

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONDENSED
FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD BETWEEN JANUARY 1- MARCH 31, 2018
(ORIGINALLY ISSUED IN TURKISH)**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2018

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

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

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

		<i>Current period unaudited 31 March 2018</i>	<i>Prior period audited 31 December 2017</i>
	Notes		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	91.967.063	441.722.150
Trade receivables:			
- <i>Other parties</i>	5	693.556.098	658.880.236
- <i>Related parties</i>	20	138.073.081	153.954.997
Inventories	6	819.615.708	566.306.204
Prepaid expenses	10	1.882.776	1.361.081
Assets related to current period taxes	18	5.016.156	16.396.046
Other current assets	9	166.674.065	157.747.171
TOTAL CURRENT ASSETS		1.916.784.947	1.996.367.885
NON-CURRENT ASSETS			
Trade receivables:			
- <i>Other parties</i>	5	779.142	2.009.169
Other receivables:			
- <i>Other parties</i>		373.818	381.220
Property, plant and equipment	7	498.817.126	497.227.094
Intangible assets	8	223.224.993	215.899.286
Prepaid expenses	10	15.364.646	7.308.750
Deferred tax assets	18	89.262.924	69.507.884
TOTAL NON-CURRENT ASSETS		827.822.649	792.333.403
TOTAL ASSETS		2.744.607.596	2.788.701.288

The financial statements prepared as at and for the period ended March 31, 2018 have been approved by the Board of Directors on April 24, 2018.

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

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

	Notes	Current period unaudited 31 March 2018	Prior period audited 31 December 2017
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities	4	1.218.360	-
Short-term portion of long-term financial liabilities	4	180.409.736	270.982.485
Trade payables:			
- Other parties	5	772.425.775	666.426.948
- Related parties	20	37.425.082	59.053.805
Employee benefit obligations	12	14.495.416	27.949.120
Other payables			
- Other parties		43.567.486	26.108.488
Government incentives and aids	9	3.592.163	3.592.163
Deferred income	10	10.572.506	13.963.980
Short-term provision :			
- Short-term provision for employee benefits	11	3.267.713	2.051.334
- Other short-term provisions	11	44.934.204	43.146.280
TOTAL CURRENT LIABILITIES		1.111.908.441	1.113.274.603
NON-CURRENT LIABILITIES			
Long-term financial liabilities	4	1.062.600.876	855.923.706
Long-term provision			
- Long-term provision for employee benefits	11	25.503.447	23.730.294
- Other provisions	11	38.164.546	38.003.194
TOTAL NON-CURRENT LIABILITIES		1.126.268.869	917.657.194
SHAREHOLDERS' EQUITY		506.430.286	757.769.491
Parent's equity			
Paid-in share capital	13	53.369.000	53.369.000
Adjustments to share capital	13	39.014.356	39.014.356
Merger reserve		(5.569.000)	(5.569.000)
Restricted profit reserves		135.620.450	155.839.108
Other accumulated comprehensive income and expense not to be reclassified to profit or loss			
- Actuarial loss arising from defined benefit plans		(20.841.333)	(21.574.275)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
- Losses on cash flow hedging		(30.937.149)	(22.663.938)
Retained earnings		279.572.898	238.597.910
Net profit for the year		56.201.064	320.756.330
TOTAL LIABILITIES		2.744.607.596	2.788.701.288
Provisions, contingent assets and contingent liabilities	11		

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2018**

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

	Notes	<i>Current year Unaudited 1 January - 31 March 2018</i>	<i>Prior year Unaudited 1 January - 31 March 2017</i>
Revenue	14	1.047.973.517	961.423.862
Cost of sales (-)	14	(876.065.230)	(793.140.160)
GROSS PROFIT		171.908.287	168.283.702
Marketing, selling and distribution expenses (-)		(59.149.815)	(47.615.230)
General administrative expenses (-)		(24.180.548)	(21.298.320)
Research and development expenses (-)		(6.104.505)	(4.001.311)
Other income from operating activities	15	75.278.948	86.083.147
Other expenses from operating activities (-)	15	(63.577.608)	(78.182.397)
OPERATING PROFIT		94.174.759	103.269.591
Income from investment activities		-	47.062
Expenses from investment activities (-)		-	(6.427)
OPERATING INCOME BEFORE FINANCIAL INCOME/ (EXPENSE)		94.174.759	103.310.226
Financial income	16	17.406.033	6.592.113
Financial expenses (-)	17	(56.594.927)	(42.066.266)
PROFIT BEFORE TAXATION ON INCOME		54.985.865	67.836.073
Taxes on income (-)	18	(16.413.098)	(22.228.203)
Deferred tax (expense)/ income	18	17.628.297	9.770.034
NET PROFIT FOR THE YEAR		56.201.064	55.377.904
Earnings per share (TL)	19	0,0105	0,0104
Other comprehensive income/(expense)			
Other comprehensive expense not to be reclassified to profit or loss:			
Actuarial loss arising from defined benefits plans	11	939.669	(204.682)
Other comprehensive expense not to be reclassified to profit or loss, tax effect			
Actuarial gain/ loss arising from defined benefit plans, tax effect	18	(206.727)	40.936
Other comprehensive expense to be reclassified to profit or loss:			
Losses on cash flow hedging		(10.606.681)	(2.297.876)
Other comprehensive expense to be reclassified to profit or loss, tax effect			
Losses on cash flow hedging, tax effect	18	2.333.470	459.576
Other comprehensive expense after tax		(7.540.269)	(2.002.046)
TOTAL COMPREHENSIVE INCOME		48.660.795	53.375.858

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM CHANGES IN EQUITY FOR THE INTERIM PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira ("TL") 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	-	-	-	-	-	(20.218.658)	340.974.988	(320.756.330)	-
Dividends paid (Note 13)	-	-	-	-	-	-	(300.000.000)	-	(300.000.000)
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	56.201.064	56.201.064
Other comprehensive income									
Actuarial loss arising from defined benefit plans	-	-	-	732.942	-	-	-	-	732.942
Cash flow hedge losses	-	-	-	-	(8.273.211)	-	-	-	(8.273.211)
Total other comprehensive expense	-	-	-	732.942	(8.273.211)	-	-	-	(7.540.269)
Total comprehensive income	-	-	-	732.942	(8.273.211)	-	-	56.201.064	48.660.795
31 March 2018	53.369.000	39.014.356	(5.569.000)	(20.841.333)	(30.937.149)	135.620.450	279.572.898	56.201.064	506.430.286

