TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türk Traktör ve Ziraat Makineleri A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Türk Traktör ve Ziraat Makineleri A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements and a summary of significant accounting policies and financial statement notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

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3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	***How our audit addressed the key audit matter***
Warranty expense provisions The Company has warranty expense provision amounting to TRY49,833,149 as of 31 December 2018 and the explanations related to the accounting policies and warranty expense provision are included in Notes 2.4, 2.5 and 11. The Company calculates warranty expense provisions by estimating the repair and maintenance costs, including labor and material costs to be incurred, for goods sold with a warranty commitment, and the probability of return of goods sold in following years. The probability the goods will be returned for repair and maintenance as well as the repair and maintenance levels and costs used in the warranty provision calculation are estimated based on the Company's actual statistics from previous years. "Recognition of the warranty expense provisions" has been determined as a key audit matter since the accuracy and completeness of these warranty provisions are mainly based on management's judgement and estimations as summarized above and total amount of the provisions are material for the financial statements as of 31 December 2018.	In brief, the audit procedures we performed for the warranty expense provisions include the following; understanding the process of calculation and accounting for the provisions, test of details performed for the accuracy and completeness of the data used in the calculations and procedures performed for the assessment of the accuracy of management's estimations and assumptions included in the provision calculations. Test of details were performed to determine the accuracy and completeness of the number of goods sold, whose warranty period was in effect, the accuracy of the periods in which warranty coverage of these goods starts and ends, and the accuracy of the scope of warranty committed, all of which are used in the warranty provision calculation and the data was compared to sales contracts and no material exceptions were noted. In order to test the accuracy of estimations used in provision calculations, test of details were performed for the realized return rate of goods and costs incurred in previous years, which are used as a base of estimations of Company management regarding the probability and scope of maintenance and repair of the goods under warranty and costs to be incurred for these processes and no material differences compared to the estimates and assumptions used were noted. Total costs incurred for the transactions performed within the scope of warranty in current year were compared to the warranty expense provisions accounted for in the financial statements of previous years, and no material exceptions related to cost estimations were noted. In addition, we concluded that the disclosures for the warranty provisions are in compliance with TAS 37 -"Provisions, Contingent Liabilities and Contingent Assets".

Key audit matters	*How our audit addressed the key audit matter*
Cash flow hedge transactions The Company is exposed to foreign currency risk due to its foreign currency borrowings. As explained in Notes 2.4 and 2.5, the Company uses its borrowings amounting to EUR39,333,333 as a hedging instrument against the Euro spot exchange rate risk that 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 Company accounts for foreign exchange gains and losses of related long-term borrowings, qualified as effective, under equity as "losses/(gains) on cash flow hedges". As of 31 December 2018, the amount of foreign exchange rate losses recognized under equity as "losses/ (gains) on cash flow hedges" is TRY53,579,549, after tax. We focused on this matter in our audit for the following reasons: - Due to the recent macroeconomic conditions, fluctuations, especially in foreign exchange rates may significantly affect foreign exchange rate risk and cash flow hedge transactions in the financial statements of the Company. - The calculations used for the Company's effectiveness tests of cash flow hedge transactions include key management judgements and estimations, such as product prices and export sales quantity. - "Cash flow hedge transactions" was considered as key audit matter, since related management estimations, by their nature, include inherent uncertainties and the assessment of effectiveness tests requires specialist involvement.	The audit procedures performed for cash flow hedge transactions include; understanding the accounting process of the transactions, confirmation of borrowings with financial institutions, assessment of possibility of export sales income to meet the foreign currency borrowings, test of details performed for the completeness and accuracy of effectiveness tests prepared by management and the assessments of management assumptions and estimations used in calculations with the support of specialists. The possibility of the Company's export sales income to cover the borrowings which form the basis for the cash flow hedge has been reviewed by considering the performance in previous years and following years and it was concluded that the export sales income covers the related borrowing payments when sensitivity analysis are also considered. The compliance of the hedge accounting documentation prepared by the Company, the mathematical accuracy of the effectiveness tests and the reasonableness of the key assumptions used in the effectiveness tests were checked with the support of our experts and no inconsistencies were detected. The product prices and export sale quantities which form the basis of the prospective budget estimates used in the effectiveness test were compared with previous period performances, and the key management assumptions were compared with independent data resources and no significant inconsistency was detected. The borrowings were reconciled with the confirmation letters obtained from financial institutions, interest and foreign exchange accruals of the borrowings were recalculated in accordance with the relevant borrowing agreements and the mathematical accuracy of the accruals was tested, and no significant inconsistency was detected. In addition, we concluded that the disclosures for the cash flow hedge transactions are in compliance with related TAS.

Key audit matters	*How our audit addressed the key audit matter*
Recoverability of deferred tax assets As of 31 December 2018, the financial statements of the Company include net deferred tax asset amounting to TRY68,763,051. The Company's accounting policies and other detailed information on deferred tax assets and liabilities are disclosed in Note 2.4, 2.5 and Note 20 to the accompanying financial statements. The recoverability of deferred tax assets are assessed through reviewing business model which includes future taxable profits of which are based on critical management estimations. We have considered the recoverability of deferred tax assets to be a key audit matter since management estimations, by their nature, include inherent uncertainties and the assessment of investment incentives' utilization requires specialist involvement and total amount of the deferred tax assets are material for the financial statements as of 31 December 2018.	Audit procedures were designed to reflect accurate and complete deferred tax assets in the financial statements according to related TAS, to assess the recoverability of deferred tax assets and to confirm mathematical accuracy of deferred tax assets. In this framework, the following audit procedures were performed: - We held a number of meetings with the Company management and received explanations in order to understand the content of deferred tax assets, related temporary differences and the details of investment made within the scope of incentives which form the basis to the deferred tax assets and we evaluated the corporate tax calculation and investment incentive practices with the support of our tax specialists. - We reviewed the business model, of which assesses whether these investment incentives can be utilized in the future or not, and the critical management estimations through following procedures: o We checked the mathematical accuracy of the related business model. o We compared the sales quantities and price estimations used in the model with prior periods' performances and independent data sources and no material inconsistencies were detected. o We compared the future foreign exchange rate estimations used in the business model with independent data sources and did not detect any material differences. o As a result of sensitivity tests conducted, investment incentives and deferred tax assets on these investments were determined as recoverable in the future. We checked deferred tax assets and liabilities disclosures' compliance with TAS 12 "Income Taxes" standard.

4. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

5. Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 11 February 2019.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

ORIGINALLY ISSUED IN TURKISH

Murat Sancar, SMMM
Partner

İstanbul, 11 February 2019

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018
(Amounts expressed in Turkish Lira ("TRY") unless otherwise indicated.)

