

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REVIEW REPORT**

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2018**

CONTENTS	PAGE
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION	1 - 2
CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY	4 - 5
CONDENSED INTERIM STATEMENTS OF CASH FLOWS.....	6
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS	7 - 54

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

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

	Notes	<i>Reviewed</i> 30 June 2018	<i>Audited</i> 31 December 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	154,714,426	441,722,150
Trade receivables:			
- <i>Other parties</i>	5	602,129,187	658,880,236
- <i>Related parties</i>	20	230,104,086	153,954,997
Inventories	6	955,334,332	566,306,204
Prepaid expenses	10	3,781,831	1,361,081
Assets related to current period taxes	18	-	16,396,046
Other current assets	9	205,629,045	157,747,171
TOTAL CURRENT ASSETS		2,151,692,907	1,996,367,885
NON-CURRENT ASSETS			
Trade receivables:			
- <i>Other parties</i>	5	952,573	2,009,169
Other receivables:			
- <i>Other parties</i>		375,620	381,220
Property, plant and equipment	7	501,633,282	497,227,094
Intangible assets	8	231,172,414	215,899,286
Prepaid expenses	10	21,613,405	7,308,750
Deferred tax assets	18	85,310,876	69,507,884
TOTAL NON-CURRENT ASSETS		841,058,170	792,333,403
TOTAL ASSETS		2,992,751,077	2,788,701,288

The condensed interim financial statements prepared for the period 1 January-30 June 2018 have been approved by the Board of Directors on 6 August 2018.

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

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

	Notes	Reviewed 30 June 2018	Audited 31 December 2017
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities	4	133,034,538	-
Short-term portion of long term financial liabilities	4	216,950,825	270,982,485
Trade payables:			
- Other parties	5	651,008,067	666,426,948
- Related parties	20	30,147,419	59,053,805
Payables related to employee benefits	12	19,582,975	27,949,120
Other payables:			
- Other parties		27,918,227	26,108,488
Government incentives and aids	9	3,742,270	3,592,163
Deferred income	10	14,840,179	13,963,980
Current income tax liabilities	18	4,746,969	-
Short-term provisions:			
- Provision for employee benefits	11	4,695,324	2,051,334
- Other provisions	11	43,457,066	43,146,280
TOTAL CURRENT LIABILITIES		1,150,123,859	1,113,274,603
NON-CURRENT LIABILITIES			
Long-term financial liabilities	4	1,205,005,001	855,923,706
Long-term provisions:			
- Provision for employee benefits	11	29,422,968	23,730,294
- Other provisions	11	34,928,465	38,003,194
TOTAL NON-CURRENT LIABILITIES		1,269,356,434	917,657,194
TOTAL LIABILITIES		2,419,480,293	2,030,931,797
SHAREHOLDERS' EQUITY			
Equity attributable to parent		573,270,784	757,769,491
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		135,620,450	155,839,108
Other accumulated comprehensive expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		(26,538,859)	(21,574,275)
Other accumulated comprehensive expense to be reclassified to profit or loss			
- Cash flow hedge losses		(38,952,068)	(22,663,938)
Retained earnings		279,572,898	238,597,910
Net income for the period		136,754,007	320,756,330
TOTAL LIABILITIES		2,992,751,077	2,788,701,288

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018**

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

	Notes	<i>Reviewed</i> 1 January - 30 June 2018	1 April - 30 June 2018	<i>Reviewed</i> 1 January - 30 June 2017	1 April - 30 June 2017
Revenue	14	2,124,846,690	1,076,873,173	2,052,399,333	1,090,975,471
Cost of sales (-)	14	(1,750,587,061)	(874,521,831)	(1,709,580,737)	(916,440,577)
GROSS PROFIT		374,259,629	202,351,342	342,818,596	174,534,894
Marketing expenses (-)		(107,234,775)	(48,084,960)	(93,174,838)	(45,559,608)
General administrative expenses (-)		(48,636,818)	(24,456,270)	(42,819,177)	(21,520,857)
Research and development expenses (-)		(12,122,541)	(6,018,036)	(7,438,052)	(3,436,741)
Other income from operating activities	15	163,338,578	88,059,630	120,260,582	36,392,513
Other expenses from operating activities (-)	15	(149,283,881)	(85,706,273)	(98,000,423)	(22,033,104)
OPERATING PROFIT		220,320,192	126,145,433	221,646,688	118,377,097
Income from investing activities		514,044	514,044	263,059	215,998
Expenses from investing activities (-)		(12,636)	(12,636)	(11,970)	(5,544)
OPERATING PROFIT BEFORE FINANCIAL INCOME/(EXPENSES)		220,821,600	126,646,841	221,897,777	118,587,551
Financial income	16	30,396,889	12,990,856	20,234,419	13,642,307
Financial expenses (-)	17	(110,648,804)	(54,053,877)	(85,850,235)	(43,783,969)
PROFIT BEFORE TAXATION ON INCOME		140,569,685	85,583,820	156,281,961	88,445,889
Taxes on income (-)	18	(13,624,315)	2,788,783	(26,574,831)	(4,305,688)
Deferred tax income/(expense)	18	9,808,637	(7,819,660)	8,190,039	(1,620,936)
NET PROFIT FOR THE PERIOD		136,754,007	80,552,943	137,897,169	82,519,265
Earnings per share (TRY)	19	0,0256	0,0151	0,0258	0,0155
Other comprehensive income/ (expense)					
Other comprehensive expense not to be reclassified to profit or loss					
Actuarial loss arising from defined benefit plans	11	(6,364,851)	(7,304,520)	(3,024,718)	(2,820,036)
Tax effect of other comprehensive expense not to be reclassified to profit or loss					
Actuarial loss arising from defined benefit plans, tax effect	18	1,400,267	1,606,994	604,944	564,007
Other comprehensive expense to be reclassified to profit or loss					
Cash flow hedge losses		(20,882,218)	(10,275,537)	(3,590,834)	(1,292,958)
Tax effect of other comprehensive expense to be reclassified to profit or loss					
Cash flow hedge losses, tax effect		4,594,088	2,260,618	718,166	258,592
Other comprehensive expense after tax		(21,252,714)	(13,712,445)	(5,292,442)	(3,290,395)
TOTAL COMPREHENSIVE INCOME		115,501,293	66,840,498	132,604,727	79,228,870

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE INTERIM PERIOD ENDED 30 JUNE 2018**

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

				Other comprehensive income or expense items not to be reclassified to profit or loss	Other comprehensive income or expense items to be reclassified to profit or loss				
	Paid-in share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Cash flow hedge losses	Restricted profit reserves	Retained earnings	Net profit for the period	Total shareholders equity
1 January 2018	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
Transfers	-	-	-	-	-	25,192,081	295,564,249	(320,756,330)	-
Dividends paid	-	-	-	-	-	(45,410,739)	(254,589,261)	-	(300,000,000)
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	136,754,007	136,754,007
Other comprehensive income									
Actuarial loss arising from defined benefit plans	-	-	-	(4,964,584)	-	-	-	-	(4,964,584)
Cash flow hedge losses	-	-	-	-	(16,288,130)	-	-	-	(16,288,130)
Total other comprehensive expense	-	-	-	(4,964,584)	(16,288,130)	-	-	-	(21,252,714)
Total comprehensive income	-	-	-	(4,964,584)	(16,288,130)	-	-	136,754,007	115,501,293
30 June 2018	53,369,000	39,014,356	(5,569,000)	(26,538,859)	(38,952,068)	135,620,450	279,572,898	136,754,007	573,270,784