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM CHANGES IN EQUITY FOR THE INTERIM PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira ("TL") 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 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	-	-	-	-	-	(20.218.658)	340.974.988	(320.756.330)	-
Dividends paid (Note 13)	-	-	-	-	-	-	(250.000.000)	-	(250.000.000)
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	55.377.904	55.377.904
Other comprehensive income									
Actuarial loss arising from defined benefit plans	-	-	-	(163.746)	-	-	-	-	(163.746)
Cash flow hedge losses	-	-	-	-	(1.838.300)	-	-	-	(1.838.300)
Total other comprehensive expense	-	-	-	(163.746)	(1.838.300)	-	-	-	(2.002.046)
Total comprehensive income	-	-	-	(163.746)	(1.838.300)	-	-	55.377.904	53.375.858
31 March 2017	53.369.000	39.014.356	(5.569.000)	(18.612.513)	(14.780.094)	224.728.662	169.708.356	55.377.904	503.236.671

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONDENSED INTERIM STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2018

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

		<i>Current period Unaudited</i>	<i>Prior period Unaudited</i>
	Notes	31 March 2018	31 March 2017
A. CASH FLOWS FROM OPERATING ACTIVITIES		(86.876.463)	(53.966.570)
Net profit for the year		56.201.064	55.377.904
Adjustments to reconcile net profit:		76.884.115	60.619.474
Amortization and depreciation		19.689.825	16.412.502
Provision for impairment on inventories	6	-	(998.349)
Provision for employee termination benefits	11	2.681.561	1.671.487
Provision for doubtful receivables	15	327.787	2.215.078
Expense accruals		1.949.276	3.604.302
Interest income and expense	16, 17	21.389.929	24.407.936
Tax expense	18	(1.215.199)	12.458.169
Gain/ loss from sales of property plant and equipment		-	(40.634)
Foreign exchange effect		32.060.936	888.983
Changes in working capital		(214.928.434)	(169.145.029)
Trade receivables		(33.773.622)	(157.530.265)
Due from related parties		9.276.052	(29.107.874)
Inventories		(253.309.504)	(36.709.858)
Other current assets		(8.926.894)	(14.398.124)
Other receivables		7.399	5.198
Prepaid expenses		(8.577.591)	(2.729.079)
Due to related parties		(26.236.923)	(22.614.740)
Trade payables		105.998.827	107.073.899
Deferred income		(3.391.474)	(1.574.463)
Other liabilities		18.090.698	(11.070.017)
Short-term provision for employee termination benefits		-	1.285.294
Debt for employee termination benefits		(13.453.704)	(420.638)
Employee termination benefits paid	11	(631.698)	(1.354.362)
Net cash provided by operating activities		(81.843.255)	(53.147.651)
Tax paid		(5.033.208)	(818.919)
B. CASH FLOWS FROM INVESTING ACTIVITIES		(28.605.564)	(20.153.476)
Proceeds from sales of property, plant and equipment and intangible assets		-	40.634
Payments for purchases of property, plant and equipment and intangible assets		(28.605.564)	(20.194.110)
C. CASH FLOWS FROM FINANCING ACTIVITIES		(231.172.726)	234.489.818
Proceeds from bank borrowings		333.335.000	457.780.000
Repayment of bank borrowings		(244.614.792)	(202.251.324)
Dividends paid	13	(300.000.000)	-
Interest paid		(27.274.540)	(23.571.966)
Interest received		7.381.606	2.533.108
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		(346.654.753)	160.369.772
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		(2.605.342)	483.090
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(349.260.095)	160.852.862
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	441.212.656	228.330.542
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	3	91.952.561	389.183.404

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. (“Koç Holding”). As of 31 March 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 31 March 2018 is 3,014 (Permanent: 2,826, temporary: 188) the average of the period is 3,010. (31 December 2017: 3.033 (Permanent: 2.802, temporary: 231) average: 3019).

The Company conducts marketing and selling activities in the domestic market, through its 136 tractor sales dealers, 145 spare part dealers and 44 construction equipment dealers (31 December 2017 : 135 tractor sales dealers, 140 spare part dealers, 53 construction equipment dealers).

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

The Company is registered in Turkey in the following address:

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

As of 31 March 2018, 24,90% of the shares of the Company are quoted on Borsa Istanbul (“BIST”) (31 December 2017: 24.90%) (Note 13).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS FOR THE INTERIM PERIOD

2.1 Basis of presentation

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

Principles governing the preparation of financial statements

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

The Company has prepared the condensed consolidated financial statements for the interim period ended on March 31, 2018 in accordance with the CMB Series: II, No. 14.1 and announcements expressing this statement in accordance with TAS 34 “Interim Financial Reporting”. Interim condensed financial statements and notes are presented in accordance with the formats recommended by the UPS, including the compulsory information.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

The companies are free to prepare the full-set or condensed interim financial statements in accordance with TAS 34 standards. In this framework, the Company has preferred to prepare summary financial statements in the interim periods.

The Company's interim condensed financial statements do not include all of the explanatory notes and footnotes required to be included in the annual financial statements and should therefore be read in conjunction with the Company's 31 December 2017 financial statements.

The Company maintains its books of account and prepares its statutory financial statements on the basis of the principles and conditions issued by the CMB, the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

Interim condensed consolidated financial statements have been prepared in Turkish Lira, which is the functional and presentation currency of the Company, based on the historical cost basis except for the financial assets and liabilities which are expressed with their fair values. Interim condensed financial statements have been prepared by applying the necessary adjustments and reclassifications to the statutory records prepared in accordance with the TAS / TFRS for the purpose of fair presentation.

2.2 Comparatives and restatement of prior periods' financial statements

The Company's current period financial statements are prepared comparatively with the prior period in order to enable the determination of financial situation and performance trends. As of 31 March 2018, the Company has prepared the interim condensed consolidated financial statements, the balance sheet prepared as of December 31, 2017 and the condensed consolidated statements of profit and loss for the period of 1 January - 31 March 2018, and the statements of changes in other comprehensive income, cash flow and equity, in comparison with the interim period 1 January - 31 March 2017.