CONTENTS **PAGE**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

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

	Notes	***Audited*** **31 December 2018**	*Audited* 31 December 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	**412,668,530**	441,722,150
Trade receivables:			
- Other parties	5	**298,477,736**	658,880,236
- Related parties	22	**150,186,703**	153,954,997
Inventories	6	**1,084,438,951**	566,306,204
Prepaid expenses	10	**1,083,524**	1,361,081
Assets related to current period taxes	20	**14,440,995**	16,396,046
Other current assets	9	**201,223,213**	157,747,171
TOTAL CURRENT ASSETS		**2,162,519,652**	1,996,367,885
NON-CURRENT ASSETS			
Trade receivables:			
- Other parties	5	**59,597**	2,009,169
Other receivables:			
- Other parties		**382,572**	381,220
Property, plant and equipment	7	**590,236,861**	497,227,094
Intangible assets	8	**268,746,661**	215,899,286
Prepaid expenses	10	**2,545,194**	7,308,750
Deferred tax assets	20	**68,763,051**	69,507,884
TOTAL NON-CURRENT ASSETS		**930,733,936**	792,333,403
TOTAL ASSETS		**3,093,253,588**	2,788,701,288

The financial statements prepared as at and for the period ended 31 December 2018 have been approved by the Board of Directors on 11 February 2019. These financial statements will be finalised following their approval in the General Assembly.

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

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

	Notes	***Audited*** **31 December 2018**	*Audited* 31 December 2017
LIABILITIES			
CURRENT LIABILITIES			
Short-term financial liabilities	4	**85,033,786**	-
Short-term portion of long-term financial liabilities	4	**384,502,921**	270,982,485
Trade payables:			
- Other parties	5	**474,202,708**	666,426,948
- Related parties	22	**38,378,018**	59,053,805
Employee benefit obligations	12	**21,249,691**	27,949,120
Other payables			
- Other parties		**13,065,251**	26,108,488
Government incentives and aids	9	**4,083,218**	3,592,163
Deferred income	10	**24,956,098**	13,963,980
Short-term provision :			
- Short-term provision for employee benefits	11	**1,807,491**	2,051,334
- Other short-term provisions	11	**35,015,678**	43,146,280
TOTAL CURRENT LIABILITIES		**1,082,294,860**	1,113,274,603
NON-CURRENT LIABILITIES			
Long-term financial liabilities	4	**1,303,202,597**	855,923,706
Long-term provision			
- Long-term provision for employee benefits	11	**34,199,225**	23,730,294
- Other provisions	11	**21,699,184**	38,003,194
TOTAL NON-CURRENT LIABILITIES		**1,359,101,006**	917,657,194
SHAREHOLDERS' EQUITY		**651,857,722**	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		**(36,677,082)**	(21,574,275)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
- Losses on cash flow hedging		**(53,579,549)**	(22,663,938)
Retained earnings		**279,572,898**	238,597,910
Net profit for the year		**240,106,649**	320,756,330
TOTAL LIABILITIES		**3,093,253,588**	2,788,701,288

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	*Audited* 1 January - 31 December 2018	*Audited* 1 January - 31 December 2017
Revenue	14	**3,908,943,513**	4,215,056,106
Cost of sales (-)	14	**(3,192,105,745)**	(3,484,348,070)
GROSS PROFIT		**716,837,768**	730,708,036
Marketing, selling and distribution expenses (-)	15	**(181,028,075)**	(204,322,740)
General administrative expenses (-)	15	**(106,627,486)**	(87,997,299)
Research and development expenses (-)	15	**(18,263,385)**	(14,959,390)
Other income from operating activities	17	**528,414,371**	220,520,188
Other expenses from operating activities (-)	17	**(504,108,447)**	(167,183,162)
OPERATING PROFIT		**435,224,746**	476,765,633
Income from investment activities		**7,434,129**	2,779,565
Expenses from investment activities (-)		**-**	(42,150)
OPERATING INCOME BEFORE FINANCIAL INCOME		**442,658,875**	479,503,048
Financial income	18	**86,516,387**	65,112,726
Financial expenses (-)	19	**(272,791,678)**	(193,519,930)
PROFIT BEFORE TAXATION ON INCOME		**256,383,584**	351,095,844
Taxes on income (-)	20	**(2,552,548)**	(20,582,680)
Deferred tax expense	20	**(13,724,387)**	(9,756,834)
NET PROFIT FOR THE YEAR		**240,106,649**	320,756,330
Earnings per share (TRY)	21	**0.0450**	0.0601
Other comprehensive income/(expense)			
Other comprehensive expense not to be reclassified to profit or loss:			
Actuarial loss arising from defined benefits plans	11	**(19,362,573)**	(3,906,885)
Other comprehensive expense not to be reclassified to profit or loss, tax effect			
Actuarial gain/ loss arising from defined benefit plans, tax effect	20	**4,259,766**	781,377
Other comprehensive expense to be reclassified to profit or loss:			
Losses on cash flow hedging		**(39,635,399)**	(12,152,680)
Other comprehensive expense to be reclassified to profit or loss, tax effect			
Losses on cash flow hedging, tax effect	20	**8,719,788**	2,430,536
Other comprehensive expense after tax		**(46,018,418)**	(12,847,652)
TOTAL COMPREHENSIVE INCOME		**194,088,231**	307,908,678

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

				Other accumula ted income or expense items not be reclassified profit or loss	Other accumulated comprehensive income or expense items to be reclassified profit or loss				
	Paid in Share capital	**Adjustment to share capital**	**Merger reserve**	**Actuarial loss arising from defined benefit plans**	**Losses on cash flow hedging**	**Restricted profit reserves**	**Retained earnings**	**Net profit for the year**	**Total shareholders' equity**
1 January 2018	**53,369,000**	**39,014,356**	**(5,569,000)**	**(21,574,275)**	**(22,663,938)**	**155,839,108**	**238,597,910**	**320,756,330**	**757,769,491**
Transfers	-	-	-	-	-	**25,192,081**	**295,564,249**	**(320,756,330)**	-
Dividends paid	-	-	-	-	-	**(45,410,739)**	**(254,589,261)**	-	**(300,000,000)**
Comprehensive income									
Net profit for the year	-	-	-	-	-	-	-	**240,106,649**	**240,106,649**
Other comprehensive income									
Actuarial loss arising from defined benefits plans	-	-	-	**(15,102,807)**	-	-	-	-	**(15,102,807)**
Losses on cash flow hedging	-	-	-	-	**(30,915,611)**	-	-	-	**(30,915,611)**
Total other comprehensive (expense)	-	-	-	**(15,102,807)**	**(30,915,611)**	-	-	-	**(46,018,418)**
Total comprehensive income	-	-	-	**(15,102,807)**	**(30,915,611)**	-	-	**240,106,649**	**194,088,231**
31 December 2018	**53,369,000**	**39,014,356**	**(5,569,000)**	**(36,677,082)**	**(53,579,549)**	**135,620,450**	**279,572,898**	**240,106,649**	**651,857,722**

