1,113,274,603**	786,815,955
NON-CURRENT LIABILITIES			
Long-term financial liabilities	4	**855,923,706**	760,154,032
Long-term provision			
- *Long-term provision for employee benefits*	11	**23,730,294**	21,728,439
- *Other provisions*	11	**38,003,194**	33,631,831
TOTAL NON-CURRENT LIABILITIES		**917,657,194**	815,514,302
SHAREHOLDERS' EQUITY		**757,769,491**	699,860,813
Parent's equity			
Paid-in share capital	13	**53,369,000**	53,369,000
Adjustments to share capital	13	**39,014,356**	39,014,356
Merger reserve		**(5,569,000)**	(5,569,000)
Restricted profit reserves		**155,839,108**	199,995,507
Other accumulated comprehensive income and expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		**(21,574,275)**	(18,448,767)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
- Losses on cash flow hedging		**(22,663,938)**	(12,941,794)
Retained earnings		**238,597,910**	74,645,222
Net profit for the year		**320,756,330**	369,796,289
TOTAL LIABILITIES		**2,788,701,288**	2,302,191,070
Provisions, contingent assets and contingent liabilities	11		

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	***Audited*** **1 January - 31 December 2017**	***Audited*** 1 January - 31 December 2016
Revenue	14	**4,215,056,106**	3,443,477,897
Cost of sales (-)	14	**(3,484,348,070)**	(2,701,389,955)
GROSS PROFIT		**730,708,036**	742,087,942
Marketing, selling and distribution expenses (-)	15	**(204,322,740)**	(181,608,258)
General administrative expenses (-)	15	**(87,997,299)**	(92,144,231)
Research and development expenses (-)	15	**(14,959,390)**	(13,518,325)
Other income from operating activities	17	**220,520,188**	250,999,953
Other expenses from operating activities (-)	17	**(167,183,162)**	(202,798,307)
OPERATING PROFIT		**476,765,633**	503,018,774
Income from investment activities		**2,779,565**	75,224
Expenses from investment activities (-)		**(42,150)**	(17,885)
OPERATING INCOME BEFORE FINANCIAL INCOME/ (EXPENSE)		**479,503,048**	503,076,113
Financial income	18	**65,112,726**	33,954,736
Financial expenses (-)	19	**(193,519,930)**	(148,891,217)
PROFIT BEFORE TAXATION ON INCOME		**351,095,844**	388,139,632
Taxes on income (-)	20	**(20,582,680)**	(45,293,622)
Deferred tax (expense)/ income	20	**(9,756,834)**	26,950,279
NET PROFIT FOR THE YEAR		**320,756,330**	369,796,289
Earnings per share (TL)	21	**0,0601**	0,0693
Other comprehensive income/(expense)			
Other comprehensive expense not to be reclassified to profit or loss:			
Actuarial loss arising from defined benefits plans	11	**(3,906,885)**	(9,876,359)
Other comprehensive expense not to be reclassified to profit or loss, tax effect			
Actuarial gain/ loss arising from defined benefit plans, tax effect	20	**781,377**	1,975,272
Other comprehensive expense to be reclassified to profit or loss:			
Losses on cash flow hedging		**(12,152,680)**	(16,177,243)
Other comprehensive expense to be reclassified to profit or loss, tax effect			
Losses on cash flow hedging, tax effect	20	**2,430,536**	3,235,449
Other comprehensive expense after tax		**(12,847,652)**	(20,842,881)
TOTAL COMPREHENSIVE INCOME		**307,908,678**	348,953,408

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

				Other accumulated comprehensive income or expense items not be reclassified profit or loss	Other accumulated comprehensive income or expense items not be reclassified profit or loss				
	Paid in Share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Losses on cash flow hedging	Restricted profit reserves	Retained earnings	Net profit for the year	Total shareholders' equity
1 January 2017	**53,369,000**	**39,014,356**	**(5,569,000)**	**(18,448,767)**	**(12,941,794)**	**199,995,507**	**74,645,222**	**369,796,289**	**699,860,813**
Transfers	-	-	-	-	-	**(44,156,399)**	**413,952,688**	**(369,796,289)**	-
Dividends paid (Note 13)	-	-	-	-	-	-	**(250,000,000)**	-	**(250,000,000)**
Comprehensive income									
Net profit for the year	-	-	-	-	-	-	-	**320,756,330**	**320,756,330**
Other comprehensive income									
Actuarial loss arising from defined benefits plans	-	-	-	**(3,125,508)**	-	-	-	-	**(3,125,508)**
Losses on cash flow hedging	-	-	-	-	**(9,722,144)**	-	-	-	**(9,722,144)**
Total other comprehensive income	-	-	-	**(3,125,508)**	**(9,722,144)**	-	-	-	**(12,847,652)**
Total comprehensive income	-	-	-	**(3,125,508)**	**(9,722,144)**	-	-	**320,756,330**	**307,908,678**
31 December 2017	**53,369,000**	**39,014,356**	**(5,569,000)**	**(21,574,275)**	**(22,663,938)**	**155,839,108**	**238,597,910**	**320,756,330**	**757,769,491**

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

				Other accumulated comprehensive income or expense items not to be reclassified profit or loss	Other accumulated comprehensive income or expense items to be reclassified profit or loss				
	Paid in Share capital	**Adjustment to share capital**	**Merger reserve**	**Actuarial loss arising from defined benefit plans**	**Losses on cash flow hedging**	**Restricted profit reserves**	**Retained earnings**	**Net profit for the year**	**Total shareholders' equity**
1 January 2016	**53,369,000**	**39,014,356**	**(5,569,000)**	**(10,547,680)**	**-**	**170,262,352**	**147,578,812**	**256,799,565**	**650,907,405**
Transfers	-	-	-	-	-	**29,733,155**	**227,066,410**	**(256,799,565)**	**-**
Dividends paid	-	-	-	-	-	-	**(300,000,000)**	-	**(300,000,000)**
Comprehensive income									
Net profit for the year	-	-	-	-	-	-	-	369,796,289	369,796,289
Other comprehensive income					-				
Actuarial loss arising from defined benefits plans	-	-	-	(7,901,087)	-	-	-	-	(7,901,087)
Losses on cash flow hedging	-	-	-	-	(12,941,794)	-	-	-	(12,941,794)
Total other comprehensive income	-	-	-	**(7,901,087)**	**(12,941,794)**	-	-	-	**(20,842,881)**
Total comprehensive income	-	-	-	**(7,901,087)**	**(12,941,794)**	-	-	**369,796,289**	**348,953,408**
31 December 2016	**53,369,000**	**39,014,356**	**(5,569,000)**	**(18,448,767)**	**(12,941,794)**	**199,995,507**	**74,645,222**	**369,796,289**	**699,860,813**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in Turkish Lira (TL), unless otherwise indicated)

	Notes	***Audited*** **1 January- 31 December 2017**	*Audited* 1 January- 31 December 2016
A. CASH FLOWS FROM OPERATING ACTVITIES		**561,536,257**	**239,539,438**
Net profit for the year		**320,756,330**	**369,796,289**
Adjustments to reconcile profit for the period:		**199,997,911**	**200,295,228**
Amortization and depreciation	7,8	**68,769,493**	57,638,736
Provision for impairment on inventories	6	**(7,976,314)**	3,449,557
Provision for employee termination benefits	11	**3,791,340**	3,427,541
Provision for doubtful receivables	5	**(2,852,939)**	8,828,257
Other provisions	11	**3,569,015**	8,700,787
Government incentives and aids	9	**(560,602)**	(371,814)
Interest income and expense	18, 19	**94,714,013**	77,760,506
Tax expense	20	**30,339,514**	18,343,343
Gain/ loss from sales of property plant and equipment		**(2,737,414)**	**(57,339)**
Other adjustments to reconcile profit		**12,941,805**	22,575,654
Changes in working capital		**71,379,266**	**(282,045,813)**
Trade receivables		**(77,135,136)**	(218,374,508)
Due from related parties		**(71,616,422)**	43,697,817
Inventories		**(1,877,853)**	(35,799,517)
Other current assets		**(23,494,993)**	(7,375,666)
Other receivables		**(1,215)**	(21,974)
Prepaid expenses		**(4,929,142)**	(1,103,336)
Due to related parties		**6,026,870**	15,290,492
Trade payables		**232,095,443**	(83,247,525)
Deferred income		**(4,545,293)**	(3,136,318)
Other liabilities		**5,067,607**	7,018,391
Debt for employee termination benefits		**11,789,400**	1,006,331
Net cash provided by operating activities		**592,133,507**	**288,045,704**
Employee termination benefits paid	11	**(5,604,652)**	(7,173,768)
Taxes paid	20	**(24,992,598)**	(41,332,498)
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(141,048,642)**	(103,953,539)
Proceeds from sales of property, plant and equipment and intangible assets		**3,313,898**	130,444
Payments for purchases of property, plant and equipment and intangible assets	**7, 8**	**(145,484,009)**	(104,420,678)
Proceeds from government grants	9	**1,121,469**	336,695
C. CASH FLOWS FROM FINANCING ACTIVITIES		**(212,012,545)**	**(161,441,852)**
Proceeds from bank borrowings		**731,586,226**	929,209,548
Repayment of bank borrowings		**(610,511,190)**	(713,776,773)
Dividends paid	13	**(250,000,000)**	(300,000,000)
Interest paid		**(119,784,011)**	(84,941,833)
Interest received		**36,696,430**	8,067,206
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		**208,475,070**	**(25,855,953)**
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		**4,407,044**	10,024,330
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**212,882,114**	**(15,831,623)**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3**	**228,330,542**	**244,162,165**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	**3**	**441,212,656**	**228,330,542**

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

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Türk Traktör ve Ziraat Makineleri A.Ş. (the "Company") was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. ("Koç Holding"). As of 31 December 2017, 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 31 December 2017 is 3,033 (Permanent: 2,802, temporary: 231) (2016: 2967 (Permanent 2,830, temporary 137)). The average number of personnel working within the Company for the year ended 31 December 2017 is 3,019 (2016: 3,124).