2.3 Changes in IFRS

The accounting policies adopted in preparation of the financial statements as at March 31, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of January 1, 2018. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

a) The new standards, amendments and interpretations which are effective as at March 31, 2018 are as follow:

Explanations on the financial statements of the new TAS / TFRS:

- a) title of TAS/TFRS
- b) if the accounting policy change is made in accordance with the relevant transitional provisions
- c) explain the change in accounting policy
- d) disclosure of transitional provisions
- e) the effects that transitional provisions may have on future periods
- f) as possible, adjustments related to the current and each prior period presented
 - each affected financial statement must be presented for item and

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

- if the "IAS 33, Earnings per Share" standard is met for the company, the amounts of ordinary shares and diluted earnings per share should be recalculated.
- g) if possible, adjustments to prior periods that are not available and
- h) if retrospective application is not possible for any period or period, the events leading to this should be explained and the date from which the change in accounting policy is applied and how it is applied.
- **IFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **IFRS 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 IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

a) The new standards, amendments and interpretations which are effective as at March 31, 2018 are as follow (Continued):

- **Amendments to IFRS 4, 'Insurance contracts'**; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to IAS 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.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

a) The new standards, amendments and interpretations which are effective as at March 31, 2018 are as follow (Continued):

- **Amendments to IFRS 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.
- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, ‘First time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, ‘Investments in associates and joint venture’ regarding measuring an associate or joint venture at fair value.

IFRIC 22, ‘Foreign currency transactions and advance consideration’; effective from annual periods beginning on or after 1 January 2018. This IFRIC 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.

b) Standards, amendments and interpretations that are issued but not effective as at 31 March 2018:

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

- **Amendment to IAS 28, ‘Investments in associates and joint venture’;** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
- **IFRS 16, ‘Leases’;** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 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 IFRS 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.
- **IFRIC 23, ‘Uncertainty over income tax treatments’;** effective from annual periods beginning on or after 1 January 2019. This IFRIC 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 IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 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. IFRIC 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.
- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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

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

b) Standards, amendments and interpretations that are issued but not effective as at 31 March 2018 (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.

2.4 Summary of significant accounting policies

The principal accounting policies, consistently applied in the preparation of interim condensed consolidated financial statements are consistent with the explanations in the annual financial statements for the period 1 January - 31 December 2017 except for the following:

In the interim periods, provisions for taxes are calculated by taking into consideration the tax rates expected to be applied to the financial results of the year end and the expected tax base applicable to the year end financial results.

Interim condensed financial statements prepared for the interim period 1 January - 31 March 2018 should be evaluated together with the annual financial statements for the fiscal period 1 January - 31 December 2017.

Unallocated expenses are considered in the condensed interim financial statements only when these expenses can be estimated or deferred appropriately at the end of the financial year.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

2.5 Significant accounting estimates and judgments

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

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

Warranty expense provisions

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

Deferred tax assets

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

The Company assess the recoverability of deferred tax assets based on business models that contain management estimations related to taxable profit for future periods. The models include key management estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in related estimations does not have any effect on the assessment of recoverability of deferred tax assets (Note 18).

Cash flow hedge transactions

As explained in Note 21, the Company uses its loans amounting to EUR 46.250.000 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.

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

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

2.5 Significant accounting estimates and judgments (Continued)

The useful life of tangible and intangible assets

The Company's management has made significant assumptions in determining the useful life of tangible and intangible assets (Note 2.4).

Provision for employment termination benefits

Provisions for retirement payments, discount rate, future salary increases and employee turnover rates are determined by actuarial calculations based on certain assumptions. Due to the long term nature of these plans, such estimates are subject to significant uncertainty (Note 11).

Provision for impairment of inventories

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

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 March 2018	31 December 2017
Cash on hand	50	-
Banks:		
- TL denominated demand deposits	12.919.658	13.136.655
- TL denominated time deposits	12.284.502	311.109.494
- Foreign currency denominated demand deposits	4.182.732	3.685.401
- Foreign currency denominated time deposits	62.850.121	113.790.600
	91.967.063	441.722.150

As of 31 March 2018, the weighted average effective annual interest rates for TL and Euro ("EUR") time deposits are 14,09% and 1,40% (31 December 2017: TL:14,28% ve EUR:1,33%). As of 31 March 2018 and 31 December 2017, remaining time to maturity of time deposits is less than three months.

The cash and cash equivalents included in the statement of cash flows at 31 March 2018 and 31 December 2017 are as follows:

	31 March 2018	31 December 2017
Cash	50	-
Banks:	91.967.012	441.722.150
Less: Interest accruals	(14.501)	(509.494)
Cash and cash equivalents	91.952.561	441.212.656

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 4 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

Short-term bank borrowings

	Original currency		Weighted average effective interest rate p.a. (%)		TL equivalent	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
TL borrowings	1.218.360	-	-	-	1.218.360	-
					1.218.360	

Short term portions of long term financial liabilities

	Original currency		Weighted average effective interest rate p.a. (%)		TL equivalent	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
TL bonds	6.711.593	4.145.275	13,62	13,52	6.711.593	4.145.275
EUR bank borrowings	23.595.449	23.190.476	1,95	1,95	114.846.127	106.061.352
TL bank borrowings	58.852.015	160.775.858	14,25	12,80	58.852.015	160.775.858
					180.409.736	270.982.485

b) Long-term financial liabilities

Long-term bank borrowings

	Original currency		Weighted average effective interest rate p.a. (%)		TL equivalent	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
EUR bank borrowings	56.416.665	59.333.333	2,00	2,07	274.596.835	267.919.664
TL bank borrowings	638.076.325	438.461.300	14,18	13,66	638.076.325	438.461.300
					912.673.160	706.380.964
Prepaid commission for debt (*)					(72.284)	(457.258)
Total long-term financial liabilities					912.600.876	705.923.706

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

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EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

Long-term bonds

	Original currency		Weighted average effective interest rate p.a. (%)		TL equivalent	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
TL bonds (*)	150.000.000	150.000.000	13,62	13,52	150.000.000	150.000.000
Total long term bonds					150.000.000	150.000.000

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

Redemption schedule of the long-term bank borrowings as of 31 March 2018 and 31 December 2017 are as follows:

Year	31 March 2018	31 December 2017
2019	117.669.528	178.406.458
2020	832.983.446	588.712.416
2021	64.086.119	44.402.416
2022	47.861.783	44.402.416
	1.062.600.876	855.923.706

As of 31 March 2018, the Company has long-term investment loans with variable interest rate amounting to EUR13.357.143 and with fixed interest amounting to EUR26.249.999 and has an operating loan with fixed interest rate amounting to EUR40.000.000 . The EUR5.357.143 loan's maturity is 5 years (maturity date 14 June 2018), without principal payment for first two years, with an interest payment of every 6 months and with an interest rate of 2.20% + Euribor. The EUR8,000,000 loan's maturity is 4 years (maturity date of 12 November 2018), without principal payment for first two years with an interest and principal payment of every 6 months and with an interest rate of 2.20% + Euribor. The 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%. Out of total EUR40.000.000 operating loan, the EUR 10.000.000 loan's maturity is 3 years, principal payment to be made at maturity, with an interest payment of every 3 months and with an interest rate of 2.95%. The EUR 10.000.000 loan's maturity is 3 years, with an interest payment of every month, without principal payment for first two years, with an interest payment of every 6 months and with an interest rate of 2.20%. The EUR 20,000,000 loan's maturity is 5 years, with an interest and principal payment of every 6 months and with an interest rate of 2.60%. As of 31 March 2018, there is no guarantees or mortgages given for the loans obtained. In accordance with the agreement signed with respect to the investment loan used by the Company, there is an obligation of not exceeding the below mentioned rate calculated over the financial statements prepared in accordance with the Turkish Financial Reporting Standards:

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EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

Obligation rate is;

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

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

The Company met these conditions as of balance sheet date.