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

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

				Other accumulated comprehensive income or expense items not to be reclassified profit or loss	Other accumulated comprehensive income or expense items to be reclassified profit or loss				
	Paid in Share capital	**Adjustment to share capital**	**Merger reserve**	**Actuarial loss arising from defined benefit plans**	**Losses on cash flow hedging**	**Restricted profit reserves**	**Retained earnings**	**Net profit for the year**	**Total shareholders' equity**
1 January 2017	**53,369,000**	**39,014,356**	**(5,569,000)**	**(18,448,767)**	**(12,941,794)**	**199,995,507**	**74,645,222**	**369,796,289**	**699,860,813**
Transfers	-	-	-	-	-	**(44,156,399)**	**413,952,688**	**(369,796,289)**	-
Dividends paid	-	-	-	-	-	-	**(250,000,000)**	-	**(250,000,000)**
Comprehensive income									
Net profit for the year	-	-	-	-	-	-	-	**320,756,330**	**320,756,330**
Other comprehensive income					-				
Actuarial loss arising defined benefits plans	-	-	-	**(3,125,508)**	-	-	-	-	**(3,125,508)**
Losses on cash flow hedging	-	-	-	-	**(9,722,144)**	-	-	-	**(9,722,144)**
Total other comprehensive (expense)	-	-	-	**(3,125,508)**	**(9,722,144)**	-	-	-	**(12,847,652)**
Total comprehensive income	-	-	-	**(3,125,508)**	**(9,722,144)**	-	-	**320,756,330**	**307,908,678**
31 December 2017	**53,369,000**	**39,014,356**	**(5,569,000)**	**(21,574,725)**	**(22,663,938)**	**155,839,108**	**238,597,910**	**320,756,330**	**757,769,491**

TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	*Audited* 1 January- 31 Decemer 2018	*Audited* 1 January- 31 December 2017
A. CASH FLOWS FROM OPERATING ACTVITIES		**104,847,721**	**561,536,257**
Net profit for the year		**240,106,649**	**320,756,330**
Adjustments to reconcile profit for the period:		**292,627,328**	199,997,911
Amortization and depreciation	7, 8	**87,205,618**	68,769,493
Provision for impairment on inventories	6	**(4,061,025)**	(7,976,314)
Provision for employee benefits	11	**6,379,456**	3,791,340
Provision for doubtful receivables	5	**2,157,532**	(2,852,939)
Other provisions	11	**(24,434,612)**	3,569,015
Government incentives and aids	9	**(513,124)**	(560,602)
Interest income and expense	18, 19	**138,863,881**	94,714,013
Tax expense	20	**16,276,935**	30,339,514
(Gain)/loss from sales of property plant and equipment		**(7,434,128)**	(2,737,414)
Other adjustments to reconcile profit		**78,186,795**	12,941,805
Changes in working capital		**(411,771,817)**	71,379,266
Trade receivables		**360,194,540**	(77,135,136)
Due from related parties		**(141,549)**	(71,616,422)
Inventories		**(514,071,722)**	(1,877,853)
Other current assets		**(43,476,042)**	(23,494,993)
Other receivables		**(1,352)**	(1,215)
Prepaid expenses		**5,041,113**	(4,929,142)
Due to related parties		**(18,342,017)**	6,026,870
Trade payables		**(192,224,240)**	232,095,443
Deferred income		**10,992,118**	(4,545,293)
Other liabilities		**(13,043,237)**	5,067,607
Debt for employee termination benefits		**(6,699,429)**	11,789,400
Net cash provided by operating activities		**120,962,160**	**592,133,507**
Employee termination benefits paid	11	**(15,516,941)**	(5,604,652)
Taxes paid	20	**(597,498)**	(24,992,598)
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(224,624,452)**	(141,048,642)
Proceeds from sales of property, plant and equipment and intangible assets		**10,050,629**	3,313,898
Payments for purchases of property, plant and equipment and intangible assets		**(235,679,260)**	(145,484,009)
Proceeds from government grants	9	**1,004,179**	1,121,469
C. CASH FLOWS FROM FINANCING ACTIVITIES		**85,507,825**	**(212,012,545)**
Proceeds from bank borrowings		**1,366,293,000**	731,586,226
Repayment of bank borrowings		**(844,353,308)**	(610,511,190)
Dividends paid	13	**(300,000,000)**	(250,000,000)
Interest paid		**(185,789,293)**	(119,784,011)
Interest received		**49,357,426**	36,696,430
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		**(34,268,906)**	**208,475,070**
D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		**1,364,075**	**4,407,044**
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**(32,904,831)**	**212,882,114**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3	**441,212,656**	**228,330,542**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	3	**408,307,825**	**441,212,656**

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Türk Traktör ve Ziraat Makineleri A.Ş. (the "Company") was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. ("Koç Holding"). As of 31 December 2018, major shareholders of the Company are Koç Holding and CNHI Osterreich GmbH ("CNHI Osterreich") (Note 13). The number of personnel working within the Company as of 31 December 2018 is 2,426 (Permanent: 2,425, temporary: 1) (2017: 3,033 (Permanent 2,802, temporary 231)). The average number of personnel working within the Company for the year ended 31 December 2018 is 2,790 (2017: 3,019).

The Company conducts marketing and selling activities in the domestic market, through its 129 tractor sales dealers, 148 spare part dealers and 43 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: 52-52 A
06560 Yenimahalle Ankara

As of 31 December 2018, 25% of the shares of the Company are quated on Borsa Istanbul ("BIST") (31 December 2017: 25%) (Note 13).

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

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

Principles governing the preparation of financial statements

The financial statements of the Company have been prepared in accordance with the Turkish Financial Reporting Standards, ("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 13 June 2013 which is published on Official Gazette numbered 28676. TFRS are updated in harmony with the changes and updates in International Financial and Accounting Standards ("IFRS") by the communiqués announced by the POA.

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

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

2.1 Basis of presentation (Continued)

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

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

Functional and presentation currency

Functional and presentation currency of the Company is TRY.

2.2 Changes in accounting estimates

If changes in accounting estimates are related to only one period, they are recognised in the period when changes are applied; ifchanges in estimates are related to future periods, they are recognized both in the period where thechange is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these financial statements for the year ended 31 December 2018 are consistent with those used in the preparation of financial statements for the year ended 31 December 2017.

2.3 Changes in accounting policies

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

The accounting policies adopted in preparation of the financial statements as at 31 December 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 1 January 2018. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

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

2.3 Changes in accounting policies (Continued)

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

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

Classification and Measurement

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

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

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

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

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

Impairment

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

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

2.3 Changes in accounting policies (Continued)

Trade Receivables

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

The Company uses a provision matrix in the calculation of expected credit losses. Provision rate is calculated based on the overdue days of trade receivables and the rates are revised each reporting period if necessary. The change in expected credit losses is recognised in “other income/expense from operating activities” in statement of profit or loss and other comprehensive income.

The amendments did not have a significant impact over financial position or performance of the Company as of 31 December 2018.