The Company conducts marketing and selling activities in the domestic market, through its 135 tractor sales dealers, 140 spare part dealers and 53 construction equipment dealers (31 December 2016 : 132 tractor sales dealers, 136 spare part dealers, 58 construction equipment dealers).

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

The Company is registered in Turkey in the following address:

Gazi Mahallesi Anadolu Bulvarı No:52-52A 06560
Yenimahalle, Ankara

As of 31 December 2017, 25% of the shares of the Company are quated on Borsa Istanbul ("BIST") (31 December 2016: 24.95%) (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 of the Company have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards, ("TAS/TFRS") and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") in line with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676. TAS/TFRS are updated in harmony with the changes and updates in International Financial and Accounting Standards ("IFRS") by the communiqués announced by the POA.

The financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on 2 June 2016 by POA and the format and mandatory information recommended by CMB.

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

2.2 Basis of presentation(Continued)

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira (TL) in accordance with regulations on accounting and reporting framework and the Uniform Chart of Accounts issued by the Ministry of Finance.

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

Functional and presentation currency

Functional and presentation currency of the Company is TL.

2.2 Changes in accounting estimates

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; ifchanges in estimates are related to future periods, they are recognized both in the period where thechange is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these financial statements for the year ended 31 December 2017 are consistent with those used in the preparation of financial statements for the year ended 31 December 2016.

2.3 Changes in accounting policies

The Company changes accounting policies when it is believed that the change will lead to better presentation of transactions and events in the financial statements. When the intentional change can affect the prior period results, the change is applied retrospectively as though it was already applied before. Accounting policy changes arising from the application of a new standard are applied considering the transition principles of the related standard, if any, retrospectively or forward. If no transition principle for the standard exists, the changes are applied retrospectively.

a. The new standards, amendments and interpretations which are effective as at 31 December 2017:

- **Amendments to TAS 7, 'Statement of cash flows';** on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

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

a. The new standards, amendments and interpretations which are effective as at 31 December 2017 (Continued):

- **Amendments TAS 12, 'Income Taxes'**; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

- **Annual improvements 2014-2016,** are effective from annual periods beginning on or after 1 January 2017.

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

b. Standards, amendments and interpretations effective after 1 January 2018:

- **TFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **TFRS 15, 'Revenue from contracts with customers'**; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

- **Amendment to TFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendment to TAS 40, 'Investment property'** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- **Amendments to TFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

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

b. Standards, amendments and interpretations effective after 1 January 2018 (Continued):

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
  - TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- **TFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

- **Amendment to TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.

- **Amendment to TAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

- **TFRS 16, 'Leases'**; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

b. Standards, amendments and interpretations effective after 1 January 2018 (Continued):

- **TFRIC 23, 'Uncertainty over income tax treatments'**; effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

2.4 Summary of significant accounting policies

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

Cash and cash equivalents

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

Recognition of income

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

Other revenues such as interest income is recognised on an accrual basis using the effective interest rate method.

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.

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

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

2.4 Summary of significant accounting policies (Continued)

Prepaid expenses

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

Property, plant and equipment

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

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

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

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 31 December 2004; less accumulated depreciation and impairment losses. Those acquired after 1 January 2005 are carried at cost less accumulated depreciation and impairment losses and are depreciated using the straight-line method over their useful lives of four and five years following the acquisition date. Where impairment indicator exists, the carrying amount of any intangible asset is assessed and written down to its recoverable amount (Note 8).

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

2.4 Summary of significant accounting policies (Continued)

Impairment of assets

Property, plant and equipment and other non-current assets including intangible assets, except deferred tax assets, are reviewed for impairment losses at each balance sheet date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset or any cash generating unit of that asset exceeds its recoverable amount which is the higher of an asset’s net selling price and value in use. Impairment losses are accounted for in the statement of income.

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

Segment reporting

The Company has primary operation of trade of farm tractors, harvesters and other agricultural machinery and equipment to domestic market in Turkey and to related parties in foreign market via shareholder. Furthermore, the Company structure has been organized to operate in one segment rather than separate business segments. Consequently, the business activities of the Company are considered to be in one operating segment and the operating results, resources to be allocated to the segment and assessment of performance are managed in this respect.

Financial assets

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

Trade receivables and doubtful provisions

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

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.

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

2.4 Summary of significant accounting policies (Continued)

Trade payables

Payables are stated at amortised cost in subsequent periods using the effective yield method. Maturity differences and foreign exchange gains/ losses related to trade payables are presented in other income/ expense from main operations (Note 5, Note 17).

Borrowings

Borrowings consist of bank loans taken from different banks. Loans are recorded at the value after the transaction costs are deducted from the amount of the loan. Bank loans are presented over the discounted cost value by using the effective interest rate in the subsequent periods. The difference between the amount remaining after the transaction costs are deducted and the discounted cost value is reflected in the financial statements as financing costs during the period of the loan (Note 19). When there are assets which take a significant amount of time to be available for use or sale, the borrowing costs directly attributable to their purchase, manufacture or production are included in the cost of the asset until the asset is available for use or sale. Borrowing costs include interest and other costs (Note 4, Note 19).

Recognition and derecognition of financial assets and liabilities

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

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.

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

2.4 Summary of significant accounting policies (Continued)

Related Parties

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

Foreign currency transactions and balances

Transactions in foreign currencies during the period have been translated into TL at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the balance sheet dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the statement of income. Non-monetary assets and liabilities, which are recognised at fair value, have been translated into TL at the exchange rates prevailing at the dates of fair value determined. Currency differences arising from trade receivables and payables related to main operations are shown in from operating income/ expenses (Note 17).

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

2.4 Summary of significant accounting policies (Continued)

Earnings per share

Earnings per share disclosed in the statements of income are determined by dividing net income for the period by the weighted average number of shares that have been outstanding during the period (Note 21).

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

Subsequent events

Events after the balance sheet date are those events, even if those events occur after the public announcement of profit or of other selected financial information, that occur between the balance sheet date and the date when the financial statements are authorised for issue. The Company adjusts the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. The events that occur subsequent to the balance sheet date and not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected (Note 24).

Provisions, contingent assets and contingent liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are treated as contingent assets or liabilities. The Company does not recognize contingent assets and liabilities. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed, where an inflow of economic benefits is probable (Note 11).

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.

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

2.4 Summary of significant accounting policies (Continued)

Research and development expenses

Research expenditure is recognized as an expense as incurred (Note 15). Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years (Note 8).

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

Government grants and aids

All government grants, including non-monetary government grants followed up at fair values, are taken into account in the financial statements when there is reasonable assurance that the Company will comply with the conditions attaching to it and that the grant will be received or when the grant is actually received by the Company. Government grants shall be recognized in profit or loss on a systematic and pro rata basis over periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The Company has three incentives Ankara Modernization, Adapazarı Investment and Adapazarı Modernization as of 31 December 2017 (Note 9).

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

a) 100% exemption from customs duty on machinery and equipment to be imported,
b) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
c) Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
d) Inward processing permission certificates,
e) Cash refund from Tübitak - Teydeb for research and development expenses,
f) Discounted corporate tax incentive,
g) Exemption of taxes and funds,
h) Incentive of environmental costs support by law 9715,
i) Patent incentives,
j) Corporate tax exemption based on investment contribution rates.

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

2.4 Summary of significant accounting policies (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 20).

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes with the enacted tax rates as of the balance sheet date (Note 20).

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

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

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

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly, if current tax assets can be offset against current tax liabilities (Note 20).

Cash flow hedge accounting

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

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

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

2.4 Summary of significant accounting policies (Continued)

Cash flow hedge accounting (Continued)

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

Payables related to employee benefits

These are the amounts payable within the scope of employee benefits such as remunerations, wages and social security contributions. These amounts are reflected in personnel expenses in the period when they are accrued (Note 12).