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

	Carrying value		Fair value	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Bank borrowings	1.094.228.972	976.906.191	1.249.161.206	986.201.240

As of 31 March 2018, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 2,52% for EUR loans and 14.11% for TL denominated bank borrowings respectively (31 December 2017: EUR 1.94%, TL: 13,49%).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	31 March 2018	31 December 2017
Short-term trade receivables:		
Customer current accounts	744.235.637	705.715.289
Notes receivables	17.424.174	19.596.007
Protested notes	19.602	29.707
	761.679.413	725.341.003
Less: Provision for doubtful receivables	(49.717.529)	(49.389.742)
Unearned financial income	(18.405.786)	(17.071.025)
Short-term trade receivables	693.556.098	658.880.236
Due from related parties (Note 20)	138.073.081	153.954.997
Total short-term trade receivables	831.629.179	812.835.233

Movements of the provisions for short-term doubtful receivables for the years ended 31 March 2018 and 2017 are as shown below:

	2018	2017
1 January	(49.389.742)	(52.242.681)
Cancelled during the year (Note 15)	57.322	-
Charge during the year (Note 15)	(385.109)	(2.215.078)
31 March	(49.717.529)	(54.457.759)

	31 March 2018	31 December 2017
Long-term trade receivables:		
Notes receivables	779.142	2.009.169
	779.142	2.009.169

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)

	31 March 2018	31 December 2017
Trade payables:		
Supplier current accounts	783.945.407	680.487.558
Less: Unincurred financial expense	(11.519.632)	(14.060.610)
Trade payables	772.425.775	666.426.948
Due to related parties (Note 22)	37.425.082	59.053.805
Total trade payables	809.850.857	725.480.753

NOTE 6 - INVENTORIES

	31 March 2018	31 December 2017
Raw materials	227.512.550	202.977.555
Work in progress	6.200.205	786.918
Finished goods	293.016.013	134.514.016
Commercial goods	185.199.442	93.505.776
Spare parts	2.168.331	52.645.047
Goods in transit (*)	139.394.502	115.752.227
Gross	853.491.043	600.181.539
Provision for impairment of inventory (-)	(33.875.335)	(33.875.335)
Net	819.615.708	566.306.204

The cost of inventories recognised as expense in the current period is amounting to TL 778.541.981 (31 March 2017: TL 712.404.804).

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

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

	2018	2017
1 January	(33.875.335)	(41.851.649)
Cancelled due to sales of inventory during the period	-	998.349
31 March	(33.875.335)	(40.853.300)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 6 - INVENTORIES (Continued)

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

	31 March 2018	31 December 2017
Raw materials	(24.814.722)	(24.814.722)
Commercial goods	(6.892.282)	(6.892.282)
Spare parts	(2.168.331)	(2.168.331)
	(33.875.335)	(33.875.335)

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Additions	Disposals	Transfers	31 March 2018
<u>Cost</u>					
Land	37.740.200	-	-	-	37.740.200
Land improvements	14.492.387	78.693	-	-	14.571.080
Buildings	234.001.543	145.911	-	-	234.147.454
Machinery and equipment	598.410.208	13.504.616	-	-	611.914.824
Special costs	5.859.199	452.263	-	-	6.311.462
Motor vehicles	8.211.037	945.575	-	-	9.156.612
Furniture and fixtures	82.922.128	887.405	-	-	83.809.533
Construction in progress	5.375.563	187.587	-	-	5.563.150
	987.012.265	16.202.050	-	-	1.003.214.315
<u>Accumulated depreciation</u>					
Land improvements	4.875.531	119.463	-	-	4.994.994
Buildings	55.541.085	1.262.436	-	-	56.803.521
Machinery and equipment	369.845.930	10.128.784	-	-	379.974.714
Special costs	3.771.264	156.892	-	-	3.928.156
Motor vehicles	2.905.162	385.825	-	-	3.290.987
Furniture and fixtures	52.846.199	2.558.618	-	-	55.404.817
	489.785.171	14.612.018	-	-	504.397.189
Net book value	497.227.094				498.817.126

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
<u>Cost</u>					
Land	37.740.200	-	-	-	37.740.200
Land improvements	11.351.423	291.472	-	-	11.642.895
Buildings	234.169.997	336.984	-	-	234.506.981
Machinery and equipment	557.464.187	9.621.118	-	-	567.085.305
Special costs	5.564.336	73.125	-	-	5.637.461
Motor vehicles	6.502.522	-	(2.680.603)	-	3.821.919
Furniture and fixtures	71.963.240	767.933	-	-	72.731.173
Construction in progress	716.888	1.366.172	-	-	2.083.060
	925.472.793	12.456.804	(2.680.603)	-	935.248.994
<u>Accumulated depreciation</u>					
Land improvements	4.458.221	90.266	-	-	4.548.487
Buildings	51.244.267	1.286.686	-	-	52.530.953
Machinery and equipment	360.853.860	8.293.448	(2.680.603)	-	366.466.705
Special costs	3.235.011	131.647	-	-	3.366.658
Motor vehicles	3.135.441	243.686	-	-	3.379.127
Furniture and fixtures	43.644.226	2.181.617	-	-	45.825.843
	466.571.026	12.227.350	(2.680.603)	-	476.117.773
Net book value	458.901.767			-	459.131.221

Allocation of the depreciation expenses of property, plant and equipment for the years ended at 31 March 2018 and 2017 is as follows:

	31 March 2018	31 March 2017
Production costs	10.242.810	8.344.056
General administrative expenses	2.613.882	2.106.598
Marketing, selling and distribution expenses	939.292	758.530
Research and development expenses	816.034	1.018.166
	14.612.018	12.227.350

The Company have no financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 31 March 2018 (31 March 2017: None).