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

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

Revenue recognition

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

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

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

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

2.3 Changes in accounting policies (Continued)

Revenue recognition (Continued)

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

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

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

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

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

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

The amendments did not have a significant impact over financial position or performance of the Company as of 31 December 2018.

- **Amendment to TAS 40, “Investment property”;** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. The amendments do not have an impact on the financial position or performance of the Company.

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

2.3 Changes in accounting policies (Continued)

- **Amendments to TFRS 2, "Share based payments"** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The amendments do not have an impact on the financial position or performance of the Company.

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

  - TFRS 1, "First time adoption of TFRS", regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
  - TAS 28, "Investments in associates and joint venture" regarding measuring an associate or joint venture at fair value. The amendments do not have an impact on the financial position or performance of the Company.

- **TFRIC 22, "Foreign currency transactions and advance consideration";** effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. The amendments do not have an impact on the financial position or performance of the Company.

b. The new standards, amendments and interpretations which are effective as at 31 December 2018:

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements as at 31 December 2018 are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

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

2.3 Changes in accounting policies (Continued)

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

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

- **TFRIC 23, "Uncertainty over income tax treatments"**; Effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

2.3 Changes in accounting policies (Continued)

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

Annual improvements 2015 - 2017; Effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- TFRS 3, "Business combinations"; a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- TFRS 11, "Joint arrangements"; a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- TAS 12, "Income taxes"; a company accounts for all income tax consequences of dividend payments in the same way.
- TAS 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.

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

- **TAS 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 reminder of the period after a plan amendment, curtailment or settlement and;

  - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

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

Amendments to TAS 1 and TAS 8 on the definition of material; Effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, "Presentation of financial statements" and TAS 8, "Accounting policies, changes in accounting estimates and errors", and consequential amendments to other TFRSs:

i) use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting,
ii) clarify the explanation of the definition of material and
iii) incorporate some of the guidance in TAS 1 about immaterial information.

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

2.3 Changes in accounting policies (Continued)

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

2.4 Summary of significant accounting policies

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less (Note 3). Deposits with Turkish lira is recognised with cost, foreign currency deposits are translated into Turkish lira by using of the buying exchange rate of the Central Bank of the Republic of Turkey. Time deposits include interest accrued as of balance sheet date. Company measures expected credit loss from these cash and cash equivalents by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Company and its expectations for the future indications.

Revenue recognition

The Company recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.(Note 14)

The Company recognizes revenue based on the following main principles:

(a) Identification of customer contracts
(b) Identification of performance obligations
(c) Determination of transaction price in the contract
(d) Allocation of price to performance obligations
(e) Recognition of revenue when the performance obligations are fulfilled

The Company recognized revenue from its customers only when all of the following criteria are met:

(a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
(b) The Company can identify each party's rights regarding the goods or services to be transferred,
(c) The Company can identify the payment terms for the goods or services to be transferred,
(d) The contract has commercial substance,
(e) It is probable that Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

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

2.4 Summary of significant accounting policies

Revenue from sale of goods

Company recognizes revenue based on the production and sale of tractors, construction equipment, agricultural equipment and spare parts. Revenue is recognized when the control of the goods is transferred to the customer and dealers. In addition, Company provides 2 years legal warranty commitment to its customers. These legal warranty commitments are not a separate price apart from the good and are not separately sold. Therefore, they are not treated as a separate good or service apart from the sale of good.

Revenue from sale of extended warranty

Company sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty is determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, the Company treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

The Company determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. The Company delivers the control of services related to the sale of extended warranty over time and it fulfills the performance obligation of extended warranty over time. Therefore, the Company measures the delivery status of its performance obligation and recognize revenue in the financial statements accordingly. The Company recognizes revenue from the sale of goods in the financial statements when the control of the good is transferred to the customer.

When another party is involved in providing goods or services to a customer, the Company determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for the other party to provide those goods or services. The Company is a principal if it controls a promised good or service before the Company transfers the good or service to a customer. When a company that is a principal satisfies a performance obligation, it recognizes as revenue the gross amount of consideration which it expects to be entitled to in exchange for those goods or services. The Company is an agent if its performance obligation is to arrange for the provision of goods or services by another party.

The Company recognizes revenue when it has right to collect the consideration which is equal to the price of performance obligation fulfilled by the perspective of customer (after the delivery of goods) in an amount of its right to invoice. The Company expects that the difference between the timing of the transfer of goods of services determined at the beginning of the contact and the timing of the collection of transaction price by the customer does not differ more than one year and therefore transaction price does not contain a significant finance component.

Transaction price varies due to favors like discounts and rebates provided to the customers. Transaction price is determined based on the most likely amount method since the Company provides bonus premium to its customers if the customers achieves the limit of sale.

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

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

2.4 Summary of significant accounting policies

The Company pays customer premiums to its dealers based on their annual revenue performance results. Amounts calculated as of the balance sheet date are recognized in trade receivables in the balance sheet and in revenue as discounts in revenue in the statement of profit or loss.

The Company does not have any contract assets related to the contracts with customers and any expenses that can be capitalized in accordance with these contracts.

Inventories

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

Prepaid expenses

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

Property, plant and equipment

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

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

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

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Gain or losses on disposals of property, plant and equipment with respect to their restated net book values are included in the related income and expense accounts.

Repair and maintenance expenditures are charged to the income statement as they are incurred. Repair and maintenance expenditures are capitalised if they result in an enlargement or substantial improvement of the respective assets and depreciated over remaining useful life of related asset.

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

2.4 Summary of significant accounting policies (Continued)

Intangible assets

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

Research and development expenses

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

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

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

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

Segment Reporting

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

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

2.4 Summary of significant accounting policies (Continued)

Financial assets

The Company classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value though profit of loss, financial assets carried at fair value though other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Company's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

The Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, the Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Company and its expectations for the future indications.

Trade receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortized cost. Receivables with short-term maturities which have no predefined interest rate are measured at the original invoice amount unless the effect of imputed interest is significant (Note 15).

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The receivables in process of lawsuit or enforcement or in a prior stage, the customer having material financial difficulties, the receivable turning default or the possibility of material and unforeseeable delay in the future collection are included under objective evidences. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. Also, the Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, the Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Company and its expectations for the future indications.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the collection amount is decreased from the doubtful receivable provisions and recorded as other income from operating activities

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

2.4 Summary of significant accounting policies (Continued)

Trade payables

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

Borrowings

Borrowings consist of bank loans taken from different banks. Loans are recorded at the value after the transaction costs are deducted from the amount of the loan. Bank loans are presented over the discounted cost value by using the effective interest rate in the subsequent periods. The difference between the amount remaining after the transaction costs are deducted and the discounted cost value is reflected in the financial statements as financing costs during the period of the loan (Note 19). Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Recognition and derecognition of financial assets and liabilities

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the financial statements. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

2.4 Summary of significant accounting policies (Continued)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Related Parties

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

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

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

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

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

Foreign currency transactions and balances

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

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

2.4 Summary of significant accounting policies (Continued)

Earnings per share

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

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

Subsequent events

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

Provisions, contingent assets and contingent liabilities

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Government grants and aids

All government grants, including non-monetary government grants followed up at fair values, are taken into account in the financial statements when there is reasonable assurance that the Company will comply with the conditions attaching to it and that the grant will be received or when the grant is actually received by the Company. Government grants shall be recognized in profit or loss on a systematic and pro rata basis over periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The Company has three incentives Ankara Modernization, Adapazarı Investment and Adapazarı Modernization as of 31 December 2018 (Note 9).