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE INTERIM PERIOD ENDED 30 JUNE 2018**

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

				Other comprehensive income or expense items not to be reclassified to profit or loss	Other comprehensive income or expense items to be reclassified to profit or loss				
	Paid-in share	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Cash flow hedge losses	Restricted profit reserves	Retained earnings	Net profit for the period	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	-	-	-	-	-	-	(250,000,000)	-	(250,000,000)
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	137,897,169	137,897,169
Other comprehensive									
Actuarial loss									
arising from									
defined benefit plans	-	-	-	(2,419,774)	-	-	-	-	(2,419,774)
Cash flow hedge									
losses	-	-	-	-	(2,872,668)	-	-	-	(2,872,668)
Total other comprehensive				(2,419,774)	(2,872,668)				
expense	-	-	-			-	-	-	(5,292,442)
Total comprehensive income	-	-	-	(2,419,774)	(2,872,668)	-	-	137,897,169	132,604,727
30 June 2017	53,369,000	39,014,356	(5,569,000)	(20,868,541)	(15,814,462)	155,839,108	238,597,910	137,897,169	582,465,540

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONDENSED INTERIM STATEMENTS OF CASH FLOWS
FOR THE INTERIM PERIOD ENDED 30 JUNE 2018**

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

	Notes	Reviewed 1 January - 30 June 2018	Reviewed 1 January - 30 June 2017
A.CASH FLOWS FROM OPERATING ACTIVITIES		(298,213,409)	300,760,231
Net profit for the period		136,754,007	137,897,169
Adjustments to reconcile net profit:		78,238,317	113,800,227
Depreciation and amortization	7,8	40,096,178	33,358,391
Adjustments related to impairment on inventories	6	(2,257,995)	(4,358,614)
Adjustments related to provision for employee termination benefits	11	5,422,182	4,440,026
Adjustments related to impairment on receivables	5	632,902	(973,546)
Adjustments related to other provisions	11	(2,763,943)	3,257,802
Adjustments related to interest income and expense	16, 17	57,986,735	47,923,217
Adjustments related to tax expense	18	3,815,678	18,384,792
Adjustments related to sales of property, plant and equipment		(501,408)	(251,089)
Non-cash items		(24,192,012)	12,019,248
Changes in working capital		(517,274,064)	63,436,285
Trade receivables- other parties		57,174,743	3,537,027
Trade receivables- related parties		(71,336,943)	(87,229,042)
Inventories		(386,770,133)	89,142,931
Other current assets		(47,881,874)	7,634,898
Other receivables		5,600	935
Prepaid expenses		(16,725,405)	(14,525,043)
Trade payables-related parties		(30,640,964)	(31,267,377)
Trade payables- other parties		(15,418,881)	99,611,017
Deferred income		876,199	(4,635,398)
Other liabilities		1,809,739	(4,366,573)
Payables related to employee benefits		(8,366,145)	5,532,910
Net cash provided by operating activities		(302,281,740)	315,133,681
Employment termination benefits paid	11	(3,450,369)	(3,563,714)
Taxes paid		7,518,700	(10,809,736)
B. CASH FLOWS FROM INVESTING ACTIVITIES		(59,123,979)	(47,973,064)
Proceeds from sales of property, plant and equipment and intangible assets		1,982,188	256,631
Payments for purchases of property, plant and equipment and intangible assets	7,8	(61,256,274)	(48,797,630)
Proceeds from government grants	9	150,107	567,935
C. CASH FLOWS FROM FINANCING ACTIVITIES		70,472,042	(24,162,678)
Proceeds from bank borrowings		1,048,688,856	607,780,000
Repayment of bank borrowings		(622,751,842)	(344,452,075)
Dividends paid	13	(300,000,000)	(250,000,000)
Interest paid		(70,408,469)	(50,380,475)
Interest received		14,943,497	12,889,872
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		(286,865,346)	228,624,489
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		232,226	273,825
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(286,633,120)	228,898,314
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	441,212,656	228,330,542
E. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	154,579,536	457,228,856

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. (“Koç Holding”). As of 30 June 2018, major shareholders of the Company are Koç Holding and CNHI Österreich GmbH (“CNHI Österreich”) (Note 13). The number of personnel working within the Company as of 30 June 2018 is 2,909 (Permanent: 2,843 temporary: 66) and the average number of personnel is 2,981 (31 December 2017: 3,033 (Permanent: 2,802, temporary: 231), average: 3,019).

The Company conducts marketing and selling activities in the domestic market, through its 136 sales dealers and 131 spare part dealers and 44 heavy construction equipment dealers (31 December 2017: 135 sales dealers, 140 spare part dealers, 53 heavy construction equipment dealers).

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

The Company is registered in Turkey in the following address:

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

As of 30 June 2018, the free float of the Company whose shares are traded in the Borsa Istanbul (“BİST”) is 25% (31 December 2017:25 %) (Note 13).

NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM 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 accompanying condensed interim financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (the Communiqué) announced by the Capital Markets Board (“CMB”) on 13 June 2013 which is published on Official Gazette numbered 28676. In accordance with article 5th of the CMB Accounting Standards, companies should apply Turkish Accounting Standards/ Turkish Financial Reporting Standards (“TAS/ TFRS”) and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.1 Basis of presentation (Continued)

Principles governing the preparation of financial statements (Continued)

The condensed interim financial statements are prepared in accordance with the Communiqué and TAS 34 - “Interim Financial Reporting”. The condensed financial statements are presented in accordance with the format and mandatory information required by POA. In accordance with the TAS 34, entities are allowed to prepare a complete or condensed set of interim financial statements. In this framework, the Group has preferred to prepare condensed financial statements in the interim periods.

These interim financial statements should be read in conjunction with the financial statements prepared for the year ended 31 December 2017.

The Company maintains its books of accounts and prepares its statutory financial statements in accordance with the principles issued by CMB, the Turkish Commercial Code (“TCC”), tax legislation, the Uniform Chart of Accounts issued by Ministry of Finance. The financial statements have been prepared under historical cost conventions except for the financial assets and liabilities carried at fair value and in functional and presentation currency, Turkish Lira, of the Company. The financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

2.2 Comparatives and restatement of prior periods’ financial statements

The financial statements of the Company include comparative financial information to enable the determination of the financial position and performance. The statement of financial position of the Company at 30 June 2018 has been provided with the comparative financial information of 31 December 2017 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the interim period between 1 January and 30 June 2018 have been provided with the comparative financial information, for the period between 1 January and 30 June 2017.

2.3 Change in TFRS

The accounting policies adopted in preparation of the interim financial statements as at 30 June 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2018. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs.

a. Standards, amendments and interpretations applicable as at 30 June 2018:

- TFRS 9, ‘Financial instruments’; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TMS 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.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.3 Change in TFRS (Continued)

Classification and measurement

The Company classifies the financial assets as subsequently measured at amortised cost. The classification is made on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The Company classifies its financial assets at the time of purchase.