There is no mortgage on property, plant and equipment as of 31 December 2018 (31 December 2017: None).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 8 - INTANGIBLE ASSETS

	1 January 2018	Additions	Disposals	Transfers	31 March 2018
<u>Cost</u>					
Rights	68.747.944	3.391.177	-	-	72.139.121
Development costs	110.150.931	-	-	-	110.150.931
Development costs in progress	120.256.568	9.979.144	-	-	130.235.712
	299.155.443	13.370.321	-	-	312.525.764
<u>Accumulated amortisation</u>					
Rights	24.410.680	2.081.219	-	-	26.491.899
Development costs	58.845.477	3.963.395	-	-	62.808.872
	83.256.157	6.044.614	-	-	89.300.771
Net book value	215.899.286				223.224.993

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
<u>Cost</u>					
Rights	57.043.268	302.840	-	-	57.346.108
Development costs	77.679.260	-	-	-	77.679.260
Development costs in progress	105.790.404	8.322.466	-	-	114.112.870
	240.512.932	8.625.306	-	-	249.138.238
<u>Accumulated amortisation</u>					
Rights	18.183.297	1.373.569	-	-	19.556.866
Development costs	44.243.055	3.699.583	-	-	47.942.638
	62.426.352	5.073.152	-	-	67.499.504
Net book value	178.086.580				181.638.734

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

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 8 - INTANGIBLE ASSETS (Continued)

Allocation of the amortization expenses of intangible assets for the years ended at 31 March 2018 and 2017 is as follows:

	31 March 2018	31 March 2017
Production costs	1.484.097	1.055.979
General administrative expenses	316.785	225.402
Marketing, selling and distribution expenses	129.562	92.188
Research and development expenses	3.147.363	2.811.583
Reflected to development cost in progress	966.807	888.000
	6.044.614	5.073.152

NOTE 9 - OTHER ASSETS AND LIABILITIES

	31 March 2018	31 December 2017
a) Other current assets:		
Deferred value added tax ("VAT")	120.299.969	118.248.169
Reclaimed VAT	46.178.232	35.288.502
Other	195.864	4.210.500
	166.674.065	157.747.171

	31 March 2018	31 December 2017
b) Government grants and aids:		
Government grants and aids	3.592.163	3.592.163
	3.592.163	3.592.163

c) Other payables to other parties:

Other payables include non-trade payables related to operational expenses of the Company as 31 March 2018 and 2017.

NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME

	31 March 2018	31 December 2017
a) Prepaid expense:		
Prepaid expenses for future months	1.882.776	1.361.081
	1.882.776	1.361.081

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)

	31 March 2018	31 December 2017
b) Long-term prepaid expenses		
Advances given for purchases of fixed assets	15.364.646	7.308.750
	15.364.646	7.308.750
c) Deferred income:		
Deferred income (*)	10.529.769	13.923.374
Advances received	42.737	40.606
	10.572.506	13.963.980

NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**a) Short-term provisions****Short-term provision for employee benefits**

	31 March 2018	31 December 2017
Provision for unused vacation	3.267.713	2.051.334
	3.267.713	2.051.334

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

	2018	2017
1 January	2.051.334	1.959.616
Charge/(used) for the year, net	1.216.379	1.285.294
31 March	3.267.713	3.244.910

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

Other short-term provisions

	31 March 2018	31 December 2017
Warranty expense provisions	37.229.756	35.441.832
Provisions for legal cases (*)	7.704.448	7.704.448
	44.934.204	43.146.280

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

b) Long-term provisions

Long-term provision for employee benefits

	31 March 2018	31 December 2017
Provision for employee termination benefits	25.503.447	23.730.294
	25.503.447	23.730.294

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

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

The amount payable consists of one month's salary limited to a maximum of 5.001,76 TL for each year of service as of 31 March 2018 (31 December 2017 : 5.001,76 TL).

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

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

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

	31 March 2018	31 December 2017
Inflation rate (%)	6,5	6,5
Discount rate (%)	11,77	11,77
Turnover rate to estimate the probability of retirement (%)	93,68	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 maximum amount of TL 5,001.76 which is effective from 1 January 2018 has been taken into consideration in calculating the provision for employee termination benefits of the Company.

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

	2018	2017
1 January	23.730.294	21.728.439
Interest cost	1.232.427	1.086.449
Current year service cost	232.755	585.038
Paid in the year	(631.698)	(1.354.362)
Actuarial loss	939.669	204.682
31 March	25.503.447	22.250.246

Sensitivity analysis of key assumptions used for termination benefits calculations as at 31 March 2018 are as follows:

Sensitivity level	Net discount rate		Turnover related to the probability of retirement	
	%0,5 azalış (%4,45)	%0,5 artış (%5,45)	%0,5 azalış (%93,18)	%0,5 artış (%94,18)
Rate				
Change in employee benefits liability	862.925	(804.055)	(447.414)	492.886

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

**NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS
(Continued)****Other long-term provisions**

	31 March 2018	31 December 2017
Warranty provision	38.164.546	38.003.194
	38.164.546	38.003.194

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

	2018	2017
1 January	73.445.026	67.943.069
Used during the year	(13.254.637)	(12.812.589)
Charge for the year	15.203.913	14.452.365
31 March	75.394.302	69.582.845

c) Contingent liabilities

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

As of 31 March 2018 and 31 December 2017 the Company's guarantee/ pledge/ mortgage positions are as follows:

	31 March 2018	31 December 2017
A. The total amount of collaterals given on behalf of its own legal entity	31.905.611	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	-	-
	31.905.611	27.598.642

As at 31 March 2018, the Company has given on behalf of its own legal entity, the original collateral denominated in foreign currency amounts of EUR 2.782.450 (31 December 2017: EUR 2.782.450).

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

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

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

d) Contingent assets

	Foreign currency amount						TL equivalent	
	31 March 2018			31 December 2017			31 March 2018	31 December 2017
	EUR	USD	TL	EUR	USD	TL		
Letters of guarantees received	-	270.000	712.463.710	3.298.376	283.500	716.788.110	713.529.913	732.751.261
Direct debit	-	-	368.610.605	-	-	411.286.672	368.610.605	411.286.672
Mortgages	-	-	438.714	-	-	438.714	438.714	438.714
Cash TL guarantees	-	-	204.344	-	-	454.426	204.344	454.426
Guarantee bonds	8.000	-	2.500.000	-	-	1.500.000	2.538.938	1.500.000
							1.082.783.576	1.146.431.073

NOTE 12 - EMPLOYEE BENEFITS

Liabilities for employee benefits

	31 March 2018	31 December 2017
Accrued premiums and liabilities to personnel	6.307.492	18.526.872
Taxes payable and liabilities (*)	8.187.924	9.422.248
	14.495.416	27.949.120

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

NOTE 13 - SHAREHOLDERS' EQUITY

Paid-in Share Capital

The Company's registered share capital amounts to TL 250,000,000 (31 December 2017: TL 250,000,000).