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

a) 100% exemption from customs duty on machinery and equipment to be imported,
b) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
c) Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
d) Inward processing permission certificates,
e) Cash refund from Tübitak - Teydeb for research and development expenses,
f) Discounted corporate tax incentive,
g) Insurance premium employer share incentive,
h) Other Export Incentives

Taxes on income

Taxes on income included in statement of income comprise current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years (Note 20).

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Deferred income tax assets or liabilities are reflected to the financial statements to the extent that they will provide an increase or decrease in the taxes payable for the future periods where the temporary differences will reverse.Deferred income tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. To the extent that deferred income tax assets will not be utilised, the related amounts have been deducted accordingly.

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

Hedge accounting

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

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

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

Payables related to employee benefits

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

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

2.4 Summary of significant accounting policies (Continued)

Provisions related to employee benefits

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

Statement of cash flow

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

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

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

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

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

Share capital and dividends

Ordinary shares are classified as capital. Dividends distributed over ordinary shares are recorded by deducting from retained earnings within the year in which they are declared (Note 13).

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:

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

2.5 Significant accounting estimates and judgments (Continued)

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. Based on the sensitivity analysis performed, it is concluded that 10% increase/decrease in possible returns of products with respect to the products sold and cost estimations does not have any effect on the calculation of warranty expense provisions.

Deferred tax assets

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

As of 31 December 2018, the Company has accounted deferred tax assets over deductible temporary differences since it is prpobable that future taxable profit that will generate tax liabilities to offset the deferred tax assets will be available and accounted for deferred tax assets amounting to TRY79,574,668 (31 December 2017: TRY56,697,919) over unused investments incentives since it is probable that future taxable profit from related investment will be available.

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

Cash flow hedge transactions

As explained in Note 23, the Company uses its loans amounting to EUR39,333,333 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 and sales prices. Based on the sensivitiy analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

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).

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

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

2.5 Significant accounting estimates and judgments (Continued)

Provision for employment termination benefits

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

Provision for impairment of inventories

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

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	**-**	-
Banks:		
- TRY denominated demand deposits	**12,606,729**	13,136,655
- TRY denominated time deposits	**346,204,631**	311,109,494
- Foreign currency denominated demand deposits	**1,775,250**	3,685,401
- Foreign currency denominated time deposits	**52,081,920**	113,790,600
	412,668,530	441,722,150

As of 31 December 2018, the weighted average effective annual interest rates for TRY and Euro ("EUR") time deposits are 23.28% and 2.38% (31 December 2017: TRY: 14.28% EUR: 1.33%). 31 December 2018 ve 2017 remaining time to maturity of time deposits is less than three months.

The Company has no blocked deposits as of 31 December 2018 (31 December 2017: None).

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

	31 December 2018	31 December 2017
Banks:	**412,668,530**	441,722,150
Less: Interest accruals	**(4,360,705)**	(509,494)
Cash and cash equivalents	**408,307,825**	441,212,656

(Amounts expressed in Turkish Lira (TRY), 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. (%)		TRY equivalent	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
TRY borrowings	**85,033,786**	-	**29.50**	-	**85,033,786**	-
					85,033,786	-

Short term portions of long term bonds

	Original currency		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
TRY bonds (*)	**81,461,538**	4,145,275	**12.84**	13.52	**81,461,538**	4,145,275
Total short-term bonds					**81,461,538**	4,145,275

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

Short term portions of long term financial liabilities

	Original currency		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
EUR bank borrowings	**11,232,989**	23,488,285	**1.62**	1.95	**67,712,459**	106,061,352
TRY bank borrowings	**235,328,924**	160,775,858	**14.00**	12.80	**235,328,924**	160,775,858
					303,041,383	266,837,210

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

b) Long-term financial liabilities

Long-term bank borrowings

	Original currency		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
EUR bank borrowings	**58,313,279**	59,333,333	**2.00**	2.07	**351,512,444**	267,919,664
TRY bank borrowings	**876,801,212**	438,461,300	**17.79**	13.66	**876,801,212**	438,461,300
					1,228,313,656	706,380,964
Prepaid borrowing commissions for debt (*)					**(111,059)**	(457,258)
Total long-term financial liabilities					**1,228,202,597**	705,923,706

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

Long-term bonds

	Original currency		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
TRY bonds (*)	**75,000,000**	150,000,000	**25.67**	13.52	**75,000,000**	150,000,000
Total long term bonds					**75,000,000**	150,000,000

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

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

Year	**31 December 2018**	31 December 2017
2019	**-**	178,406,458
2020	**1,107,065,694**	588,712,416
2021	**139,431,039**	44,402,416
2022	**56,705,865**	44,402,416
	1,303,202,597	855,923,706

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

NOTE 4 - FINANCIAL LIABILITIES (Continued)

As of 31 December 2018; the Company has an investment loan with fixed interest rate amounting to EUR23,333,333, an operating loan with fixed interest rate amounting to EUR26,000,000 and an operating loan with variable interest rate amounting to EUR20,000,000. The EUR23,333,333 loan's maturity is 6 years (maturity date of 15 July 2022), with an interest and principal payment of every 6 months and with an interest rate of 0.95%. The EUR10,000,000 of EUR26,000,000 fixed interest operational capital loans is 3 years maturity (maturity date of 3 February 2020), with interest payment of every 3 months and principal payment at maturity date and with an interest rate of 2.95%. The remaining EUR16,000,000 loan's maturity is 5 years (maturity date of 14 November 2022), with principal and interest payment of every 6 months and with an interest rate of 2.60%. The EUR10,000,000 of EUR20,000,000 floating interest operational capital loan has 3 years maturity (maturity date of 26 March 2021), with an interest payment of every month and without principal payment for the first 2 years and after 2nd year principal payment of every 6 months and with an interest rate of 2.25% + Euribor. The remaining EUR10,000,000 loan has 2 years maturity (maturity date of 29 June 2020) and interest payment of every 3 months and has an interest rate of 1.90%+Euribor. In accordance with the agreement signed with respect to the investment loan used by the Company, there is an obligation of not exceeding the below mentioned rate calculated over the financial statements prepared in accordance with the Turkish Financial Reporting Standards. There is no guarantees or mortgages given for the financial liabilities obtained.