Provisions related to employee benefits

In accordance with the laws in effect, the Company is obliged to pay employment termination benefits to employees whose employment is terminated for reasons other than retirement, resignation or behavior mentioned in the Labour Law. The provision for employment termination benefits has been calculated reflected in the financial statements according to the net current value of the amount of liabilities expected to arise in the future due to the retirement of all employees. Actuarial loss or gain is recognized under other comprehensive expense. According to employment contract, if employment contract ends for any reason, provision of unused vacation has to be paid to employees or right holders. Provision is calculated based on the employee wage when the contract is expired (Note 11).

Statement of cash flow

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

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

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).

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

2.5 Significant accounting estimates and judgments

The preparation of financial statements requires estimates and assumptions to be made regarding the amounts for the assets and liabilities at the balance sheet date, and explanations for the contingent assets and liabilities as well as the amounts of income and expenses realized in the reporting period. The Company makes estimates and assumptions concerning the future. The accounting estimates and assumptions, by definition, may not be equal the related actual results.

The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Warranty expense provisions

The Company accounts for warranty provisions for the expenses incurred as a result of repair and maintenance activities for products produced and sold, authorised services' labour and material costs for products under the scope of the warranty terms based on statistical information for possible future warranty services and returns of products with respect to the products sold during the period (Note 11). The Company estimates ratio based on statistical information for possible future warranty services and returns of products, and calculates provision amount with respect to the products sold during the period. The Company gives guarantee services for each tractor sold during two years. The Company reflects estimated cost incurred in one year to short-term.

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available. If it is probable that future taxable profit will be available, deferred tax assets are accounted for over the deductible temporary differences and tax advantages resulted from investment incentives that enables the Company pay lower corporate tax.

As of 31 December 2017, the Company has accounted for TL12,809,965 deferred tax assets over deductible temporary differences since it is prpobable that future taxable profit that will generate tax liabilities to offset the deferred tax assets will be available and accounted for deferred tax assets amounting to TL 56,697,919 over unused investments incentives since it is probable that future taxable profit from related investment will be available.

The Company assess the recoverability of deferred tax assets based on business models that contain management estimations related to taxable profit for future periods. The models include key management estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in related estimations does not have any effect on the assessment of recoverability of deferred tax assets (Note 20).

Cash flow hedge transactions

As explained in Note 23, the Company uses its loans amounting to EUR49,166,667 as a hedging instrument against the euro spot exchange rate risk the Company is exposed to due to highly probable export sales income, and applies cash flow hedge accounting as a result of the effectiveness tests performed. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensivitiy analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

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

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

2.5 Significant accounting estimates and judgments (Continued)

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 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).

Provision for impairment of inventories

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

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	**-**	-
Banks:		
- TL denominated demand deposits	**13,136,655**	6,144,099
- TL denominated time deposits	**311,109,494**	153,373,864
- Foreign currency denominated demand deposits	**3,685,401**	3,045,027
- Foreign currency denominated time deposits	**113,790,600**	65,854,491
	441,722,150	228,417,481

As of 31 December 2017, the weighted average effective annual interest rates for TL and Euro (“EUR”) time deposits are 14.28% and 1.33% (31 December 2016: TL: 10.00%, EUR: 0.84%). As of 31 December 2017 and 2016, remaining time to maturity of time deposits is less than three months.

The Company has no blocked deposits as of 31 December 2017 (31 December 2016: None).

The cash and cash equivalents included in the statement of cash flows at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Cash	**-**	-
Banks:	**441,722,150**	228,417,481
Less: Interest accruals	**(509,494)**	(86,939)
Cash and cash equivalents	**441,212,656**	228,330,542

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

NOTE 4 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

Short-term bank borrowings

	Original currency		**Weighted average effective interest rate p.a. (%)**		**TL equivalent**	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
TL borrowings	**-**	110,427	**-**	-	**-**	110,427
					-	110,427

Short term portions of long term financial liabilities

	Original currency		**Weighted average effective interest rate p.a. (%)**		**TL equivalent**	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
TL bonds	**4,145,275**	-	**13.52**	-	**4,145,275**	-
EUR bank borrowings	**23,190,476**	24,608,425	**1.95**	1.90	**106,061,352**	91,294,796
TL bank borrowings	**160,775,858**	96,631,733	**12.80**	10.23	**160,775,858**	96,631,733
					270,982,485	187,926,529

b) Long-term financial liabilities

Long-term bank borrowings

	Original currency		**Weighted average effective interest rate p.a. (%)**		**TL equivalent**	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
EUR bank borrowings	**59,333,333**	42,680,936	**2.07**	1.90	**267,919,664**	158,342,003
TL bank borrowings	**438,461,300**	602,776,664	**13.66**	10.23	**438,461,300**	602,776,664
					706,380,964	761,118,667
Prepaid commission for debt (*)					**(457,258)**	(964,635)
Total long-term financial liabilities					**705,923,706**	760,154,032

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

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

Long-term bonds

	Original currency		Weighted average effective interest rate p.a. (%)		TL equivalent	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
TL bonds (*)	**150,000,000**	-	**13.52**	-	**150,000,000**	-
Total long term bonds					**150,000,000**	-

(*) The Company issued total of TL 150,000,000 bond, TL 75,000,000 of which is bond with 3 years maturity and floating interest rate and TL 75,000,000 of which is a bond with 2 years maturity and fixed interest rate.

Redemption schedule of the long-term bank borrowings as of 31 December 2017 and 2016 are as follows:

Year	**31 December 2017**	31 December 2016
2018	**-**	622,899,392
2019	**178,406,458**	72,046,991
2020	**588,712,416**	21,735,883
2021	**44,402,416**	21,735,883
2022	**44,402,416**	21,735,883
	855,923,706	760,154,032

As of 31 December 2017, the Company has long-term investment loans with variable interest rate amounting to EUR13,357,143 and with fixed interest amounting to EUR29,166,666 and has an operating loan with fixed interest rate amounting to EUR40,000,000 (31 December 2016: EUR 67,071,429 investment loan). The EUR5,357,143 loan's maturity is 5 years (maturity date 14 June 2018), without principal payment for first two years, with an interest payment of every 6 months and with an interest rate of 2.20% + Euribor. The EUR8,000,000 loan's maturity is 4 years (maturity date of 12 November 2018), without principal payment for first two years with an interest and principal payment of every 6 months and with an interest rate of 2.20% + Euribor. The EUR29,166,666 loan's maturity is 6 years (maturity date of 15 July 2022), with an interest and principal payment of every 6 months and with an interest rate of 0.95%. Out of total EUR40,000,000 operating loan, the EUR 20,000,000 loan's maturity is 3 years, principal payment to be made at maturity, with an interest payment of every 3 months and with an interest rate of 2.95%. The second EUR 20,000,000 loan's maturity is 5 years, with an interest and principal payment of every 6 months and with an interest rate of 2.60%. As of 31 December 2017, there is no guarantees or mortgages given for the loans obtained. 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:

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

Obligation rate is;

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

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

The Company met these conditions as of balance sheet date.

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

	Carrying value		**Fair value**	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Bank borrowings	**976,906,191**	948,190,988	**986,201,240**	941,475,560

As of 31 December 2017, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 1.94% for EUR loans and 13.49% for TL denominated bank borrowings respectively (31 December 2016: EUR 1.55%, TL: 13.70%).

The movement of the borrowings for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
1 January	**948,190,988**	718,349,521
Borrowing received during the period	**731,586,226**	929,209,548
Principal payments	**(610,511,190)**	(713,776,773)
Change of interest accruals	**12,048,986**	922,613
Change of exchange rates	**45,591,181**	13,486,079
31 December	**1,126,906,191**	948,190,988

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
Short-term trade receivables:		
Customer current accounts	**705,715,289**	618,495,629
Notes receivables	**19,596,007**	20,087,645
Protested notes	**29,707**	95,000
	725,341,003	638,678,274
Less: Provision for doubtful receivables	**(49,389,742)**	(52,242,681)
Unearned financial income	**(17,071,025)**	(8,663,756)
Short-term trade receivables	**658,880,236**	577,771,837
Due from related parties (Note 22)	**153,954,997**	73,020,072
Total short-term trade receivables	**812,835,233**	650,791,909

As of 31 December 2017, the average maturity of trade receivables is between 72 days (31 Aralık 2016: 64 days). The weighted average effective annual interest rates for discount of TL and Euro trade receivables are 13.80% and (0.41)% (31 December 2016: TL: 9.43% and, EUR: (0.35)%).