"Financial assets measured at amortised cost", are the financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, not have an active market and non derivative financial assets. "Cash and cash equivalents", "trade receivables" are classified as financial assets measured at amortised cost. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses recognised as a result of the fair value adjustments of financial assets amortised at cost and non derivative financial assets are included in the income statement.

The changes in the classification of financial assets and liabilities in accordance with TFRS 9 is explained below. Those reclassification differences do not have any impact of the measurement of financial instruments asset for financial assets.

Financial assets	Classification in accordance with TMS 39	New classification in accordance with TFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost

Financial liabilities	Classification in accordance with TMS 39	New classification in accordance with TFRS 9
Borrowings	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

Impairment

The recognition of credit losses defined in TMS 39 "Financial Instruments : Recognition and Measurement" which was effective before 1 January 2018 is replaced by recognition of expected credit losses. The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.3 Change in TFRS (Continued)

Trade receivables

The Company has chosen “practical expedient” explained in TFRS 9 for the calculation of impairment of trade receivables (with maturities less than one year) that do not contain a significant financing component and accounted at amortised cost. Accordingly, the Company measured the loss allowance for trade receivables at an amount equal to lifetime expected credit losses in the previous reporting period but determines at the current reporting date that is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

The Company uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in operational expense/income in income statement.

The amendments did not have a significant impact over financial position or performance of the Company as of 30 June 2018.

- **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 licenses 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.

Revenue recognition

The Company adopted TFRS 15 “Revenue From Contracts with Customers” from 1 January 2018 which proposes a five step model framework mentioned below for recognizing the revenue.

- Identify the contact with customers
- Identify separate performance obligations in the contract
- Determine the transaction price in contract
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue

The Company assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.3 Change in TFRS (Continued)

For each performance obligation identified, the entity determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If the Company transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time. Service sales under extended warranty with goods sales are recognized as revenue on a linear basis over the extended warranty period.

The Company recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset or service.

The Company considers the following in the assessment of transfer of control of goods sold and services,

- a) The entity has a right to payment for the goods or service,
- b) The customer has legal title to the goods or service,
- c) The entity has transferred physical possession of the asset,
- d) The customer has the significant risks and rewards related to the ownership of the goods or services,
- e) The customer has accepted the goods or services.

The Company does not adjust the promised amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

If the financing component is significant in revenue, future collections are discounted by the interest rate in financing component. The difference is recognised as income from operating activities in current period.

The amendments did not have a significant impact over financial position or performance of the Company as of 30 June 2018.

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.3 Change in TFRS (Continued)

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

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

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

b. The new standards, amendments and interpretations which are effective as at 30 June 2018:

- **Amendment to TFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirms 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. The impact of the amendment over financial position or performance of the Company are being assessed.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.3 Change in TFRS (Continued)

- **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 far-reaching 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.

A contract according to TFRS 16 is a lease or a lease if the contract includes the right to use an asset for a specified period of time and the right to control that asset. The Company assesses the impact of the standard on the financial position and performance of the standard. The impact of the amendment over financial position or performance of the Company are being assessed.

- **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 impact of the amendment over financial position or performance of the Company are being assessed.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

2.3 Change in TFRS (Continued)

- **Annual improvements 2015 - 2017**; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement**; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

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

2.4 Summary of significant accounting policies

The accounting policies used in the preparation of these interim condensed financial statements for the period ended 30 June 2018 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2017 except for the following:

Tax provisions at interim periods are recognized based on the expected tax rates and taxable profit of the Company at year end.

These interim condensed financial statements for the period 1 January- 30 June 2018 should be read in conjunction with the annual financial statements for the year 1 January - 31 December 2017.

The expenses that are not evenly distributed throughout the financial year are recognised in the interim financial statements in the case that those expenses can be estimated properly at year ends.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

**NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM 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 calculates warranty expense provisions by estimating the repair and maintenance costs, including labor and material costs to be incurred, for goods sold with a warranty commitment, and the probability of return of goods sold in following years. The probability the goods will be returned for repair and maintenance as well as the repair and maintenance levels and costs used in the warranty provision calculation are estimated based on the Company's actual statistics from previous years (Note 11). Based on the sensitivity analysis performed for the probability the goods that will be returned for repair and maintenance as well as the repair and maintenance levels and costs, it is concluded that 10% increase/decrease in related estimations does not have any significant effect on the calculated amount of warranty provisions.

Deferred tax assets

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

The Company assess the recoverability of deferred tax assets over tax advantages resulted from investment incentives, 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 18).

Cash flow hedge transactions

As explained in Note 21, the Company uses its loans amounting to EUR46,250,000 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 sensitivity analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

**NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM 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.

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

	30 June 2018	31 December 2017
Cash	-	-
Banks:		
- TRY denominated demand deposits	11,756,461	13,136,655
- TRY denominated time deposits	130,834,890	311,109,494
- Foreign currency denominated demand deposits	814,479	3,685,401
- Foreign currency denominated time deposits	11,308,596	113,790,600
	154,714,426	441,722,150

As of 30 June 2018, the weighted average effective annual interest rate for TRY and Euro ("EUR") time deposits are 17.92% and 1.53%, respectively (31 December 2017: TRY: 14.28%, EUR: 1.33%). As of 30 June 2018 and 31 December 2017, remaining time to maturity of time deposits is less than three months.

As of 30 June 2018, the Company has no restricted deposits (31 December 2017: None).

The cash and cash equivalents included in the statement of cash flows at 30 June 2018 and 31 December 2017 is as follows:

	30 June 2018	31 December 2017
Banks	154,714,426	441,722,150
Less: Interest accruals	(134,890)	(509,494)
Cash and cash equivalents	154,579,536	441,212,656

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018

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

NOTE 4 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

Short-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
TRY borrowings	90,560,938	-	17.76	-	90,560,938	-
EUR borrowings	8,000,000	-	2.15	-	42,473,600	-
					133,034,538	-

Current portion of long-term bonds

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
TRY bonds issued (*)	79,453,352	4,145,275	14.02	13.52	79,453,352	4,145,275
Total short term bonds					79,453,352	4,145,275

(*) The Company issued total of TRY150,000,000 bond, TRY75,000,000 of which is bond with 3 years maturity and floating interest rate and TRY75,000,000 of which is a bond with 2 years maturity and fixed interest rate.

Current portion of long-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	30 June 2017	31 December 2016	30 June 2018	31 December 2017	30 June 2018	31 December 2017
EUR borrowings	14,075,164	23,190,476	1.46	1.95	74,727,863	106,061,352
TRY borrowings	62,769,610	160,775,858	14.00	12.80	62,769,610	160,775,858
					137,497,473	266,837,210

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

b) Long-term financial liabilities

Long-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
EUR borrowings	64,416,665	59,333,333	1.96	2.07	342,000,959	267,919,664
TRY borrowings	788,004,042	438,461,300	14.76	13.66	788,237,643	438,461,300
					1,130,238,602	706,380,964
Prepaid commission (*)					(233,601)	(457,258)
Total long-term borrowings					1,130,005,001	705,923,706

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

Long term bonds

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
TRY bonds issued (*)	75,000,000	150,000,000	15.20	13.52	75,000,000	150,000,000
Total long term bonds					75,000,000	150,000,000

(*) The Company issued total of TRY150,000,000 bond, TRY75,000,000 of which is bond with 3 years maturity and floating interest rate and TRY75,000,000 of which is a bond with 2 years maturity and fixed interest rate.