Obligation rate is;

- Net financial liability (*)/Earnings before interest, taxes, depreciation and amortization: 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 values		**Fair value**	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Bank borrowings	**1,616,277,766**	972,760,916	**1,604,720,505**	986,201,240

As of 31 December 2018, fair values of the loans are determined by using the discounted cash flow method over annual average effective discount rates which is 1.96% for EUR loans and 20.00% for TRY denominated bank borrowings respectively (31 December 2017: EUR 1.94%, TRY: 13.49%).

The movement of the borrowings for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
1 January	**1,126,906,191**	948,190,988
Borrowing received during the period	**1,366,293,000**	731,586,226
Principal payments	**(844,353,308)**	(610,511,190)
Change of interest accruals	**6,283,224**	12,048,986
Change of exchange rates	**117,610,197**	45,591,181
31 December	**1,772,739,304**	1,126,906,191

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

	31 December 2018	31 December 2017
Short-term trade receivables:		
Customer current accounts	**254,696,513**	705,715,289
Notes receivables	**104,105,935**	19,625,714
	358,802,448	725,341,003
Less: Provision for doubtful receivables	**(51,547,274)**	(49,389,742)
Unearned financial income	**(8,777,438)**	(17,071,025)
Short-term trade receivables	**298,477,736**	658,880,236
Due from related parties (Note 22)	**150,186,703**	153,954,997
Total short-term trade receivables	**448,664,439**	812,835,233

As of 31 December 2018, the average maturity of trade receivables is between 70 days (31 December 2017: 72 days). The weighted average effective annual interest rates for discount of TRY and Euro trade receivables are 23.49% and (0.38)% (31 December 2017: TRY: 13.80% and, EUR: (0.41)%).

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

	2018	2017
1 January	**(49,389,742)**	(52,242,681)
Cancelled during the year (Note 17)	**231,709**	4,657,765
Charge during the year (Note 17)	**(2,389,241)**	(1,804,826)
31 December	**(51,547,274)**	(49,389,742)

	31 December 2018	31 December 2017
Long-term trade receivables:		
Notes receivables	**59,597**	2,009.169
	59,597	2,009,169

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

NOTE 5 - TRADE RECEIVABLES AND PAYABLES (Continued)

	31 December 2018	31 December 2017
Trade payables:		
Supplier current accounts	**491,231,448**	680,487,558
Less: Unincurred financial expense	**(17,028,740)**	(14,060,610)
Trade payables	**474,202,708**	666,426,948
Due to related parties (Note 22)	**38,378,018**	59,053,805
Total trade payables	**512,580,726**	725,480,753

As of 31 December 2018, the average maturity of trade payables is between 85 days (31 December 2017: 71 days). The weighted average effective annual interest rates for discount of TRY and Euro trade receivables are 23.49% and (0.38)% (31 December 2017: TRY: 13.80% and, EUR: (0.41)%).

NOTE 6 - INVENTORIES

	31 December 2018	31 December 2017
Raw materials	**367,063,753**	202,977,555
Work in progress	**18,224,559**	786,918
Finished goods	**334,277,707**	134,514,016
Commercial goods	**219,109,540**	93,505,776
Spare parts	**65,147,898**	52,645,047
Goods in transit (*)	**110,429,804**	115,752,227
Gross	**1,114,253,261**	600,181,539
Provision for impairment of inventory (-)	**(29,814,310)**	(33,875,335)
Net	**1,084,438,951**	566,306,204

The cost of inventories recognised as expense in the current period is amounting to TRY3,176,439,695 (31 December 2017: TRY3,056,856,241).

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

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

NOTE 6 - INVENTORIES (Continued)

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 year	**5,752,968**	9,356,727
Charge during the year for impairment of inventory	**(1,691,943)**	(1,380,413)
31 December	**(29,814,310)**	(33,875,335)

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

	2018	2017
Raw materials	**(24,839,060)**	(24,814,722)
Commercial goods	**(2,806,919)**	(6,892,282)
Spare parts	**(2,168,331)**	(2,168,331)
	(29,814,310)	(33,875,335)

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

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Addition	Disposals	Transfers	31 December 2018
Cost					
Land	37,740,200	14,678,180	-	-	52,418,380
Land improvements	14,492,387	1,428,333	-	-	15,920,720
Buildings	234,001,543	8,859,013	-	-	242,860,556
Machinery and equipment	598,410,208	116,645,361	(9,502,139)	-	705,553,430
Special costs	5,859,199	657,003	-	-	6,516,202
Motor vehicles	8,211,037	3,168,142	(2,961,575)	-	8,417,604
Furniture and fixtures	82,922,128	10,156,156	(33,113)	2,111,668	95,156,839
Construction in progress	5,375,563	6,167,362	-	(4,103,779)	7,439,146
	987,012,265	161,759,550	(12,496,827)	(1,992,111)	1,134,282,877
Accumulated depreciation					
Land improvements	4,875,531	495,128	-	-	5,370,659
Buildings	55,541,085	5,295,004	-	-	60,836,089
Machinery and equipment	369,845,930	45,260,544	(8,757,229)	-	406,349,245
Special costs	3,771,264	672,884	-	-	4,444,148
Motor vehicles	2,905,162	1,634,931	(1,090,425)	-	3,449,668
Furniture and fixtures	52,846,199	10,782,680	(32,672)	-	63,596,207
	489,785,171	64,141,171	(9,880,326)	-	544,046,016
Net book value	497,227,094				590,236,861

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

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

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2018	2017
Production costs	**45,611,425**	35,976,370
General administrative expenses	**11,304,073**	9,020,649
Marketing, selling and distribution expenses	**3,792,704**	3,325,319
Research and development expenses	**3,432,969**	3,163,621
	64,141,171	51,485,959

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

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

NOTE 8 - INTANGIBLE ASSETS

	1 January 2018	**Addition**	**Disposals**	**Transfers**	**31 December 2018**
Cost					
Rights	**68,747,944**	**18,172,938**	**-**	**1,992,111**	**88,912,993**
Development costs	**110,150,931**	**-**	**-**	**121,924,606**	**232,075,537**
Development costs in progress	**120,256,568**	**59,722,671**	**-**	**(121,924,606)**	**58,054,633**
	299,155,443	**77,895,609**	**-**	**1,992,111**	**379,043,163**
Accumulated amortisation					
Rights	**24,410,680**	**9,919,010**	**-**	**-**	**34,329,690**
Development costs	**58,845,477**	**17,121,335**	**-**	**-**	**75,966,812**
	83,256,157	**27,040,345**	**-**	**-**	**110,296,502**
Net book value	**215,899,286**				**268,746,661**

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

NOTE 8 - INTANGIBLE ASSETS (Continued)

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

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

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

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

	2018	2017
Production costs	**6,988,499**	4,351,451
General administrative expenses	**1,787,759**	1,091,075
Marketing, selling and distribution expenses	**599,823**	402,208
Research and development expenses	**13,688,366**	11,438,800
Reflected to development cost in progress	**3,975,898**	3,546,271
	27,040,345	20,829,805