Movements of the provisions for short-term doubtful receivables for the years ended 31 December 2017 and 2016 are as shown below:

	2017	2016
1 January	**(52,242,681)**	(43,414,424)
Cancelled during the year (Note 17)	**4,657,765**	568,687
Charge during the year (Note 17)	**(1,804,826)**	(9,396,944)
31 December	**(49,389,742)**	(52,242,681)

	31 December 2017	31 December 2016
Long-term trade receivables:		
Notes receivables	**2,009,169**	3,129,493
	2,009,169	3,129,493

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)

	31 December 2017	31 December 2016
Trade payables:		
Supplier current accounts	**680,487,558**	438,715,153
Less: Unincurred financial expense	**(14,060,610)**	(4,383,647)
Trade payables	**666,426,948**	434,331,506
Due to related parties (Note 22)	**59,053,805**	59,798,079
Total trade payables	**725,480,753**	494,129,585

As of 31 December 2017, the average maturity of trade payables is between 71 days (31 Aralık 2016: 73 days). The weighted average effective annual interest rates for discount of TL and Euro trade receivables are 13.80% and (0.41)% (31 December 2016: TL: 9.43% and, EUR: (0.35)%).

NOTE 6 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	**202,977,555**	151,887,866
Work in progress	**786,918**	254,229
Finished goods	**134,514,016**	122,369,513
Commercial goods	**93,505,776**	214,092,943
Spare parts	**52,645,047**	39,437,978
Goods in transit (*)	**115,752,227**	70,261,156
Gross	**600,181,539**	598,303,685
Provision for impairment of inventory (-)	**(33,875,335)**	(41,851,649)
Net	**566,306,204**	556,452,036

The cost of inventories recognised as expense in the current period is amounting to TL 3,154,005,620 (31 December 2016: TL 2,389,169,499).

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

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

	2017	2016
1 January	**(41,851,649)**	(38,402,092)
Cancelled due to sales of inventory during the year	**9,356,727**	3,838,087
Charge during the year for impairment of inventory	**(1,380,413)**	(7,287,644)
31 December	**(33,875,335)**	(41,851,649)

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

NOTE 6 - INVENTORIES (Continued)

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

	2017	2016
Raw materials	**(24,814,722)**	(24,388,336)
Commercial goods	**(6,892,282)**	(14,800,878)
Spare parts	**(2,168,331)**	(2,662,435)
	(33,875,335)	(41,851,649)

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	**Additions**	**Disposals**	**Transfers**	**31 December 2017**
Cost					
Land	**37,740,200**	**-**	**-**	**-**	**37,740,200**
Land improvements	**11,351,423**	**3,363,414**	**(16,640)**	**(205,810)**	**14,492,387**
Buildings	**234,169,997**	**697,508**	**(865,962)**	**-**	**234,001,543**
Machinery and equipment	**557,464,187**	**67,104,710**	**(26,158,689)**	**-**	**598,410,208**
Special costs	**5,564,336**	**294,863**	**-**	**-**	**5,859,199**
Motor vehicles	**6,502,522**	**3,475,015**	**(1,766,500)**	**-**	**8,211,037**
Furniture and fixtures	**71,963,240**	**10,999,394**	**(40,506)**	**-**	**82,922,128**
Construction in progress	**716,888**	**4,452,865**	**-**	**205,810**	**5,375,563**
	925,472,793	**90,387,769**	**(28,848,297)**	**-**	**987,012,265**
Accumulated depreciation					
Land improvements	**4,458,221**	**423,913**	**(6,603)**	**-**	**4,875,531**
Buildings	**51,244,267**	**5,156,713**	**(859,895)**	**-**	**55,541,085**
Machinery and equipment	**360,853,860**	**35,035,669**	**(26,043,599)**	**-**	**369,845,930**
Special costs	**3,235,011**	**536,253**		**-**	**3,771,264**
Motor vehicles	**3,135,441**	**1,097,474**	**(1,327,753)**	**-**	**2,905,162**
Furniture and fixtures	**43,644,226**	**9,235,937**	**(33,964)**	**-**	**52,846,199**
	466,571,026	**51,485,959**	**(28,271,814)**	**-**	**489,785,171**
Net book value	**458,901,767**				**497,227,094**

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

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost					
Land	37,740,200	-	-	-	37,740,200
Land improvements	11,000,199	351,224	-	-	11,351,423
Buildings	233,223,415	946,582	-	-	234,169,997
Machinery and equipment	538,492,812	29,154,331	(10,321,456)	138,500	557,464,187
Special costs	3,925,826	1,638,510	-	-	5,564,336
Motor vehicles	5,765,808	821,000	(84,286)	-	6,502,522
Furniture and fixtures	61,098,414	7,191,182	(5,018)	3,678,662	71,963,240
Construction in progress	10,751,099	13,717,252	-	(23,751,463)	716,888
	901,997,773	53,820,081	(10,410,760)	(19,934,301)	925,472,793
Accumulated depreciation					
Land improvements	4,102,669	355,552	-	-	4,458,221
Buildings	46,132,970	5,111,297	-	-	51,244,267
Machinery and equipment	341,775,030	29,400,286	(10,321,456)	-	360,853,860
Special costs	2,821,035	413,976	-	-	3,235,011
Motor vehicles	2,238,587	910,894	(14,040)	-	3,135,441
Furniture and fixtures	35,538,421	8,107,964	(2,159)	-	43,644,226
	432,608,712	44,299,969	(10,337,655)	-	466,571,026
Net book value	469,389,061				458,901,767

Allocation of the depreciation expenses of property, plant and equipment for the years ended at 31 December 2017 and 2016 is as follows:

	2017	2016
Production costs	**35,976,370**	31,596,345
General administrative expenses	**9,020,649**	6,742,963
Marketing, selling and distribution expenses	**3,325,319**	2,757,805
Research and development expenses	**3,163,621**	3,202,856
	51,485,959	44,299,969

The Company have no financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 31 December 2017 (31 December 2016: TL 74,279).

There is no mortgage on property, plant and equipment as of 31 December 2017 (31 December 2016: None).

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

NOTE 8 - INTANGIBLE ASSETS

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
Cost					
Rights	**57,043,268**	**11,704,676**	**-**	**-**	**68,747,944**
Development costs	**77,679,260**	**-**	**-**	**32,471,671**	**110,150,931**
Development costs in progress	**105,790,404**	**46,937,835**	**-**	**(32,471,671)**	**120,256,568**
	240,512,932	**58,642,511**	**-**	**-**	**299,155,443**
Accumulated amortisation					
Rights	**18,183,297**	**6,227,383**	**-**	**-**	**24,410,680**
Development costs	**44,243,055**	**14,602,422**	**-**	**-**	**58,845,477**
	62,426,352	**20,829,805**	**-**	**-**	**83,256,157**
Net book value	**178,086,580**				**215,899,286**

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost					
Rights	21,907,706	15,201,261	-	19,934,301	57,043,268
Development costs	60,703,150	-	-	16,976,110	77,679,260
Development costs in progress	84,732,997	38,033,517	-	(16,976,110)	105,790,404
	167,343,853	53,234,778	-	19,934,301	240,512,932
Accumulated amortisation					
Rights	14,378,652	3,804,645	-	-	18,183,297
Development costs	32,074,752	12,168,303	-	-	44,243,055
	46,453,404	15,972,948	-	-	62,426,352
Net book value	120,890,449				178,086,580

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

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

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

NOTE 8 - INTANGIBLE ASSETS (Continued)

Allocation of the amortization expenses of intangible assets for the years ended at 31 December 2017 and 2016 is as follows:

	2017	2016
Production costs	**4,351,451**	2,713,055
General administrative expenses	**1,091,075**	579,111
Marketing, selling and distribution expenses	**402,208**	236,851
Research and development expenses	**11,438,800**	9,809,750
Reflected to development cost in progress	**3,546,271**	2,634,181
	20,829,805	15,972,948

NOTE 9 - OTHER ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
a) Other current assets:		
Deferred value added tax (“VAT”)	**118,248,169**	109,439,904
Reclaimed VAT	**35,288,502**	24,269,354
Other	**4,210,500**	542,920
	157,747,171	134,252,178

	31 December 2017	31 December 2016
b) Government grants and aids:		
Government grants and aids	**3,592,163**	3,031,296
	3,592,163	3,031,296

Movement of government grants and aids during the period is as follows:

	2017	2016
1 January	**3,031,296**	3,066,415
Received during the year	**1,121,469**	336,695
Utilized during the year (Note 17)	**(560,602)**	(371,814)
31 December	**3,592,163**	3,031,296

c) Other payables to other parties:

Other payables include non-trade payables related to operational expenses of the Company as 31 December 2017 and 2016.

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

NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2017	31 December 2016
a) Prepaid expense:		
Prepaid expenses for future months	**1,361,081**	1,085,645
	1,361,081	1,085,645

	31 December 2017	31 December 2016
b) Long-term prepaid expenses		
Advances given for purchases of fixed assets	**7,308,750**	2,516,214
Prepaid expenses	**-**	138,830
	7,308,750	2,655,044

	31 December 2017	31 December 2016
c) Deferred income:		
Deferred income (*)	**13,923,374**	18,415,925
Advances received	**40,606**	93,348
	13,963,980	18,509,273

(*) Deferred income represents the sales amount of the tractors for which the invoices are issued but are not yet shipped to customers as of 31 December 2017 and 2016.

NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Short-term provisions

Short-term provision for employee benefits

	2017	2016
Provision for unused vacation	**2,051,334**	1,959,616
	2,051,334	1,959,616

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

	2017	2016
1 January	**1,959,616**	1,561,738
Charge/(used) for the year, net	**91,718**	397,878
31 December	**2,051,334**	1,959,616

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

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

Other short-term provisions

	2017	2016
Warranty expense provisions	**35,441,832**	34,311,238
Provisions for legal cases (*)	**7,704,448**	9,637,390
	43,146,280	43,948,628

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

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

	2017	2016
1 January	**9,637,390**	10,295,723
Charge/(used) for the year, net (Note 17)	**(1,932,942)**	(658,333)
31 December	**7,704,448**	9,637,390

b) Long-term provisions

Long-term provision for employee benefits

	2017	2016
Provision for employee termination benefits	**23,730,294**	21,728,439
	23,730,294	21,728,439

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

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

The amount payable consists of one month's salary limited to a maximum of 5,001.76 TL for each year of service as of 31 December 2017 (31 December 2016 : 4,297.21 TL).

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

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

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

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

	2017	2016
Inflation rate (%)	**6,5**	6.00
Discount rate (%)	**11.77**	10.77
Turnover rate to estimate the probability of retirement (%)	**93.68**	94.04

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The maximum amount of TL 5,001.76 which is effective from 31 December 2017 has been taken into consideration in calculating the provision for employee termination benefits of the Company.

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

	2017	2016
1 January	**21,728,439**	15,598,307
Interest cost	**1,142,185**	1,614,425
Current year service cost	**2,557,437**	1,813,116
Paid in the year	**(5,604,652)**	(7,173,768)
Actuarial loss	**3,906,885**	9,876,359
31 December	**23,730,294**	21,728,439

Sensitivity analysis of key assumptions used for termination benefits calculations as at 31 December 2017 are as follows:

	Net discount rate		Turnover related to the probability of retirement	
Sensitivity level	**0,5% decrease**	**0,5% decrease**	**0,5% decrease**	**0,5% decrease**
Rate	(%4.45)	(%5.45)	(%93.18)	(%94.18)
Change in employee benefits liability	768,250	(713,813)	(402,254)	446,801

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

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

Other long-term provisions

	2017	2016
Warranty provision	**38,003,194**	33,631,831
	38,003,194	33,631,831

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

	2017	2016
1 January	**67,943,069**	58,583,949
Used during the year	**(61,195,308)**	(50,769,980)
Charge for the year (Note 15)	**66,697,265**	60,129,100
31 December	**73,445,026**	67,943,069

c) Contingent liabilities

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

As of 31 December 2017 and 2016 the Company's guarantee/ pledge/ mortgage positions are as follows:

	2017	2016
A. The total amount of collaterals given on behalf of its own legal entity	**27,598,642**	21,854,968
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	**-**	-
	27,598,642	21,854,968

As at 31 December 2017, the Company has given on behalf of its own legal entity, the original collateral denominated in foreign currency amounts of EUR 2,782,450 (31 December 2016: EUR 3,087,108).

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

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

d) Contingent assets

	Foreign currency amount						TL equivalent	
	31 December 2017			31 December 2016				
	EUR	**USD**	**TL**	EUR	USD	TL	**31 December 2017**	31 December 2016
Letters of guarantees received	**3,298,376**	**283,500**	**716,788,110**	825,449	270,000	593,693,990	**732,751,261**	597,706,507
Direct debit	**-**	**-**	**411,286,672**	-	-	366,484,539	**411,286,672**	366,484,539
Mortgages	**-**	**-**	**438,714**	-	-	438,714	**438,714**	438,714
Cash TL guarantees	**-**	**-**	**454,426**	-	-	-	**454,426**	-
Guarantee bonds	**-**	**-**	**1,500,000**	8,000	-	2,500,000	**1,500,000**	2,529,679
							1,146,431,073	**967,159,439**

NOTE 12 - EMPLOYEE BENEFITS

Liabilities for employee benefits

	2017	2016
Accrued premiums and liabilities to personnel	**18,526,872**	7,175,046
Taxes payable and liabilities (*)	**9,422,248**	8,984,674
	27,949,120	16,159,720

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

NOTE 13 - SHAREHOLDERS' EQUITY

Paid-in Share Capital

The Company's registered share capital amounts to TL 250,000,000 (31 December 2016: 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.

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

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

The composition of the Company's statutory share capital at 31 December 2017 and 2016 are as follows:

	2017		2016	
	Participation (%)	**Share Amount (TL)**	Participation (%)	Share Amount (TL)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNHI Osterreich	37.50	20,013,375	37.50	20,013,375
Public quotation in BİST	25.00	13,342,250	24.95	13,315,978
Other	-	-	0.05	26,272
	100.00	**53,369,000**	100.00	53,369,000
Adjustments to share capital		**39,014,356**		39,014,356
		92,383,356		92,383,356

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

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

As of June 11, 2004, the Company has been quoted to BIST and its shares started to be traded in the stock exchange market from that date. As of 31 December 2017, 25% of the Company shares are quoted at BIST (31 December 2016: 24.95%).

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.

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

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

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

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

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

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.

NOTE 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.

The Company distributed dividend in 2016 amounting to 250,000,000 TL with net profit for the 2016. The decision of dividend payment amounting to TL 250,000,000 was taken in the Company's 63rd General Assembly dated 22 March 2017. The payment has been made to the shareholders in cash as of 3 April 2017. Dividend payment distribution has been 4.68 Kr per share (2016: 5.62 Kr).

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

NOTE 14 - SALES AND COST OF SALES

	1 January - 31 December 2017	1 January- 31 December 2016
Domestic sales	**3,547,439,433**	2,879,193,827
Export sales	**1,133,809,911**	984,908,444
Sales income (gross)	**4,681,249,344**	3,864,102,271
Less: Discounts and returns	(466,193,238)	(420,624,374)
Sales income (net)	**4,215,056,106**	3,443,477,897
Cost of sales	(3,484,348,070)	(2,701,389,955)
Gross profit	**730,708,036**	742,087,942

Sales quantities:

	1 January - 31 December 2017			1 January - 31 December 2016		
	Domestic sales	**Export sales**	**Total sales**	Domestic Sales	Export Sales	Total Sales
Tractor	**37,590**	**12,023**	**49,613**	33,605	12,625	46,230
Combine	**328**	**-**	**328**	316	-	316
	37,918	**12,023**	**49,941**	33,921	12,625	46,546

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

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

	1 January - 31 December 2017	1 January - 31 December 2016
Marketing, selling and distribution expenses:		
Warranty expenses (Note 11)	**66,697,265**	60,129,100
Personnel expenses	**49,463,804**	38,590,108
Transportation and insurance expenses	**34,534,543**	32,251,597
Dealers meeting and fair expenses	**10,961,936**	11,731,997
Transportation and travel expenses	**7,824,777**	6,059,607
Rent expenses	**6,983,169**	5,897,336
Outsourcing expenses	**6,270,733**	5,260,013
Press relations, advertisement and promotion expenses	**5,722,931**	6,834,765
Depreciation and amortisation expenses (Note 7, 8) (*)	**3,727,527**	2,994,656
Material expenses	**2,623,333**	4,982,513
Service expenses	**1,002,774**	1,170,221
Other	**8,509,948**	5,706,345
	204,322,740	181,608,258

	1 January - 31 December 2017	1 January - 31 December 2016
General administrative expenses:		
Personnel expenses	**34,765,959**	29,639,279
Service expenses received from shareholders	**11,378,567**	18,320,253
Depreciation and amortisation expenses (Note 7, 8) (*)	**10,111,724**	7,322,074
Service expenses	**6,938,529**	8,180,814
Donations and aids	**5,235,824**	6,628,500
Outsourcing expenses	**5,465,369**	5,448,012
Entertainment expenses	**2,525,361**	1,808,863
Transportation and travel expenses	**2,229,601**	1,629,894
Taxes and other legal expenses	**1,770,642**	1,599,389
Legal consultancy and lawsuit expenses	**1,388,479**	1,315,644
Consultancy services	**1,194,770**	2,951,730
Insurance expenses	**1,078,966**	916,368
Material expenses	**619,638**	916,185
Subscription expenses	**1,159,251**	879,558
Other	**2,134,619**	4,587,668
	87,997,299	92,144,231

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

NOTE 15 - RESARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES (Continued)

	1 January - 31 December 2017	1 January - 31December 2016
Research and development expenses:		
Depreciation and amortisation expenses (Note 7, 8) (*)	**14,602,421**	13,012,606
Personnel expenses	**257,567**	250,230
Project expenses	**36,828**	151,306
Outsourcing expenses	**42,588**	61,174
Other	**19,986**	43,009
	14,959,390	13,518,325

(*) The amount of depreciation and amortization expenses allocated to production costs is TL 40,327,821 (2016: TL 34,309,400) (Note 7,8).