Redemption schedule of the long-term bank borrowings and bonds as of 30 June 2018 and 31 December 2017 is as follows:

Year	30 June 2018	31 December 2017
2019	35,107,603	178,406,458
2020	1,047,785,796	588,712,416
2021	69,904,464	44,402,416
2022	52,207,138	44,402,416
	1,205,005,001	855,923,706

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

As of 30 June 2018; the Company has long-term investment loans with variable interest rate amounting to EUR 4,000,000, and with fixed interest amounting to EUR26,249,999, and has an operating loan with fixed interest rate amounting to EUR28,000,000 and has an operating loan with variable interest rate amounting to EUR20,000,000, and has rotative loans amounting to EUR8,000,000. The EUR4,000,000 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 EUR26,249,999 loan's maturity is 6 years (maturity date of 15 July 2022), with an interest and principal payment of every 6 months and with an interest rate of 0.95%. The EUR10,000,000 of EUR28,000,000 fixed interest operational capital loans is 3 years maturity (maturity date of 3 February 2020), with interest payment of every 3 months and principal payment at maturity date and with an interest rate of 2.95%. The remaining EUR18,000,000 loan's maturity is 5 years (maturity date of 14 November 2022), with principal and interest payment of every 6 months and with an interest rate of 2.60%. The EUR10,000,000 of EUR20,000,000 floating interest operational capital loan has 3 years maturity (maturity date of 26 March 2021), with an interest payment of every month and without principal payment for the first 2 years and after 2nd year principal payment of every 6 months and with an interest rate of 2.25% + Euribor. The remaining EUR10,000,000 loan has 2 years maturity (maturity date of 29 June 2020) and interest payment of every 3 months and has an interest rate of 1.90%+Euribor. EUR8,000,000 loan is revolving loan and the interest rate of 2.15%. In accordance with the agreement signed with respect to the investment loan used by the Company, there is an obligation of not exceeding the below mentioned rate calculated over the financial statements prepared in accordance with the Turkish Financial Reporting Standards. There is no guarantees or mortgages given for the financial liabilities obtained.

Obligation rate is;

- Net financial liability (*) / Earnings before interest, taxes, depreciation and amortization should be lower than 3.75.
- (*) Net financial liability is calculated by deducting the total of financial liabilities (including short-term and long-term financial liabilities) from cash and cash equivalents.

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

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

	Carrying Value		Fair Value	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Bank borrowings	1,400,537,012	972,760,916	1,355,346,571	986,201,240

As of 30 June 2018, fair values of the bank borrowings, for EUR and TRY bank borrowings are determined by using the discounted cash flow method over weighted effective discount rates 0.36% and 19.09% per annum, respectively (31 December 2017: EUR: 1.94% and TRY: 13.49% per annum)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	30 June 2018	31 December 2017
Short-term trade receivables:		
Customer current accounts	657,875,946	705,715,289
Notes receivables	16,355,590	19,596,007
Protested notes	43,597	29,707
	674,275,133	725,341,003
Less: Provision for doubtful receivables	(50,022,644)	(49,389,742)
Unearned financial income	(22,123,302)	(17,071,025)
Short-term trade receivables	602,129,187	658,880,236
Trade receivables from related parties (Note 20)	230,104,086	153,954,997
Total short-term trade receivables	832,233,273	812,835,233
Movements of the provisions for short-term doubtful receivables for the periods ended 30 June 2018 and 2017 are as follows:		
	2018	2017
1 January	(49,389,742)	(52,242,681)
Cancelled during the period (Note 15)	583,088	973,546
Charge during the period (Note 15)	(1,215,990)	-
30 June	(50,022,644)	(51,269,135)
	30 June 2018	31 December 2017
Long-term trade receivables:		
Notes receivables	952,573	2,009,169
	952,573	2,009,169
	30 June 2018	31 December 2017
Trade payables:		
Supplier current accounts	667,075,930	680,487,558
Less: Unincurred financial expense	(16,067,863)	(14,060,610)
Trade payables	651,008,067	666,426,948
Trade payables to related parties (Note 20)	30,147,419	59,053,805
Total trade payables	681,155,486	725,480,753

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 6 - INVENTORIES

	30 June 2018	31 December 2017
Raw materials	222,202,120	202,977,555
Work in progress	5,406,188	786,918
Finished goods	440,535,426	134,514,016
Commercial goods	156,725,582	93,505,776
Spare parts	56,849,097	52,645,047
Goods in transit (*)	105,233,259	115,752,227
Gross	986,951,672	600,181,539
Provision for impairment of inventories (-)	(31,617,340)	(33,875,335)
Net	955,334,332	566,306,204

The cost of inventories recognised as expense in the current period is amounting to TRY1,558,974,745 (30 June 2017: TRY1,556,205,149)

(*) Goods in transit are comprised of commercial goods and spare parts not yet arrived, but the risk and responsibility of which is received by the Company as of period end.

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

	2018	2017
1 January	(33,875,335)	(41,851,649)
Cancelled due to sales inventory during the period	2,257,995	4,358,614
30 June	(31,617,340)	(37,493,035)

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

	30 June 2018	31 December 2017
Raw materials	(23,147,117)	(24,814,722)
Finished goods	(6,348,039)	(6,892,282)
Spare parts	(2,122,184)	(2,168,331)
	(31,617,340)	(33,875,335)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 7- PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Additions	Disposals	Transfers	30 June 2018
<u>Cost</u>					
Land	37,740,200	-	-	-	37,740,200
Land improvements	14,492,387	84,473	-	-	14,576,860
Buildings	234,001,543	420,578	-	-	234,422,121
Machinery and equipment	598,410,208	27,363,180	-	-	625,773,388
Special costs	5,859,199	649,751	-	-	6,508,950
Motor vehicles	8,211,037	2,450,993	(1,715,409)	-	8,946,621
Furniture and fixtures	82,922,128	3,254,939	(3,239)	-	86,173,828
Construction in progress	5,375,563	1,159,701	-	-	6,535,264
	987,012,265	35,383,615	(1,718,648)	-	1,020,677,232
<u>Accumulated depreciation</u>					
Land improvements	4,875,531	238,958	-	-	5,114,489
Buildings	55,541,085	2,526,863	-	-	58,067,948
Machinery and equipment	369,845,930	20,488,205	-	-	390,334,135
Special costs	3,771,264	328,971	-	-	4,100,235
Motor vehicles	2,905,162	794,925	(234,629)	-	3,465,458
Furniture and fixtures	52,846,199	5,118,725	(3,239)	-	57,961,685
	489,785,171	29,496,647	(237,868)	-	519,043,950
Net book value	497,227,094				501,633,282