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

NOTE 9 - OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
a) Other current assets:		
Deferred value added tax ("VAT")	**152,328,930**	118,248,169
Reclaimed VAT	**45,985,269**	35,288,502
Other	**2,909,014**	4,210,500
	201,223,213	157,747,171

	31 December 2018	31 December 2017
b) Government grants and aids:		
Government grants and aids	**4,083,218**	3,592,163
	4,083,218	3,592,163

	2018	2017
1 January	**3,592,163**	3,031,296
Received during the year	**1,004,179**	1,121,469
Utilized during the year (Note 17)	**(513,124)**	(560,602)
31 December	**4,083,218**	3,592,163

NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
a) Prepaid expenses:		
Prepaid expenses for future months	**1,083,524**	1,361,081
	1,083,524	1,361,081

	31 December 2018	31 December 2017
b) Long-term prepaid expenses		
Advances given for purchases of fixed assets	**2,545,194**	7,308,750
	2,545,194	7,308,750

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

NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)

c) Deferred income:

	31 December 2018	31 December 2017
Deferred income (*)	**24,940,048**	13,923,374
Advances received	**16,050**	40,606
	24,956,098	13,963,980

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

NOTE 11 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Short-term provisions

Short-term provision for employee benefits

	31 December 2018	31 December 2017
Provision for unused vacation	**1,807,491**	2,051,334
	1,807,491	2,051,334

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

	31 December 2018	31 December 2017
1 January	**2,051,334**	1,959,616
Charge/(used) for the year, net	**(243,843)**	91,718
31 December	**1,807,491**	2,051,334

Other short-term provisions

	31 December 2018	31 December 2017
Warranty expense provisions	**28,133,964**	35,441,832
Provisions for legal cases (*)	**6,881,714**	7,704,448
	35,015,678	43,146,280

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

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

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

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

	2018	2017
1 January	**7,704,448**	9,637,390
Charge/(used) for the year, net (Note 17)	**(822,734)**	(1,932,942)
31 December	**6,881,714**	7,704,448

b) Long-term provisions

Long-term provision for employee benefits

	2018	2017
Provision for employee termination benefits	**34,199,225**	23,730,294
	34,199,225	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 TRY5,434.42 for each year of service as of 31 December 2018 (31 December 2017 : TRY4,732.48).

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

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

	2018	2017
Inflation rate (%)	**10.5**	6.5
Discount rate (%)	**16.74**	11.77
Turnover rate to estimate the probability of retirement (%)	**93.17**	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 TRY6,017.60 (1 January 2018: TRY5,001.76) which is effective from 1 January 2019 has been taken into consideration in calculating the provision for employee termination benefits of the Company.

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

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

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	**3,568,796**	1,142,185
Current year service cost	**3,054,503**	2,557,437
Paid in the year	**(15,516,941)**	(5,604,652)
Actuarial loss	**19,362,573**	3,906,885
31 December	**34,199,225**	23,730,294

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

	Net discount rate		Turnover related to the probability of retirement	
Sensitivity level	**0,5% decrease**	**0,5% increase**	**0,5% decrease**	**0,5% increase**
Rate	(5.16%)	(6.16%)	(92.54%)	(93.54%)
Change in employee benefits liability	1,536,168	(1,404,562)	(287,848)	304,363

Other long-term provisions

	2018	2017
Warranty provision	**21,699,184**	38,003,194
	21,699,184	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	**(62,917,932)**	(61,195,308)
Charge for the year	**39,306,054**	66,697,265
31 December	**49,833,148**	73,445,026

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

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

c) Contingent liabilities

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

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

	2018	2017
A. The total amount of collaterals given on behalf of its own legal entity	**105,076,721**	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	-	-
	105,076,721	27,598,642

As at 31 December 2018, the Company has given on behalf of its own legal entity, the original collateral denominated in foreign currency amounts of EUR 2,724,350 (31 December 2017: EUR 2,782,450).

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

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

d) Contingent assets

	Original currency amount						**TRY equivalent**	
	31 December 2018			31 December 2017				
	EUR	**USD**	**TRY**	EUR	USD	TRY	**31 December 2018**	31 December 2017
Letters of guarantees received	**-**	**270,000**	**741,094,800**	3,298,376	283,500	716,788,110	**742,515,243**	732,751,261
Direct debit	**-**	**-**	**385,439,385**	-	-	411,286,672	**385,439,385**	411,286,672
Mortgages	**-**	**-**	**438,714**	-	-	438,714	**438,714**	438,714
Cash TRY guarantees	**-**	**-**	**787,257**	-	-	454,426	**787,257**	454,426
Guarantee bonds	**8,000**	**-**	**1,500,000**	-	-	1,500,000	**1,548,224**	1,500,000
							1,130,728,823	**1,146,431,073**

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

NOTE 12 - EMPLOYEE BENEFITS

Liabilities for employee benefits

	2018	2017
Accrued premiums and liabilities to personnel	**9,074,562**	18,526,872
Taxes payable and liabilities (*)	**12,175,129**	9,422,248
	21,249,691	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 TRY250,000,000 (31 December 2017: TRY 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 TRY53,369,000.

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

	2018		2017	
	Participation (%)	**Share Amount (TRY)**	Participation (%)	Share Amount (TRY)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNHI Osterreich	37.50	20,013,375	37.50	20,013,375
Public quotation in BİST	25.00	13,342,250	25.00	13,342,250
	100.00	**53,369,000**	100.00	53,369,000
Adjustments to share capital		**39,014,356**		39,014,356
		92,383,356		92,383,356

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

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

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

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

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

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

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

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

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

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

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

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

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

NOTE 13 - SHAREHOLDERS' EQUITY (Continued)

Dividend distribution

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

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

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

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

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

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

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

The Company distributed dividend in 2018 amounting to TRY300,000,000 with net profit for the 2017. The decision of dividend payment amounting to TRY300,000,000 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. Dividend payment distribution has been 5.62 Kr per share (2017: 4.68 Kr).