NOTE 16 - EXPENSES BY NATURE

	1 January - 31 December 2017	1 January - 31 December 2016
Raw materials	**2,574,147,382**	2,025,629,218
Cost of merchandise sold	**482,708,859**	429,040,930
Personnel and provision for employment termination benefits expenses	**258,366,231**	236,296,581
Warranty expenses	**66,697,265**	60,129,100
Material expenses	**55,625,709**	57,824,765
Depreciation and amortisation expenses	**68,769,493**	57,638,736
Transportation and insurance expenses	**58,868,605**	48,681,046
Energy expenses	**17,124,459**	18,968,495
Donations and aids	**5,235,824**	6,628,500
Changes in finished goods and work in process	**97,149,379**	(65,500,649)
Other	**106,934,293**	113,324,047
	3,791,627,499	**2,988,660,769**

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

NOTE 17 - OTHER OPERATING INCOME/ EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gain from trade receivables and payables	**105,303,289**	196,301,820
Financial income from credit sales and trade payables	**94,542,604**	30,439,177
Termination of provision for doubtful receivables (Note 5)	**4,657,765**	568,687
Incentive income (Note 9)	**560,602**	371,814
Reversal of provision for litigation expenses (Note 11)	**1,932,942**	658,333
Other income	**13,522,986**	22,660,122
Other operating income	**220,520,188**	250,999,953
Foreign exchange losses on trade receivables and payables	**(93,564,560)**	(170,993,906)
Financial expense on credit purchases and trade payables	**(71,813,776)**	(22,331,415)
Provision for doubtful receivables (Note 5)	**(1,804,826)**	(9,396,944)
Other expenses	**-**	(76,042)
Other operating expenses	**(167,183,162)**	(202,798,307)

NOTE 18 - FINANCIAL INCOME

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gain (*)	**27,993,741**	25,850,795
Interest income	**37,118,985**	8,103,941
Financial income	**65,112,726**	33,954,736

NOTE 19 - FINANCIAL EXPENSE

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange losses	**(56,445,977)**	(57,254,464)
Interest expenses of bank borrowings	**(131,832,998)**	(85,864,447)
Other	**(5,240,955)**	(5,772,306)
Financial expenses	**(193,519,930)**	(148,891,217)

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

NOTE 20 - TAX ASSETS AND LIABILITIES

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

In Turkey, the corporation tax rate is 20% (2016 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

Research and development incentive rate which will be calculated over the research and development expenditures, is raised to 100% from 40% with the amendment made to the 10th article of the Tax Law numbered 5520 as a result of the amendment in the 35th article of the Law 5746 related to the Support of Research and Development Operations.

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2017 and 2016.

As a result of its research and development expenditures made in 2017 amounting to TL 41,881,990 (2016: TL34,720,060) the Company has utilized research and development incentives at 100% deduction without any withholding tax.

As of 31 December 2017 and 2016, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 December 2017	31 December 2016
Corporate tax expense	**20,582,680**	45,293,622
Less: Prepaid taxes	**(36,978,726)**	(57,279,750)
Tax asset - net	**(16,396,046)**	(11,986,128)

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the years ended 31 December 2017 and 2016 are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Corporate tax expense	**(20,582,680)**	(45,293,622)
Deferred tax income/ (expense)	**(9,756,834)**	26,950,279
Tax expense	**(30,339,514)**	(18,343,343)

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.

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

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) at 31 December 2017 and 2016 are as follows:

	Temporary differences		**Deferred tax assets/ (liabilities)**	
	31 December 2017	31 **December** 2016	**31 December 2017**	31 December 2016
Property, plant and equipment and intangible assets, restatement and useful life differences	**164,262,704**	132,440,474	**(36,137,795)**	(26,488,095)
Provision for employee termination benefits	**(23,730,294)**	(21,728,439)	**5,220,665**	4,345,688
Warranty provision	**(73,445,026)**	(67,943,069)	**16,157,906**	13,588,614
Provision for lawsuits	**(7,704,448)**	(7,157,390)	**1,694,978**	1,431,478
Unearned finance income/ expenses on trade receivables, payables and due from related parties	**2,304,224**	(4,251,837)	**(506,929)**	850,367
Provision for doubtful receivables	**(1,804,826)**	(4,550,084)	**397,062**	910,017
Provision for impairment of inventory	**(33,875,335)**	(41,851,649)	**7,452,574**	8,370,330
Sales premium accrued	**(38,678,315)**	(31,210,523)	**8,509,229**	6,242,105
Other expense provisions	**(8,943,195)**	(1,303,035)	**1,967,503**	260,607
Investment incentive tax assets	**188,993,063**	212,675,077	**56,697,919**	63,802,523
Deferred income	**(2,513,027)**	(9,330,286)	**552,866**	1,866,057
Other	**(34,099,577)**	(4,365,570)	**7,501,906**	873,114
Deferred tax assets			**69,507,884**	76,052,805

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

In the fourth quarter of 2012, within the scope of the cabinet decree dated 3 October 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 with Ministry of Economy on 18 May 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. As of 31 December 2017, deferred tax amount accounted for over related incentive is TL 56,697,919.

Within the scope of the cabinet decree numbered 2012/3305, the Company was granted large-scaled investment incentives certificates in the fourth quarter of 2012 and 2015 and regional investment incentive certificate in the second quarter of 2017. The investment contribution rate of these incentives are 30% and additional 15% contribution rate was obtained for the investments made in 2017. The company utilized TL 31,219,817 tax incentive related to these certifactes during the year ended 31 December 2017.

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

	2017	2016
1 January	**76,052,805**	43,891,805
Reflected to profit for the year	**(9,756,834)**	26,950,279
Reflected to other comprehensive income/ (expense)	**3,211,913**	5,210,721
31 December	**69,507,884**	76,052,805

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

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	**351,095,844**	388,139,632
Tax calculated at enacted tax rate	**70,219,169**	77,627,926
Investment incentives	**(31,219,817)**	(52,787,251)
Research and development incentives	**(8,376,398)**	(6,944,012)
Disallowable expenses	**363,804**	70,993
Other	**(647,244)**	375,687
Total tax charge	**30,339,514**	18,343,343

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

NOTE 21 - EARNINGS PER SHARE

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

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

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

	2017	2016
Net profit for the year	**320,756,330**	369,796,289
Weighted average number of the ordinary shares	**5,336,900,000**	5,336,900,000
Earnings per share (Kr 1 nominal value per share as TL)	**0.0601**	0,0693

NOTE 22 - RELATED PARTY EXPLANATIONS

The Company is jointly controlled by Koç Holding and CNHI Osterreich. Related party balances and transaction disclosure are grouped by joint venture companies and group companies of joint venture companies.

Summary of the intercompany balances as of 31 December 2017 and 2016 and significant intercompany transactions were as follows:

i) Balances with related parties as of 31 December 2017 and 2016:

	31 December 2017	31 December 2016
a) Bank deposits and borrowings		
Deposits with related parties:		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	**20,223,659**	34,305,639
	20,223,659	34,305,639

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

b) Due from related parties

	31 December 2017	31 December 2016
Due from group companies		
CNHI International SA (“CNHI International”) (*)	**133,048,916**	59,964,678
Iveco Argentina, S.A	**12,382,869**	3,942,373
CNHI Italy SPA (“CNHI Italy”)	**3,962,306**	3,584,780
CNH Industrial Brasil Ltda	**1,663,100**	1,180,737
Yapı Kredi Finansal Kiralama A.O.	**595,775**	1,977,616
Other	**2,302,031**	2,390,578
	153,954,997	73,040,762
Less: Unearned financial income	**-**	(20,690)
	153,954,997	73,020,072

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

c) Due to related parties

	31 December 2017	31 December 2016
Koç Holding	**4,012,294**	3,415,139
Due to shareholders	**4,012,294**	3,415,139
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	**23,065,152**	15,061,544
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	**13,648,183**	10,803,103
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	**11,014,177**	16,875,424
CNH Industrial India Private (“CNHI India”)	**2,906,606**	8,805,970
Eltek Elektrik İth. İhracat ve Toptan Tic. A.Ş. (“Eltek”)	**1,311,649**	1,366,554
Setur Servis Turistik A.Ş. (“Setur”)	**1,172,255**	874,314
Koçtaş Yapı Marketleri A.Ş. (“Koçtaş”)	**868,742**	843,316
Otokoç Otomotiv San. ve Tic. A.Ş (“Otokoç”)	**572,254**	951,360
Divan Turizm İşletmeleri (“Divan”)	**329,515**	-
Ram Sigorta Aracılık Hizmetleri A.Ş. (“Ram Sigorta”)	**281,257**	275,822
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. (“Akpa”)	**252,318**	432,487
Opet Petrolcülük A.Ş. (“Opet”)	**174,451**	131,569
Other	**125,118**	299,329
Due to group companies	**55,721,677**	56,720,792
Less: Unearned financial expenses	**(680,166)**	(337,852)
	59,053,805	59,798,079