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 7- PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2017	Additions	Disposals	Transfers	30 June 2017
<u>Cost</u>					
Land	37,740,200	-	-	-	37,740,200
Land improvements	11,351,423	719,821	-	-	12,071,244
Buildings	234,169,997	342,734	-	-	234,512,731
Machinery and equipment	557,464,187	22,548,574	(7,373,795)	-	572,638,966
Special costs	5,564,336	137,125	-	-	5,701,461
Motor vehicles	6,502,522	390,824	-	-	6,893,346
Furniture and fixtures	71,963,240	2,744,529	-	-	74,707,769
Construction in progress	716,888	1,665,166	-	-	2,382,054
	925,472,793	28,548,773	(7,373,795)	-	946,647,771
<u>Accumulated depreciation</u>					
Land improvements	4,458,221	185,609	-	-	4,643,830
Buildings	51,244,267	2,565,043	-	-	53,809,310
Machinery and equipment	360,853,860	17,191,645	(7,368,253)	-	370,677,252
Special costs	3,235,011	264,643	-	-	3,499,654
Motor vehicles	3,135,441	493,529	-	-	3,628,970
Furniture and fixtures	43,644,226	4,391,137	-	-	48,035,363
	466,571,026	25,091,606	(7,368,253)	-	484,294,379
Net book value	458,901,767				462,353,392

Allocation of the depreciation expenses of property, plant and equipment as of 30 June 2018 and 2017 is as follows:

	30 June 2018	30 June 2017
Production costs	20,544,625	17,602,401
General administrative expenses	5,408,654	4,309,014
Marketing, expenses	1,887,303	1,606,088
Research and development expenses	1,656,065	1,574,103
	29,496,647	25,091,606

The Company does not have any financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 30 June 2018 (30 June 2017: None)

There is not mortgage on property, plant and equipment as of 30 June 2018 (31 December 2017: None).

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018

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

NOTE 8 - INTANGIBLE ASSETS

	1 January 2018	Additions	Disposals	Transfers	30 June 2018
<u>Cost</u>					
Rights	68,747,944	8,678,894	-	-	77,426,838
Development costs	110,150,931	-	-	2,910,746	113,061,677
Development costs in progress	120,256,568	19,173,223	-	(2,910,746)	136,519,045
	299,155,443	27,852,117	-	-	327,007,560
<u>Accumulated amortisation</u>					
Rights	24,410,680	4,463,984	-	-	28,874,664
Development costs	58,845,477	8,115,005	-	-	66,960,482
	83,256,157	12,578,989	-	-	95,835,146
Net book value	215,899,286				231,172,414
	1 January 2017	Additions	Disposals	Transfers	30 June 2017
<u>Cost</u>					
Rights	57,043,268	2,499,162	-	-	59,542,430
Development costs	77,679,260	-	-	-	77,679,260
Development costs in progress	105,790,404	19,526,032	-	-	125,316,436
	240,512,932	22,025,194	-	-	262,538,126
<u>Accumulated amortisation</u>					
Rights	18,183,297	2,791,544	-	-	20,974,841
Development costs	44,243,055	7,251,578	-	-	51,494,633
	62,426,352	10,043,122	-	-	72,469,474
Net book value	178,086,580				190,068,652

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 8 - INTANGIBLE ASSETS (Continued)

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

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

Allocation of the amortization expenses of intangible assets that has suspended as of 30 June 2018 and 2017 are as follows:

	30 June 2018	30 June 2017
Production costs	3,183,223	1,990,623
General administrative expenses	679,470	424,905
Marketing, selling and distribution expenses	277,896	173,782
Research and development expenses	6,458,942	5,677,476
Reflected to development cost in progress	1,979,458	1,776,336
	12,578,989	10,043,122

NOTE 9 - OTHER ASSETS AND LIABILITIES

	30 June 2018	31 December 2017
a) Other current assets:		
Deferred value added tax ("VAT")	141,049,921	118,248,169
Reclaimed taxes	63,673,347	35,288,502
Other	905,777	4,210,500
	205,629,045	157,747,171

	30 June 2018	31 December 2017
b) Government grants and aids:		
Government grants and aids	3,742,270	3,592,163
	3,742,270	3,592,163
	2018	2017
1 January	3,592,163	3,031,296
Received during the period	150,107	567,935
30 June	3,742,270	3,599,231

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME

	30 June 2018	31 December 2017
a) Short-term prepaid expenses:		
Prepaid expenses	3,781,831	1,361,081
	3,781,831	1,361,081
	30 June 2018	31 December 2017
b) Long-term prepaid expenses:		
Advances given for purchases of fixed assets	21,613,405	7,308,750
	21,613,405	7,308,750
	30 June 2018	31 December 2017
c) Deferred income:		
Deferred income (*)	14,478,799	13,923,374
Advances received	361,380	40,606
	14,840,179	13,963,980

(*) Deferred income represents the sales amount of the tractors for which the invoices are issued but are not yet shipped to customers as of 30 June 2018 and 31 December 2017.

NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Short-term provisions

Short-term provision for employee benefits

	30 June 2018	31 December 2017
Provision for unused vacation	4,695,324	2,051,334
	4,695,324	2,051,334

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

	2018	2017
1 January	2,051,334	1,959,616
Charge/ (used) for the period- net	2,643,990	2,115,45
30 June	4,695,324	4,075,067

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

Other short-term provisions

	30 June 2018	31 December 2017
Warranty provision	35,899,977	35,441,832
Provision for legal cases (*)	7,557,089	7,704,448
	43,457,066	43,146,280

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

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

	2018	2017
1 January	7,704,448	9,637,390
Charge for the period (Note 15)	-	550,960
Cancelled provision for the period (Note 15)	(147,359)	(1,268,074)
30 June	7,557,089	8,920,276

b) Long-term provisions

Long-term provision for employee benefits

	30 June 2018	31 December 2017
Provision for employee termination benefits	29,422,968	23,730,294
	29,422,968	23,730,294

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

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

The amount payable consists of one month's salary limited to a maximum of TRY5,001.76 for each year of service as of 30 June 2018 (31 December 2017: TRY4,732.48).

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:

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

	30 June 2018	31 December 2017
Inflation rate (%)	6,5	6,5
Interest rate (%)	11.77	11.77
Turnover rate to estimate the probability of retirement (%)	93.85	93.68

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The Company's provision for employee termination benefit was calculated over TRY5,434.42 valid as of 1 July 2018 (1 January 2018: TRY5,001.76).

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

	2018	2017
1 January	23,730,294	21,728,439
Interest cost	1,381,663	1,154,499
Current period service cost	1,396,529	1,170,076
Paid during the period	(3,450,369)	(3,563,714)
Actuarial loss	6,364,851	3,024,718
30 June	29,422,968	23,514,018

Sensitivity analysis of key assumptions used for termination benefits calculations as at 30 June 2018 are as follows:

	Net discount rate		Turnover related to the probability of retirement	
Sensitivity level	0,5% decrease	0,5% increase	0,5% decrease	0,5% increase
Rate	(%4,0)	(%5,0)	(%93.92)	(%94.92)
Change in employee benefits liability	1,054,647	(980,934)	(426,057)	481,109

Other long-term provisions

	30 June 2018	31 December 2017
Warranty provision	34,928,465	38,003,194
	34,928,465	38,003,194

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

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

	2018	2017
1 January	73,445,026	67,943,069
Used during the period	(29,928,261)	(22,780,093)
Charge for the period	27,311,677	26,755,009
30 June	70,828,442	71,917,985

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 30 June 2018 and 31 December 2017; the Company's guarantee/pledge/mortgage positions are as follows:

	30 June 2018	31 December 2017
A. The total amount of collaterals given on behalf of its own legal entity	49,983,623	27,598,642
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	-	-
	49,983,623	27,598,642

As at 30 June 2018, the Company has given its own legal entity on behalf of the original collateral denominated in foreign currency amounts of EUR2,724,350 (31 December 2017: EUR2,782,450).