The Company's share capital is composed of 5,336,900,000 units of shares each Kr 1 nominal value. The nominal value of share capital is TL 53,369,000.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

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

	31 March 2018		31 December 2017	
	Participation	Share Amount	Participation	Share Amount
	(%)	(TL)	(%)	(TL)
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 BİST	25,00	13.342.250	25,00	13.342.250
Other				
	100,00	53.369.000	100,00	53.369.000
Adjustments to share capital		39.014.356		39.014.356
		92.383.356		92.383.356

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

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

As of June 11, 2004, the Company has been quoted to BİST and its shares started to be traded in the stock exchange market from that date. As of 31 March 2018, 24.90% of the Company shares are quoted at BİST (31 December 2017: 24.90%).

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.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

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

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

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

Dividend distribution

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

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

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

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

The decision of dividend payment amounting to TL 300.000.000 was taken in the Company's 64rd General Assembly dated 14 March 2018. The payment has been made to the shareholders in cash as of 21 March 2018 (Note 20). Dividend payment distribution has been 5,62 Kr per share (2017: 4,68 Kr).

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 14 - SALES AND COST OF SALES

	1 January - 31 March 2018	1 January- 31 March 2017
Domestic sales	854.854.631	780.111.162
Export sales	315.780.654	285.535.453
Sales income (gross)	1.170.635.285	1.065.646.615
Less: Discounts and returns	(122.661.768)	(104.222.753)
Sales income (net)	1.047.973.517	961.423.862
Cost of sales	(876.065.230)	(793.140.160)
Gross profit	171.908.287	168.283.702

Sales quantities:

	1 January - 31 March 2018			1 January - 31 March 2017		
	Domestic sales	Export sales	Total sales	Domestic Sales	Export Sales	Total Sales
Tractor	7.820	2.828	10.648	8.740	3.011	11.751
Combine	68	-	68	58	-	58
	7.888	2.828	10.716	8.798	3.011	11.809

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 15 - OTHER OPERATING INCOME/ EXPENSES

	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange gain from trade receivables and payables	49.170.241	67.257.118
Financial income from credit sales and trade payables	22.604.620	15.356.662
Termination of provision for doubtful receivables (Note 5)	57.322	-
Other income	3.446.765	3.469.367
Other operating income	75.278.948	86.083.147
Foreign exchange losses on trade receivables and payables	(39.091.610)	(62.534.196)
Financial expense on credit purchases and trade payables	(24.100.889)	(13.423.466)
Provision for doubtful receivables (Note 5)	(385.109)	(2.215.078)
Other expenses	-	(9.657)
Other operating expenses	(63.577.608)	(78.182.397)

NOTE 16 - FINANCIAL INCOME

	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange gain	8.627.469	2.858.105
Interest income	8.778.564	3.734.008
Financial income	17.406.033	6.592.113

NOTE 17 - FINANCIAL EXPENSE

	1 January - 31 March 2018	1 January - 31 March 2017
Foreign exchange losses	(26.316.793)	(13.082.638)
Interest expenses of bank borrowings	(30.168.493)	(28.141.944)
Other	(109.641)	(841.684)
Financial expenses	(56.594.927)	(42.066.266)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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NOTE 18 - TAX ASSETS AND LIABILITIES

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

Within the scope of the "Law on Amendments to Certain Tax Laws and Some Other Laws" numbered 7061, which was published in the Official Gazette dated 5 December 2017, the corporate tax rate for the years 2018, 2019 and 2020 was increased from 20% to 22% (2017: 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

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

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

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

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2018 and 2017.

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

	31 March 2018	31 December 2017
Corporate tax expense	16.413.098	20.582.680
Less: Prepaid taxes	(21.429.254)	(36.978.726)
Tax asset - net	(5.016.156)	(16.396.046)

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NOTE 18 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of total tax expense for the years ended 31 March 2018 and 2017 are as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Corporate tax expense	(16.413.098)	(22.228.203)
Deferred tax income/ (expense)	17.628.297	9.770.034
Tax expense	1.215.199	(12.458.169)

Deferred taxes

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

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

	Temporary differences		Deferred tax assets/ (liabilities)	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Property, plant and equipment and intangible assets, restatement and useful life differences	165.109.788	164.262.704	(36.324.153)	(36.137.795)
Provision for employee termination benefits	(25.503.447)	(23.730.294)	5.610.758	5.220.665
Warranty provision	(75.394.302)	(73.445.026)	16.586.746	16.157.906
Provision for lawsuits	(7.704.448)	(7.704.448)	1.694.978	1.694.978
Unearned finance income/ expenses on trade receivables, payables and due from related parties	(4.234.248)	2.304.224	931.535	(506.929)
Provision for doubtful receivables	(385.109)	(1.804.826)	84.724	397.062
Provision for impairment of inventory	(33.875.335)	(33.875.335)	7.452.574	7.452.574
Sales premium accrued	(123.596.512)	(38.678.315)	27.191.233	8.509.229
Other expense provisions	-	(8.943.195)	-	1.967.503
Investment incentive tax assets	186.326.462	188.993.063	55.897.939	56.697.919
Deferred income	(3.391.474)	(2.513.027)	746.124	552.866
Other	(42.683.934)	(34.099.577)	9.390.466	7.501.906
Deferred tax assets			89.262.924	69.507.884

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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
Reflected to profit for the year	17.628.297	9.770.034
Reflected to other comprehensive income/ (expense)	2.126.743	500.512
31 March	89.262.924	86.323.351

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

	1 January - 31 March 2018	1 January - 31 March 2017
Profit before tax	54.985.865	67.836.073
Tax calculated at enacted tax rate	12.096.890	13.567.214
Investment incentives	(11.517.594)	(1.085.256)
Research and development incentives	(2.058.405)	(1.645.800)
Disallowable expenses	15.239	15.975
Other	248.671	1.606.036
Total tax charge	(1.215.199)	12.458.169

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EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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NOTE 19 - EARNINGS PER SHARE

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

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

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

	1 January- 31 March 2018	1 January- 31 March 2017
Net profit for the year	56.201.064	55.377.904
Weighted average number of the ordinary shares	5.336.900.000	5.336.900.000
Earnings per share (Kr 1 nominal value per share as TL)	0,0105	0,0104

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

NOTE 20 - RELATED PARTY EXPLANATIONS

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

Summary of the intercompany balances as of 31 March 2018 and 31 December 2017 and significant intercompany transactions were as follows:

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

	31 March 2018	31 December 2017
a) Bank deposits and borrowings		
Deposits with related parties:		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	1.000.000	20.223.659
	1.000.000	20.223.659

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)**b) Due from related parties**

	31 March 2018	31 December 2017
Due from group companies		
CNHI International SA ("CNHI International") (*)	126.865.473	133.048.916
CNHI Italy SPA ("CNHI Italy")	7.014.452	3.962.306
CNH Industrial Brasil Ltda	2.679.860	1.663.100
Yapı Kredi Finansal Kiralama A.O.	1.452.566	595.775
Iveco Argentina, S.A	-	12.382.869
Other	60.730	2.302.031
	138.073.081	153.954.997

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

c) Due to related parties

	31 March 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")	19.382.492	13.648.183
Zer Merkezi Hizmetler ve Ticaret A.Ş. ("Zer")	13.297.488	23.065.152
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ("Koç Sistem")	1.221.735	11.014.177
Ram Sigorta Aracılık Hizmetleri A.Ş.	850.017	281.257
Setur Servis Turistik A.Ş. ("Setur")	788.857	1.172.255
Otokoç Otomotiv San. ve Tic. A.Ş. ("Otokoç")	676.595	572.254
Koçtaş Yapı Marketleri A.Ş. ("Koçtaş")	674.223	868.742
Akpa Dayanımlı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. ("Akpa")	639.681	252.318
CNH Industrial India Private ("CNHI India")	-	2.906.606
Eltek Elektrik İth. İhracat ve Toptan Tic. A.Ş. ("Eltek")	-	1.311.649
Other	121.027	629.084
Due to group companies	37.652.115	55.721.677
Less: Unearned financial expenses	(597.750)	(680.166)
	37.425.082	59.053.805

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)

- ii) **Significant sales and purchases transactions with related parties for the periods between 1 January - 31 March 2018 and 2017:**

a) **Product sales to related parties**

	1 January - 31 March 2018	1 January - 31 March 2017
Product sales to group companies		
CNHI International (*)	316.591.062	271.979.621
Iveco Argentina	5.544.970	3.797.924
CNHI Italy	3.342.837	2.449.604
Yapı Kredi Finansal Kiralama A.O.	2.922.826	2.952.615
CNHI Brasil Ltda	2.390.932	1.846.684
Other	944.373	5.641.620
	331.737.000	288.488.068

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

b) **Service sales to related companies**

	1 January - 31 March 2018	1 January - 31 March 2017
Service sales to group companies		
CNHI International (1)	19.783	230.858
CNHI Italy (2)	1.768.814	179.240
	1.788.597	410.098

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)**c) Product purchases from related parties**

	1 January - 31 March 2018	1 January - 31 March 2017
Product purchases from group companies		
CNHI International (1)	281.582.877	205.986.272
Opet Fuchs (2)	17.839.548	15.569.955
CNHI Industrial (India) Private Ltd. (3)	2.196.364	10.837.537
Zer	2.019.002	1.247.781
CNH INDUSTRIAL ITALIA SpA	1.527.764	397.626
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	1.392.267	1.074.176
Koç Sistem	1.029.206	37.363
Opet (2)	766.626	602.157
Other	721.490	213.527
	309.075.144	235.966.394

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

d) Service purchases from related parties

	1 January - 31 March 2018	1 January - 31 March 2017
Service purchases from shareholders		
Koç Holding (1)	942.500	1.203.569
	942.500	1.203.569
Service purchase from group companies		
Zer (2)	23.650.134	22.118.385
Setur (3)	2.274.217	1.236.476
CNHI International (4)	2.131.376	-
Ram Sigorta (5)	2.033.629	1.750.265
Otokoç (6)	1.153.674	912.046
Koç Sistem (7)	1.107.788	1.228.993
Eltek (8)	-	3.156.770
Other	1.334.787	493.342
	33.685.605	30.896.277
	34.628.105	32.099.846

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

(Amounts expressed in Turkish Lira (TL), 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 Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (4) Services purchased from CNHI International is related with engineering services for Tier 4, strategy development, consulting and brokerage.
- (5) Insurance service purchased from Ram Sigorta Aracılık Hizmetleri A.Ş. is related interim period include premium amounts paid and accrued ended on 31 December 2017.
- (6) Service purchased from Otokoç is related with motor vehicles leasing services.
- (7) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licences.
- (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 – 31 March 2018 and 2017:

Financial income and expense from group companies

	1 January - 31 March 2018	1 January - 31 March 2017
Interest income		
Yapı Kredi	7.314	470.216
	1 January - 31 March 2018	1 January - 31 March 2017
Interest expense		
Yapı Kredi	-	(1.102.111)

iv) Dividends paid to related parties:

	1 January - 31 March 2018	1 January - 31 March 2017
Koç Holding	112.500.000	93.750.000
CNHI Österreich	112.500.000	93.750.000
	225.000.000	187.500.000

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

NOTE 20 - RELATED PARTY EXPLANATIONS (Continued)

v) Other transactions with related parties for the periods between 1 January – 31 March 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 31 March 2018, the Company paid 3.558.863 TL benefits to the key management personnel (31 Mart 2017: 1.884.605 TL). 1.052.845 TL is related to termination benefits, the rest of amount is composed of short term benefits.

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

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

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

a) Market Risk

Foreign currency risk

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

Cash flow hedge accounting

There is an effective foreign currency cash flow hedge relationship between EUR long term financial borrowings and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 July 2016. The related long-term borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/ (gains) on cash flow hedges". The amount of the related borrowings as of 31 March 2018 is EUR 46.250.000 (31 Aralık 2017: EUR 49.166.667). The amount of foreign exchange rate losses recognized in equity is TL 30.937.149 (31 Aralık 2017: 22.663.938 TL).