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

ii) Significant sales and purchases transactions with related parties for the periods between 1 January - 31 December 2017 and 2016:

a) Product sales to related parties

	1 January - 31 December 2017	1 January - 31 December 2016
Product sales to group companies		
CNHI International (*)	**1,083,003,728**	929,724,979
Iveco Argentina	**31,658,094**	11,162,852
Yapı Kredi Finansal Kiralama A.O.	**14,933,816**	8,928,387
CNHI Italy	**8,614,607**	28,499,156
CNH IndustrialBrasil Ltda	**6,068,221**	2,962,709
Other	**2,230,425**	6,546,272
	1,146,508,891	987,824,355

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

b) Service sales to related companies

	1 January - 31 December 2017	1 January - 31 December 2016
Service sales to group companies		
CNHI International (1)	**2,940,777**	1,940,496
CNHI Italy (2)	**1,779,589**	482,658
Zer	**-**	1,807,690
Other	**182,557**	186,551
	4,902,923	4,417,395

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

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

c) Product purchases from related parties

	1 January - 31 December 2017	1 January - 31 <December 2016
Product purchases from group companies		
CNHI International (1)	**586,212,375**	486,182,743
Opet Fuchs (2)	**55,843,027**	45,549,453
CNHI India (3)	**44,032,130**	25,986,054
Koç Sistem	**11,997,955**	23,588,361
Zer	**8,235,478**	9,374,030
Akpa	**4,490,958**	3,047,113
Opet (2)	**2,663,041**	1,946,424
Other	**5,468,092**	7,235,220
	718,943,056	602,909,398

(1) The Company purchases tractors, agricultural machinery, engine and spare parts.
(2) The Company makes various oil purchases for use in production and fuel purchases for use in company vehicles.
(3) The Company purchases ponte and front axles for use in production.

d) Service purchases from related parties

	1 January - 31 December 2017	1 January - 31 December 2016
Service purchases from shareholders		
Koç Holding (1)	**7,431,599**	12,810,976
	7,431,599	12,810,976
Service purchase from group companies		
Zer (2)	**101,069,275**	85,183,380
Eltek (3)	**12,539,656**	13,987,854
CNHI International (4)	**11,223,071**	11,789,855
Setur (5)	**7,308,182**	7,293,915
Koç Sistem (6)	**5,299,754**	6,985,439
Otokoç (7)	**4,007,579**	2,899,479
Ram Sigorta (8)	**3,256,072**	2,815,243
Other	**4,149,669**	2,666,480
	148,853,258	133,621,645
	156,284,857	146,432,621

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

(1) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Koç Holding A.Ş. regarding their related services according to the conceiled gain distirubition 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 CNHI International is related with engineering services for Tier 4, strategy development, consulting and brokerage.
(5) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
(6) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licences.
(7) Service purchased from Otokoç is related with motor vehicles leasing services.
(8) Insurance service purchased from Ram Sigorta Aracılık Hizmetleri A.Ş. is related interim period include premium amounts paid and accrued ended on 31 December 2017.

iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January – 31 December 2017 and 2016:

Financial income and expense from group companies

	1 January - 31 December 2017	1 January - 31 December 2016
Interest income		
Yapı Kredi	23,659	1,466,480

	2017	2016
Interest expense		
Yapı Kredi	-	(2,192,111)

iv) Dividends paid to related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Koç Holding	**93,750,000**	112,500,000
CNHI Osterreich	**93,750,000**	112,500,000
	187,500,000	225,000,000

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

v) Other transactions with related parties for the periods between 1 January – 31 December 2017 and 2016:

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

As of 31 December 2017, the Company paid TL 17,599,881 benefits to the key management personnel (31 December 2016: 14,210,971 TL). There is no payment related to termination benefts and all amount paid is composed of short term benefits.

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

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

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

a) Market Risk

Foreign currency risk

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

Cash flow hedge accounting

There is an effective foreign currency cash flow hedge relationship between EUR long term financial borrowings and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 July 2016. The related long-term borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/ (gains) on cash flow hedges". The amount of the related borrowings as of 31 December 2017 is EUR49,166,667. The amount of foreign exchange rate losses recognized in equity is TL 22,663,938.

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

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

The amounts of foreign currency assets, liabilities and TL equivalents of the Company as of 31 December 2017 and 2016 are as follows:

	31 December 2017					
	TL Equivalent	**USD**	**EUR**	**GBP**	**CHF**	**YEN**
1. Trade receivables	**169,975,100**	**76,979**	**37,578,284**	**-**	**-**	**-**
2. Monetary financial assets (including banks accounts) (Note 3)	**117,483,120**	**39,063**	**25,954,323**	**11,937**	**6,452**	**1,388,347**
3.Other	**-**	**-**	**-**	**-**	**-**	**-**
4. Current assets (1+2+3)	**287,458,220**	**116,042**	**63,532,607**	**11,937**	**6,452**	**1,388,347**
5. Trade receivables	**1,583,590**	**-**	**350,701**	**-**	**-**	**-**
6. Other	**3,844**	**1,019**	**-**	**-**	**-**	**-**
7. Non-current assets (5+6)	**1,587,434**	**1,019**	**350,701**	**-**	**-**	**-**
8. Total assets (4+7)	**289,045,654**	**117,061**	**63,883,308**	**11,937**	**6,452**	**1,388,347**
9. Trade payables	**118,999,556**	**3,666,533**	**21,703,846**	**73,070**	**-**	**176,269,229**
10. Financial liabilities (Note 4) (*)	**106,061,352**	**-**	**23,190,476**	**-**	**-**	**-**
11. Other monetary liabilities	**17,515,537**	**-**	**3,878,981**	**-**	**-**	**-**
12. Current liabilities (9+10+11)	**242,576,445**	**3,666,533**	**48,773,303**	**73,070**	**-**	**176,269,229**
13. Financial liabilities (Note 4) (*)	**267,919,664**	**-**	**59,333,333**	**-**	**-**	**-**
14. Non-current liabilities (13)	**267,919,664**	**-**	**59,333,333**	**-**	**-**	**-**
15. Total liabilities (12+14)	**510,496,109**	**3,666,533**	**108,106,636**	**73,070**	**-**	**176,269,229**
16. Net foreign currency asset/ (liability) position (8-15)	**(221,450,455)**	**(3,549,472)**	**(44,223,328)**	**(61,133)**	**6,452**	**(174,880,882)**
17. Net monetary foreign currency asset/ (liability) position (8-15)						
1. Trade receivables	**(221,450,455)**	**(3,549,472)**	**(44,223,328)**	**(61,133)**	**6,452**	**(174,880,882)**

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

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

	31 Aralık 2016					
	TL Equivalent	**USD**	**EUR**	**GBP**	**CHF**	**YEN**
1. Trade receivables	**91,119,945**	**123,046**	**24,444,573**	**-**	**-**	**-**
2. Monetary financial assets (including banks accounts) (Note 3)	**68,899,518**	**652,482**	**17,930,261**	**18,215**	**1,485**	**1,548**
3.Other	**69,092,930**	**1,040,816**	**17,594,127**	**36,500**	**-**	**-**
4. Current assets (1+2+3)	**229,112,393**	**1,816,344**	**59,968,961**	**54,715**	**1,485**	**1,548**
5. Trade receivables	**3,118,241**	**-**	**840,519**	**-**	**-**	**-**
6. Other	**3,586**	**1,019**	**-**	**-**	**-**	**-**
7. Non-current assets (5+6)	**3,121,827**	**1,019**	**840,519**	**-**	**-**	**-**
8. Total assets (4+7)	**232,234,220**	**1,817,363**	**60,809,480**	**54,715**	**1,485**	**1,548**
9. Trade payables	**96,806,626**	**2,994,203**	**19,370,704**	**74,504**	**-**	**469,084,996**
10. Financial liabilities (Note 4) (*)	**91,294,796**	**-**	**24,608,425**	**-**	**-**	**-**
11. Other monetary liabilities	**16,978,730**	**852,987**	**3,767,460**	**-**	**-**	**-**
12. Current liabilities (9+10+11)	**205,080,152**	**3,847,190**	**47,746,589**	**74,504**	**-**	**469,084,996**
13. Financial liabilities (Note 4) (*)	**158,342,003**	**-**	**42,680,936**	**-**	**-**	**-**
14. Non-current liabilities (13)	**158,342,003**	**-**	**42,680,936**	**-**	**-**	**-**
15. Total liabilities (12+14)	**363,422,155**	**3,847,190**	**90,427,525**	**74,504**	**-**	**469,084,996**
16. Net foreign currency asset/ (liability) position (8-15)	**(131,187,935)**	**(2,029,827)**	**(29,618,045)**	**(19,789)**	**1,485**	**(469,083,448)**
17. Net monetary foreign currency asset/ (liability) position (8-15)	**(131,187,935)**	**(2,029,827)**	**(29,618,045)**	**(19,789)**	**1,485**	**(469,083,448)**