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

d) Contingent assets

	Original currency amount						TRY equivalent	
	30 June 2018			31 December 2017			30 June 2018	31 December 2017
	EUR	USD	TRY	EUR	USD	TRY		
Letters of guarantees received	-	270,000	805,844,061	3,298,376	283,500	716,788,110	807,075,450	732,751,261
Direct debit	-	-	354,250,307	-	-	411,286,672	354,250,307	411,286,672
Mortgages	-	-	438,714	-	-	438,714	438,714	438,714
Cash TL guarantees	-	-	510,099	-	-	454,426	510,099	454,426
Guarantee bonds	-	-	2,500,000	-	-	1,500,000	2,500,000	1,500,000
							1,164,774,570	1,146,431,073

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 12 - PROVISION FOR EMPLOYEE BENEFITS

Liabilities for employee benefits

	30 June 2018	31 December 2017
Accrued premiums and liabilities to personnel	12,150,905	18,526,872
Taxes payable and liabilities (*)	7,432,070	9,422,248
	19,582,975	27,949,120

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

NOT 13 - SHAREHOLDERS' EQUITY

Paid-in share capital

The Company's registered share capital amounts to TRY250,000,000 (31 December 2017: TRY250,000,000).

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

The composition of the Company's statutory share capital at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018		31 December 2017	
	Participation (%)	Share amount (TRY)	Participation (%)	Share amount (TRY)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNHI Österreich	37.50	20,013,375	37.50	20,013,375
Public quotation in BIST	25.00	13,342,250	25.00	13,342,250
	100.00	53,369,000	100.00	53,369,000
Adjustments to share capital		39,014,356		39,014,356
		92,383,356		92,383,356

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

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

As of 11 June 2004, the Company has been quoted to BIST and its shares started to be traded in the stock exchange market from that date. As of 30 June 2018, 25% (31 December 2017: 25%) of the Company shares are quoted at BIST.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOT 13 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

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

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

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

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

Dividend distribution

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOT 13 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

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

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

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

The dividend payment proposal amounting to TRY300,000,000 were decided, in the Company's 64th General Assembly dated 14 March 2018 and the related payment has been completed to the shareholders in cash starting from 21 March 2018 (Note 20). Dividend payment distribution per share is Kr5.62 (31 December 2017: Kr4.68)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 14 - SALES AND COST OF SALES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Domestic sales	1,584,048,958	729,194,327	1,717,465,149	937,353,987
Export sales	742,366,136	426,585,482	558,227,951	272,692,498
Sales income (gross)	2,326,415,094	1,155,779,809	2,275,693,100	1,210,046,485
Less: Discount and returns	(201,568,404)	(78,906,636)	(223,293,767)	(119,071,014)
Sales income (net)	2,124,846,690	1,076,873,173	2,052,399,333	1,090,975,471
Cost of sales	(1,750,587,061)	(874,521,831)	(1,709,580,737)	(916,440,577)
Gross profit	374,259,629	202,351,342	342,818,596	174,534,894

Sales quantities:

	30 June 2018			30 June 2017		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
Tractor	13,123	6,298	19,421	18,859	6,049	24,908
Combine	258	-	258	224	-	224
	13,381	6,298	19,679	19,083	6,049	25,132

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 15 - OTHER OPERATING INCOME/ (EXPENSES)

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Foreign exchange gain from trade receivable/ payables	100,341,905	51,171,664	74,165,350	9,123,310
Financial income from credit sales	45,443,009	22,838,389	36,013,657	20,656,995
Reversal of provision for doubtful receivables (Note 5)	583,088	525,766	973,546	973,546
Reversal of provision for litigation expenses (Note 11)	147,359	147,359	1,268,074	1,268,074
Other income	16,823,217	13,376,452	7,839,955	4,370,588
Other operating income	163,338,578	88,059,630	120,260,582	36,392,513
Foreign exchange loss from trade receivable/ payables	(104,844,475)	(65,752,865)	(67,760,471)	(5,226,275)
Financial expense on credit purchases	(43,223,416)	(19,122,527)	(29,688,992)	(16,265,526)
Provision for doubtful receivables (Note 5)	(1,215,990)	(830,881)	-	-
Provision for litigation expenses (Note 11)	-	-	(550,960)	(550,960)
Other expenses	-	-	-	9,657
Other operating expenses	(149,283,881)	(85,706,273)	(98,000,423)	(22,033,104)

NOTE 16 - FINANCIAL INCOME

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Foreign exchange gain	15,827,996	7,200,527	4,878,679	2,020,575
Interest income	14,568,893	5,790,329	15,355,740	11,621,732
Financial income	30,396,889	12,990,856	20,234,419	13,642,307

NOTE 17 - FINANCIAL EXPENSES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Interest expenses of bank borrowings	(72,555,628)	(42,387,135)	(63,278,957)	(35,137,013)
Foreign exchange loss	(37,191,257)	(10,874,464)	(20,258,651)	(7,176,013)
Other	(901,919)	(792,278)	(2,312,627)	(1,470,943)
Financial expenses	(110,648,804)	(54,053,877)	(85,850,235)	(43,783,969)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 18 - TAX ASSETS AND LIABILITIES

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

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. (2017: %20). The corporate tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the year in which it relates, and is paid in one installment until the end of the relevant month. In accordance with the tax legislation, temporary taxes are calculated and paid on a quarterly basis at a rate of 22%, and the amounts paid in this manner are deducted from the tax calculated on annual earnings.

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 10% 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 2018 and 2017.

As of 30 June 2018 and 31 December 2017, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	30 June 2018	31 December 2017
Corporate tax expenses	13,624,315	20,582,680
Less: Prepaid taxes	(8,877,346)	(36,978,726)
Tax liability/ (Current tax assets)	4,746,969	(16,396,046)

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 18 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the periods ended 30 June 2018 and 2017 are as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Corporate tax expenses	(13,624,315)	2,788,783	(26,574,831)	(4,305,688)
Deferred tax income/(expense)	9,808,637	(7,819,660)	8,190,039	(1,620,936)
Tax expenses	(3,815,678)	(5,030,877)	(18,384,792)	(5,926,624)