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

The amounts of foreign currency assets, liabilities and TL equivalents of the Company as of 31 March 2018 and 31 December 2017 are as follows:

	31 March 2018					
	TL Equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	161.704.863	780.634	32.589.366	-	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	66.762.853	1.042.900	12.853.194	12.293	3.856	4.727
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	228.467.716	1.823.534	45.442.559	12.293	3.856	4.727
5. Trade receivables	3.920.807	-	805.541	-	-	-
6. Other	-	-	-	-	-	-
7. Non-current assets (5+6)	3.920.807	-	805.541	-	-	-
8. Total assets (4+7)	232.388.523	1.823.534	46.248.100	12.293	3.856	4.727
9. Trade payables	156.928.147	3.703.250	22.734.094	36.785	-	847.673.633
10. Financial liabilities (Note 4)	114.846.127	-	23.595.449	-	-	-
11. Other monetary liabilities	14.190.855	-	2.915.550	-	-	-
12. Current liabilities (9+10+11)	285.965.129	3.703.250	49.245.092	36.785	-	847.673.633
13. Financial liabilities (Note 4)	274.596.835	-	56.416.665	-	-	-
14. Non-current liabilities (13)	274.596.835	-	56.416.665	-	-	-
15. Total liabilities (12+14)	560.561.964	3.703.250	105.661.757	36.785	-	847.673.633
16. Net foreign currency asset/ (liability) position (8-15)	(328.173.441)	(1.879.716)	(59.413.657)	(24.492)	3.856	(847.668.906)
17. Net monetary foreign currency asset/ (liability) position (8-15)	(328.173.441)	(1.879.716)	(59.413.657)	(24.492)	3.856	(847.668.906)

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TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

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

	31 Aralık 2017					
	TL Equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	169.975.100	76.979	37.578.284	-	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	117.483.120	39.063	25.954.323	11.937	6.452	1.388.347
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	287.458.220	116.042	63.532.607	11.937	6.452	1.388.347
5. Trade receivables	1.583.590	-	350.701	-	-	-
6. Other	3.844	1.019	-	-	-	-
7. Non-current assets (5+6)	1.587.434	1.019	350.701	-	-	-
8. Total assets (4+7)	289.045.654	117.061	63.883.308	11.937	6.452	1.388.347
9. Trade payables	118.999.556	3.666.533	21.703.846	73.070	-	176.269.229
10. Financial liabilities (Note 4)	106.061.352	-	23.190.476	-	-	-
11. Other monetary liabilities	17.515.537	-	3.878.981	-	-	-
12. Current liabilities (9+10+11)	242.576.445	3.666.533	48.773.303	73.070	-	176.269.229
13. Financial liabilities (Note 4)	267.919.664	-	59.333.333	-	-	-
14. Non-current liabilities (13)	267.919.664	-	59.333.333	-	-	-
15. Total liabilities (12+14)	510.496.109	3.666.533	108.106.636	73.070	-	176.269.229
16. Net foreign currency asset/ (liability) position (8-15)	(221.450.455)	(3.549.472)	(44.223.328)	(61.133)	6.452	(174.880.882)
17. Net monetary foreign currency asset/ (liability) position (8-15)	(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 CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

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 years ended 31 March 2018 and 2017 are as follows:

	1 January - 31 March 2018	1 January - 31 March 2017
Total export amount	315.780.654	285.535.453
Total import amount	390.720.382	254.553.769

The Company is exposed to foreign exchange risk primarily with respect to EUR and USD. The effect of the Company's EUR and USD foreign currency position as of 31 March 2018 and 31 December 2017 under the assumption of the appreciation and depreciation of TL against other currencies by 10% with all other variables held constant, is as follows:

	31 March 2018			
	Profit/ Loss			Shareholders' equity
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TL appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(742.281)	742.281	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(742.281)	742.281	-	-
Had TL appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(28.721.297)	28.721.297	4.819.979	(4.819.979)
Hedged amount against EUR risk (-)	16.486.289	(16.486.289)	18.009.010	(18.009.010)
Net Effect of EUR	(12.235.008)	12.235.008	22.828.989	(22.828.989)
Had TL appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(3.156.653)	3.156.653	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(3.156.653)	3.156.653	-	-
Total net effect	(16.133.943)	16.133.943	22.828.989	(22.828.989)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

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

	31 December 2017			
	Profit/ Loss		Shareholders' equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Had TL appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	(1.338.825)	1.338.825	-	-
Hedged amount against USD risk (-)	-	-	-	-
Net effect of USD	(1.338.825)	1.338.825	-	-
Had TL appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	(19.969.043)	19.969.043	4.038.864	(4.038.864)
Hedged amount against EUR risk (-)	17.152.628	(17.152.628)	(17.760.967)	17.760.967
Net Effect of EUR	(2.816.415)	2.816.415	(13.722.103)	13.722.103
Had TL appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	(613.040)	613.040	-	-
Hedged amount against other (-)	-	-	-	-
Net effect of other	(613.040)	613.040	-	-
Total net effect	(4.768.280)	4.768.280	(13.722.103)	13.722.103

Price risk

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

Interest rate risk

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

	31 March 2018	31 December 2017
Financial instruments with fixed interest rate		
Time deposits (Note 3)	74.864.623	424.900.094
Financial liabilities (Note 4)	1.052.458.836	991.592.011
	31 March 2018	31 December 2017
Financial instruments with floating interest rate		
Financial liabilities (Note 4)	191.770.136	135.314.180

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For financial instruments with variable interest rates, if the interest on 31 March 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 TL 337.712 TL (31 Mart 2017: 315.815 TL).

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

b) Credit risk

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

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

The Company's maximum exposure to credit risk as of 31 March 2018 and 31 December 2017 is as follows:

	31 March 2018					
	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	138.073.081	623.016.026	-	373.818	91.967.063	-
Net book value of due dated but not impaired assets	-	71.319.214	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	49.717.529	-	-	-	-
- Provision (-)	-	(49.717.529)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Amount exposed to maximum credit risk (*)	138.073.081	694.335.240	-	373.818	91.967.063	-

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

As of 31 March 2018, the guarantee amount of the maximum exposure to credit risk is TL 747.837.081. Besides, all assets which are due but not impaired are guaranteed.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.**EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018**

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

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

31 December 2017						
	Related party	Trade Receivables Third party	Related party	Other Receivables Third party	Bank deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	153.954.997	641.344.718	-	381.220	441.722.150	-
Net book value of due dated but not impaired assets	-	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	153.954.997	641.344.718	-	381.220	441.722.150	-
Amount exposed to maximum credit risk (*)	153.954.997	660.889.405	-	381.220	441.722.150	-

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

As of 31 December 2017, the guarantee amount of the maximum exposure to credit risk is TL 614.574.000. Besides, all assets which are due but not impaired are guaranteed.

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EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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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.

	31 March 2018	31 December 2017
Cash and cash equivalents (Note 3)	91.967.063	441.722.150
Less: Financial liabilities (Note 4)	(1.244.228.972)	(1.126.906.191)
Net financial debt	(1.152.261.909)	(685.184.041)
Total shareholders' equity	506.430.286	757.769.491
Net financial debt/ shareholders' equity ratio	% (228)	% (90)

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS BETWEEN JANUARY 1 - MARCH 31, 2018

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

Fair value of financial assets

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

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

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

Financial assets

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

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

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

Financial liabilities

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

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

NOTE 22 - SUBSEQUENT EVENT

None.

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