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

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

The import and export amounts of the Company for the years ended 31 December 2017 and 2016 are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Total export amount	**1,133,809,911**	984,908,444
Total import amount	**1,066,131,455**	980,867,056

The Company is exposed to foreign exchange risk primarily with respect to EUR and USD. The effect of the Company's EUR and USD foreign currency position as of 31 December 2017 and 2016 under the assumption of the appreciation and depreciation of TL against other currencies by 10% with all other variables held constant, is as follows:

	31 December 2017			
	Profit/ Loss		**Shareholders' equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Had TL appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	**(1,338,825)**	**1,338,825**	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	**(1,338,825)**	**1,338,825**	-	-
Had TL appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	**(19,969,043)**	**19,969,043**	**4,038,864**	**(4,038,864)**
Hedged amount against EUR risk (-)	**17,152,628**	**(17,152,628)**	**(17,760,967)**	**17,760,967**
Net Effect of EUR	**(2,816,415)**	**2,816,415**	**(13,722,103)**	**13,722,103**
against other				
Had TL appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	**(613,040)**	**613,040**	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	**(613,040)**	**613,040**	-	-
Total net effect	**(4,768,280)**	**4,768,280**	**(13,722,103)**	**13,722,103**

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

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

	31 December 2016			
		Profit/ Loss		Shareholders' equity
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TL appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(714,337)	714,337	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(714,337)	714,337	-	-
Had TL appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(10,987,999)	10,987,999	1,009,917	(1,009,917)
Hedged amount against EUR risk (-)	11,722,253	(11,722,253)	(10,387,720)	10,387,720
Net Effect of EUR	734,254	(734,254)	(9,377,803)	9,377,803
Had TL appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(1,416,458)	1,416,458	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(1,416,458)	1,416,458	-	-
Total net effect	(1,396,541)	1,396,541	(9,377,803)	9,377,803

Price risk

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

Interest rate risk

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

	2017	2016
Financial instruments with fixed interest rate		
Time deposits (Note 3)	**424,900,094**	219,228,355
Financial liabilities (Note 4)	**991,592,011**	829,934,127

	2017	2016
Financial instruments with floating interest rate		
Financial liabilities (Note 4)	**135,314,180**	118,256,861

For financial instruments with variable interest rates, if the interest on 31 December 2017 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 532,756 (2016: TL 78,835).

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

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

b) Credit risk

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

The Company's maximum exposure to credit risk as of 31 December 2017 and 2016 is as follows:

	2017				
	Receivables				
	Trade Receivables	**Other Receivables**	**Bank Deposits**	**Derivative instruments**	**Other**
1-30 days past from maturity	**9,789,666**	-	-	-	-
1-3 months past from maturity	**6,180,190**	-	-	-	-
3-12 months past from maturity	**3,387,058**	-	-	-	-
1-5 years past from maturity	**187,773**	-	-	-	-
Over 5 years from maturity	**-**	-	-	-	-
Total overdue	**19,544,687**	**-**	**-**	**-**	**-**

	2016				
	Receivables				
	Trade Receivables	Other Receivables	Bank Deposits	Derivative instruments	Other
1-30 days past from maturity	1,213,973	-	-	-	-
1-3 months past from maturity	3,234,399	-	-	-	-
3-12 months past from maturity	1,739,380	-	-	-	-
1-5 years past from maturity	243,145	-	-	-	-
Over 5 years from maturity	-	-	-	-	-
Total overdue	6,430,897	-	-	-	-

Guarantees consist of guarantee letters received from customers, collateral securities and mortgages.

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

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

The Company's maximum exposure to credit risk as of 31 December 2017 and 2016 is as follows:

	31 December 2017					
	Trade Receivables		**Other Receivables**			
	Related party	**Third party**	**Related party**	**Third party**	**Bank deposits**	**Derivative instruments**
Net book value of financial assets which are undue and not impaired	**153,954,997**	**641,344,718**	**-**	**381,220**	**441,722,150**	**-**
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	**-**	**-**	**-**	**-**	**-**	**-**
Net book value of impaired assets			**-**	**-**	**-**	**-**
- Due dated (gross book value)	**-**	**19,544,687**	**-**	**-**	**-**	**-**
- Provision (-)						
- Undue (gross book value)	**-**	**49,389,742**	**-**	**-**	**-**	**-**
- Provision (-)	**-**	**(49,389,742)**	**-**	**-**	**-**	**-**
Off-balance sheet items exposed to credit risk	**-**	**-**	**-**	**-**	**-**	**-**
Net book value of financial assets which are undue	**-**	**-**	**-**	**-**	**-**	**-**
and not impaired	**-**	**-**	**-**	**-**	**-**	**-**
Amount exposed to maximum credit risk (*)	**153,954,997**	**660,889,405**	**-**	**381,220**	**441,722,150**	

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

As of 31 December 2017, the guarantee amount of the maximum exposure to credit risk is TL 614,574,000. Besides, all assets which are due but not impaired are guaranteed.

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

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

	31 December 2016					
		Trade Receivables		Other Receivables		
	Related party	Third party	Related party	Third party	Bank deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	**72,608,879**	**574,470,433**	**-**	**380,004**	**228,417,481**	**-**
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	**411,193**	**6,430,897**	**-**	**-**	**-**	**-**
Net book value of impaired assets	**-**	**-**	**-**	**-**	**-**	**-**
- Due dated (gross book value)	**-**	**52,242,681**	**-**	**-**	**-**	**-**
- Provision (-)	**-**	**(52,242,681)**	**-**	**-**	**-**	**-**
- Undue (gross book value)	**-**	**-**	**-**	**-**	**-**	**-**
- Provision (-)	**-**	**-**	**-**	**-**	**-**	**-**
Off-balance sheet items exposed to credit risk	**-**	**-**	**-**	**-**	**-**	**-**
Amount exposed to maximum credit risk (*)	**73,020,072**	**580,901,330**	**-**	**380,004**	**228,417,481**	**-**

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

As of 31 December 2016, the guarantee amount of the maximum exposure to credit risk is TL 896,976,116. Besides, all assets which are due but not impaired are guaranteed.

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

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

c) Liquidity risk

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

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

As of 31 December 2017 and 2016, the undiscounted cash flows and liabilities according to their remaining maturities are presented in the following tables:

			31 December 2017			
	Book value	**Less than 3 months**	**Between 3-12 months**	**Between 1-5 years**	**On Demand**	**Total cash outflows according to contract**
Financial liabilities (Note 4)	**1,126,906,191**	**197,694,283**	**147,807,232**	**930,286,538**	**-**	**1,275,788,053**
Trade payables (Note 5)	**666,426,948**	**680,487,558**	**-**	**-**	**-**	**680,487,558**
Due to related parties (Note 22)	**59,053,805**	**59,733,971**	**-**	**-**	**-**	**59,733,971**
Other payables	**26,108,488**	**26,108,488**	**-**	**-**	**-**	**26,108,488**
Non-derivative financial instruments	**1,878,495,432**	**964,024,300**	**147,807,232**	**930,286,538**		**2,042,118,070**
Derivative cash inflows	**-**	**-**	**-**	**-**	**-**	**-**
Derivative cash outflows	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**

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

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

			31 December 2016			
	Book value	Less than 3 months	Between 3-12 months	Between 1-5 years	On Demand	Total cash outflows according to contract
Financial liabilities (Note 4)	948,190,988	31,062,868	152,026,959	791,997,181	-	975,087,008
Trade payables (Note 5)	434,331,506	438,715,153	-	-	-	438,715,153
Due to related parties (Note 22)	59,798,079	60,135,931	-	-	-	60,135,931
Other payables	21,040,881	21,040,881	-	-	-	21,040,881
Non-derivative financial instruments	1,463,361,454	550,954,833	152,026,959	791,997,181	-	1,494,978,973
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-

Capital risk management

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

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

	31 December 2017	31 December 2016
Cash and cash equivalents (Note 3)	**441,722,150**	228,417,481
Less: Financial liabilities (Note 4)	**(1,126,906,191)**	(948,190,988)
Net financial debt	**(685,184,041)**	(719,773,507)
Total shareholders' equity	**757,769,491**	699,860,813
Net financial debt/ shareholders' equity ratio	**(90) %**	(103) %

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

Fair value of financial assets

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

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

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

Financial assets

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

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

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

Financial liabilities

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

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

NOTE 24 - SUBSEQUENT EVENT

None.

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