Deferred taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements prepared in accordance with the Turkish Financial Reporting Standards and their statutory financial statements, using the currently enacted tax rates. These temporary differences result in the recognition of revenue and expenses in different reporting periods for Turkish Financial Reporting Standards and tax purposes.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) at 30 June 2018 and 31 December 2017 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Property, plant and equipment and intangible assets, restatement and useful life differences	167,283,219	164,262,704	(36,802,308)	(36,137,795)
Provision for employee termination benefits	(29,422,968)	(23,730,294)	6,473,053	5,220,665
Warranty provision	(70,828,442)	(73,445,026)	15,582,257	16,157,906
Provision for lawsuits	(7,557,089)	(7,704,448)	1,662,560	1,694,979
Unearned finance income/ (expense) on trade receivables, payables and due from related parties, net	(6,757,235)	(4,378,984)	1,486,592	963,376
Provision for inventories	(31,617,340)	(33,875,335)	6,955,815	7,452,574
Sales premium accrued	(115,050,454)	(38,678,315)	25,311,100	8,509,229
Other expense provisions	(19,658,315)	(10,994,529)	4,324,829	2,418,796
Investment incentive tax assets	172,902,192	188,993,063	51,870,657	56,697,919
Deferred income	(22,870,624)	(22,897,556)	5,031,537	5,037,462
Other	(15,521,749)	(6,785,332)	3,414,784	1,492,773
Deferred tax assets			85,310,876	69,507,884

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 18 - TAX ASSETS AND LIABILITIES (Continued)

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

	2018	2017
1 January	69,507,884	76,052,805
Charged to profit for the period	9,808,637	8,190,039
Charged to other comprehensive income/ (expense)	5,994,355	1,323,110
30 June	85,310,876	85,565,954

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

	1 January - 30 June 2018	1 January - 30 June 2017
Profit before tax	140,569,685	156,281,961
Tax calculated at enacted tax rate	30,925,331	31,256,392
Investment allowances	(23,711,749)	(9,225,683)
Research and development allowances	(3,881,832)	(3,905,206)
Disallowable expenses	395,277	38,228
Other	88,651	221,061
Total tax expense/(income)	3,815,678	18,384,792

NOTE 19 - EARNINGS PER SHARE

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

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

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue. Nominal value of one share of company is Kr1.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 19 - EARNINGS PER SHARE (Continued)

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Net profit for the period	136,754,007	80,552,943	137,897,169	82,519,265
Weighted average number of the ordinary shares	5,336,900,000	5,336,900,000	5,336,900,000	5,336,900,000
Earnings per share (Kı1 nominal value per share as TRY)	0,0256	0,0151	0.0258	0,0155

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

NOTE 20 - RELATED PARTY DISCLOSURES

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

Summary of the intercompany balances as of 30 June 2018 and 31 December 2017 and significant intercompany transactions are as follows:

i) Balances with related parties as of 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
a) Bank deposits and borrowings		
Deposits with related parties:		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	-	20,223,659
	-	20,223,659

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 20 - RELATED PARTY DISCLOSURES (Continued)

b) Due from related parties

	30 June 2018	31 December 2017
Due from group companies		
CNHI International SA (“CNHI International”) (*)	214,376,938	133,048,916
Iveco Argentina, S.A	8,876,131	12,382,869
CNHI Italy SPA (“CNHI Italy”)	2,715,477	3,962,306
CNH Industrial Brasil Ltda	2,471,040	1,663,100
Other	1,664,500	2,897,806
	230,104,086	153,954,997

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

c) Due to related parties

	30 June 2018	31 December 2017
Koç Holding	370,717	4,012,294
Due to shareholders	370,717	4,012,294
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. (“Opet Fuchs”)	12,040,428	13,648,183
Zer Merkezi Hizmetler ve Ticaret A.Ş. (“Zer”)	11,458,663	23,065,152
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (“Koç Sistem”)	2,161,241	11,014,177
Ram Sigorta Aracılık Hizmetleri A.Ş.	1,644,568	281,257
Otokoç Otomotiv San. ve Tic. A.Ş. (“Otokoç”)	1,006,334	572,254
Setur Servis Turistik A.Ş. (“Setur”)	909,319	1,172,255
Koçtaş Yapı Marketleri A.Ş. (“Koçtaş”)	678,760	868,742
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş.	275,413	252,318
CNH Industrial India Private (“CNHI India”)	-	2,906,606
Other	173,565	1,940,733
Due to group companies		55,721,677
	30,348,291	
Less: Unearned financial expenses	(571,589)	(680,166)
	30,147,419	59,053,805

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 20 - RELATED PARTY DISCLOSURES (Continued)

ii) Significant sales and purchases transactions with related parties for the periods between 1 January - 30 June 2018 and 2017:

a) Product sales to related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Product sales to group companies:				
CNHI International (*)	715,432,317	398,841,255	527,866,089	255,886,468
Iveco Argentina	13,558,102	8,013,132	14,604,537	7,131,579
CNHI Italy	6,925,275	3,582,438	8,749,116	6,299,512
Yapı Kredi Finansal Kiralama A.O.	6,771,411	3,848,585	9,342,280	6,418,899
CNHI Brasil	4,515,163	2,124,231	3,912,926	2,066,242
Other	1,652,384	708,011	3,095,282	1,153,208
	748,854,652	417,117,652	567,570,230	278,955,908

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

b) Service sales to related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Service sales to group companies				
CNHI Italy (1)	2,294,256	525,442	179,240	-
CNHI International (2)	1,401,493	1,381,710	403,485	172,627
	3,695,749	1,907,152	582,725	172,627

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

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)

c) Product purchases from related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Product purchases from group companies				
CNHI International (1)	443,861,935	161,350,140	317,861,310	111,875,038
Opet Fuchs (2)	30,591,505	12,751,957	28,716,625	13,146,670
Cnh Industrial Italia SpA (1)	4,059,084	2,531,320	945,976	-
Zer	3,716,105	1,697,103	4,297,567	3,049,786
Koç Sistem	2,631,022	1,601,816	1,701,484	-
Akpa	2,572,895	1,180,628	2,026,378	778,597
Opet (2)	1,558,949	792,323	1,249,877	1,249,877
CNHI India (3)	1,267,446	-	25,606,927	14,769,390
Other	1,335,897	614,408	226,516	1,129,961
	491,594,838	182,519,695	382,632,660	145,999,319

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

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

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

d) Service purchases from related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Service purchases from shareholders				
Koç Holding (1)	1,885,000	942,500	2,203,569	1,000,000
	1,885,000	942,500	2,203,569	1,000,000
Service purchase from group companies				
Zer (2)	50,502,305	26,852,171	51,141,823	29,023,438
CNHI International (3)	11,763,762	9,632,387	1,616,705	1,616,705
Setur (4)	6,112,675	3,838,458	3,276,733	2,040,257
Koç Sistem (5)	3,779,218	2,671,430	2,917,286	1,688,293
Ram Sigorta (6)	3,329,144	1,295,515	2,117,350	367,085
Otokoç (7)	2,435,788	1,282,114	1,829,499	917,453
Eltek (8)	-	-	6,183,604	3,026,834
Other	2,214,200	879,413	1,319,816	1,319,816
	80,137,092	46,451,488	70,402,816	39,999,881
	82,022,092	47,393,988	72,606,385	40,999,881

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 20 - 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 concealed gain distribution described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.
- (2) Services purchased from Zer are related with security, cleaning, transportation and other services.
- (3) Services purchased from CNHI International are related with engineering services, strategy development, consulting and brokerage.
- (4) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (5) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licenses.
- (6) As of 30 June 2018, the amounts contain the paid and accrued premiums within the insurance policy signed with insurance companies through the related party Ram Sigorta Aracılık Hizmetleri A.Ş. which is operating as insurance agent.
- (7) Service purchased from Otokoç is related with motor vehicles leasing services.
- (8) Services purchased from Eltek related to electricity.

iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January - 30 June 2018 and 2017:

Financial income and expense from group companies

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Interest income				
Yapı Kredi	-	-	1,788,964	1,318,748

iv) Dividends paid to shareholders:

	1 January - 30 June 2018	1 January - 30 June 2017
Koç Holding	112,500,000	93,750,000
CNHI Österreich	112,500,000	93,750,000
	225,000,000	187,500,000

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)

v) Other transactions with related parties for the periods between 1 January - 30 June 2018 and 31 December 2017:

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

As of 30 June 2018, the Company paid TRY5,917,251 benefits to the key management personnel (30 June 2017: TRY4,417,455). The payment made due to leaving the Company is TRY1,052,845 (30 June 2017: None) and the remaining amount consists of short term benefits.

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

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

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

a) Market risk

Foreign currency risk

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

Cash flow hedge accounting

There is an affective foreign currency cash flow hedge relationship between EUR long term financial borrowing related with investment expenditures and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 July 2016. The related long term investment borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/gains on cash flow hedges. The amount of the related investment borrowing as of 30 June 2018 is EUR44,250,000 (31 December 2017 EUR32,083,333). The amount of foreign exchange losses recognized after tax in equity is TRY38,952,068 (31 December 2017: TRY22,663,938).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

The amounts of foreign currency assets, liabilities and TRY equivalents of the Company as of 30 June 2018 and 31 December 2017 are as follows

	30 June 2018					
	TRY equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	251,577,980	179,412	47,231,172	-	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	12,123,075	11,541	2,259,010	10,225	3,371	7,584
3. Other	-	-	-	-	-	-
4. Current assets(1+2+3)	263,701,055	190,953	49,490,182	10,225	3,371	7,584
5. Trade receivables	952,573	-	179,419	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets(5+6)	952,573	-	179,419	-	-	-
8. Total assets (4+7)	264,653,628	190,953	49,669,601	10,225	3,371	7,584
9. Trade payables	118,936,305	2,505,784	16,873,327	82,920	4,089	423,417,109
10. Financial liabilities (Note 4)	117,201,463	-	22,075,164	-	-	-
11. Other monetary liabilities	18,139,884	-	3,416,690	-	-	-
12. Current liabilities (9+10+11)	254,277,652	2,505,784	42,365,181	82,920	4,089	423,417,109
13. Financial liabilities (Note 4)	342,000,959	-	64,416,665	-	-	-
14. Non-current liabilities (13)	342,000,959	-	64,416,665	-	-	-
15. Total liabilities (12+14)	596,278,611	2,505,784	106,781,846	82,920	4,089	423,417,109
16. Cash flow hedge accounting amounts	234,932,100	-	44,250,000	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(96,692,882)	-	(12,862,244)	-	-	-
18. Net monetary foreign currency asset/ (liability) position (8-15)	(331,624,983)	(2,314,831)	(57,112,245)	(72,695)	(718)	(423,409,525)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

	31 December 2017					
	TRY 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 (Not 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. Cash flow hedge accounting amounts	128,429,583	-	32,083,333	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(93,020,872)	-	(12,139,995)	-	-	-
18. Net monetary foreign currency asset/(liability) position (8-15)	(221,450,455)	(3,549,472)	(44,223,328)	(61,133)	6,452	(174,880,882)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

The import and export amounts of the Company for the periods ended 30 June 2018 and 2017 are as follows:

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Total export amount	742,366,136	426,585,482	558,227,951	272,692,498
Total import amount	892,774,740	502,054,358	495,533,693	209,998,240

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 30 June 2018 and 31 December 2017 under the assumption of the appreciation and depreciation of TRY against other currencies by 10% considering all variables are constant, the effect of net profit/loss and shareholder's equity for the period is as follows:

	30 June 2018			
	Appreciation of foreign currency	Profit/ Loss Depreciation of foreign currency	Appreciation of foreign currency	Shareholders' equity Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	((1,055,725))	1,055,725	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(1,055,725)	1,055,725	-	-
Had TRY appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(30,322,033)	30,322,033	5,694,117	(5,694,117)
Hedged amount against EUR risk (-)	16,193,060	(16,193,060)	18,324,704	(18,324,704)
Net Effect of EUR	(14,128,973)	14,128,973	24,018,821	(24,018,821)
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/(loss) from other net liability position	(1,963,214)	1,963,214	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(1,963,214)	1,963,214	-	-
Total net effect	(17,147,912)	17,147,912	24,018,821	(24,018,821)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

	31 December 2017			
	Profit/ loss		Shareholders' equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/ (loss) from USD net asset position	(1,338,825)	1,338,825	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(1,338,825)	1,338,825	-	-
Had TRY 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
Had TRY 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

Price risk

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

Interest rate risk

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

Financial instruments with fixed interest rate		
	30 June 2018	31 December 2017
Time deposits (Note 3)	142,143,486	424,900,094
Financial liabilities (Note 4)	1,307,303,496	991,592,011
Financial instruments with floating interest rate		
	30 June 2018	31 December 2017
Financial liabilities (Note 4)	247,686,868	135,314,180

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018

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

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

For financial instruments with variable interest rates, if the interest on 30 June 2018 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 TRY769,699 (30 June 2017: TRY248,096).

b) Credit risk

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

The Company's maximum exposure to credit risk as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018					
	Trade receivables		Other receivables			
	Related party	Third party	Related party	Third party	Banks deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	230,104,086	492,021,834	-	375,620	154,714,426	-
Net book value of restructured financial assets, otherwise that will be considered as due dated or impaired	-	111,059,926	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	50,022,644	-	-	-	-
- Provision (-)	-	(50,022,644)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Amount exposed to maximum credit risk (*)	230,104,086	603,081,760	-	375,620	154,714,426	-

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

As of 30 June 2018, the guarantee amount of the maximum exposure to credit risk is TRY772,013,165. Besides, all assets which are due but not impaired and are impaired are guaranteed.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

	31 December 2017					
	Trade Receivables		Other receivables		Bank deposits	Derivative instruments
	Related party	Third party	Related party	Third party		
Net book value of financial assets which are undue and not impaired	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	-	19,544,687	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	49,389,742	-	-	-	-
- Provision (-)	-	(49,389,742)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
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 TRY614,574,000. Besides, all assets which are overdue but not impaired and are impaired are guaranteed.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018

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

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

c) Liquidity risk

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

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

Capital risk management

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

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

	30 June 2018	31 December 2017
Cash and cash equivalents (Note 3)	154,714,426	441,722,150
Less: Financial liabilities (Note 4)	(1,554,990,364)	(1,126,906,191)
Net financial debt	(1,400,275,938)	(685,184,041)
Total shareholders' equity	573,270,784	757,769,491
Net financial debt/ shareholders' equity	(244)%	(90)%

Fair value of financial assets

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

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

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT 1 JANUARY - 30 JUNE 2018**

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

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

Financial assets

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

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

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

Financial liabilities

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

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

NOTE 22 - SUBSEQUENT EVENT AFTER BALANCE SHEET DATE

None.

.....