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

NOTE 14 - SALES AND COST OF SALES

	1 January - 31 December 2018	1 January - 31 December 2017
Domestic sales	**2,310,459,500**	3,547,439,433
Export sales	**1,899,619,829**	1,133,809,911
Sales income (gross)	**4,210,079,329**	4,681,249,344
Less: Discounts and returns	**(301,135,816)**	(466,193,238)
Sales income (net)	**3,908,943,513**	4,215,056,106
Cost of sales	**(3,192,105,745)**	(3,484,348,070)
Gross profit	**716,837,768**	730,708,036

Sales quantities:

	31 December 2018			31 December 2017		
	Domestic sales	**Export sales**	**Total sales**	Domestic sales	Export sales	Total sales
Tractor	**17,655**	**14,502**	**32,157**	37,590	12,023	49,613
Combine	**302**	**-**	**302**	328	-	328
	17,957	**14,502**	**32,459**	37,918	12,023	49,941

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

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

	1 January - 31 December 2018	1 January - 31 December 2017
Marketing, selling and distribution expenses:		
Personnel expenses	**56,409,495**	49,463,804
Warranty expenses (Note 11)	**39,306,054**	66,697,265
Transportation and insurance expenses	**26,670,685**	34,534,543
Rent expenses	**10,733,708**	6,983,169
Dealers meeting and fair expenses	**9,941,731**	10,961,936
Transportation and travel expenses	**8,367,942**	7,824,777
Outsourcing expenses	**5,835,768**	6,270,733
Depreciation and amortisation expenses (Note 7, 8)	**4,392,527**	3,727,527
Sales development expenses	**4,381,033**	3,053,584
Press relations, advertisement and promotion expenses	**3,995,500**	5,722,931
Material expenses	**3,331,652**	2,623,333
Service expenses	**1,253,981**	1,002,774
Other	**6,407,999**	5,456,364
	181,028,075	204,322,740

	1 January - 31 December 2018	1 January - 31 December 2017
General administrative expenses:		
Personnel expenses	**52,362,283**	34,765,959
Service expenses received from shareholders	**14,212,706**	11,378,567
Depreciation and amortisation expenses (Note 7, 8)	**13,091,832**	10,111,724
Service expenses	**6,625,818**	6,938,529
Outsourcing expenses	**4,792,705**	5,465,369
Donations and aids	**3,842,043**	5,235,824
Taxes and other legal expenses	**2,910,703**	1,770,642
Transportation and travel expenses	**2,125,173**	2,229,601
Insurance expenses	**1,422,122**	1,078,966
Subscription expenses	**1,049,154**	1,159,251
Entertainment expenses	**958,183**	2,525,361
Legal consultancy and lawsuit expenses	**822,842**	1,388,479
Material expenses	**628,906**	619,638
Consultancy services	**240,853**	1,194,770
Other	**1,542,163**	2,134,619
	106,627,486	87,997,299

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

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

	1 January - 31 December 2018	1 January - 31 December 2017
Research and development expenses:		
Depreciation and amortisation expenses (Note 7, 8)	**17,121,335**	14,602,421
Personnel expenses	**406,473**	257,567
Outsourcing expenses	**345,704**	42,588
Project expenses	**315,258**	36,828
Other	**74,615**	19,986
	18,263,385	14,959,390

NOTE 16 - EXPENSES BY NATURE

	1 January - 31 December 2018	1 January - 31 December 2017
Raw materials and goods	**3,176,439,695**	3,056,856,241
Personnel and provision for employment termination benefits expenses	**338,820,698**	258,366,231
Changes in finished goods and work in process	**(355,307,947)**	97,149,379
Depreciation and amortisation expenses	**87,205,617**	68,769,493
Transportation and insurance expenses	**50,762,001**	58,868,605
Material expenses	**50,358,128**	55,625,709
Warranty expenses	**39,306,054**	66,697,265
Energy expenses	**17,059,782**	17,124,459
Donations and aids	**3,842,043**	5,235,824
Other	**89,538,620**	106,934,293
	3,498,024,691	**3,791,627,499**

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

NOTE 17 – OTHER INCOME/EXPENSE FROM OPERATING ACTIVITIES

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange gain from trade receivables and payables	**365,909,459**	105,303,289
Financial income from credit sales and trade payables	**140,955,584**	94,542,604
Termination of provision for doubtful receivables (Note 5)	**231,709**	4,657,765
Incentive income (Note 9)	**513,124**	560,602
Reversal of provision for litigation expenses (Note 11)	**2,480,000**	1,932,942
Other income	**18,324,495**	13,522,986
Other operating income	**528,414,371**	220,520,188

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange losses on trade receivables and payables	**(381,466,721)**	(93,564,560)
Financial expense on credit purchases and trade payables	**(118,582,583)**	(71,813,776)
Provision for doubtful receivables (Note 5)	**(2,389,241)**	(1,804,826)
Provision for litigation expenses (Note 11)	**(1,657,266)**	-
Other expenses	**(12,636)**	-
Other operating expenses	**(504,108,447)**	(167,183,162)

NOTE 18 - FINANCIAL INCOME

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange gain	**33,307,751**	27,993,741
Interest income	**53,208,636**	37,118,985
Financial income	**86,516,387**	65,112,726

NOTE 19 - FINANCIAL EXPENSE

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange losses	**(74,060,076)**	(56,445,977)
Interest expenses of bank borrowings	**(192,072,517)**	(131,832,998)
Other	**(6,659,085)**	(5,240,955)
Financial expenses	**(272,791,678)**	(193,519,930)

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

NOTE 20 - TAX ASSETS AND LIABILITIES

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

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

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

	31 December 2018	31 December 2017
Corporate tax expense	**2,552,548**	20,582,680
Less: Prepaid taxes	**(16,993,543)**	(36,978,726)
Tax liability / (Current tax assets)	**(14,440,995)**	(16,396,046)

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

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

	1 January - 31 December 2018	1 January - 31 December 2017
Corporate tax expense	**(2,552,548)**	(20,582,680)
Deferred tax income/ (expense)	**(13,724,387)**	(9,756,834)
Tax expense	**(16,276,935)**	(30,339,514)

<u>Deferred taxes</u>

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

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

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

	Temporary Differences		**Deferred tax assets/ (liabilities)**	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Property, plant and equipment and intangible assets, restatement and useful life differences	**255,885,852**	164,262,704	**(56,294,887)**	(36,137,795)
Provision for employee termination benefits	**(34,199,225)**	(23,730,294)	**7,523,830**	5,220,665
Warranty provision	**(49,833,149)**	(73,445,026)	**10,963,293**	16,157,906
Provision for lawsuits	**(6,881,714)**	(7,704,448)	**1,513,977**	1,694,978
Unearned finance income/ expenses on trade receivables, payables and due from related parties	**1,520,485**	2,304,224	**(334,507)**	(506,929)
Provision for doubtful receivables	**(2,157,532)**	(1,804,826)	**474,657**	397,062
Provision for impairment of inventory	**(29,814,310)**	(33,875,335)	**6,559,148**	7,452,574
Sales premium accrued	**(26,459,516)**	(38,678,315)	**5,821,094**	8,509,229
Other expense provisions	**(2,047,491)**	(8,943,195)	**450,448**	1,967,503
Investment incentive tax assets	**265,248,893**	188,993,063	**79,574,668**	56,697,919
Deferred income	**(16,263,501)**	(2,513,027)	**3,577,970**	552,866
Other	**(40,606,184)**	(34,099,577)	**8,933,360**	7,501,906
Deferred tax assets			**68,763,051**	69,507,884

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

NOTE 20 - TAX ASSETS AND LIABILITIES (Continued)

In the fourth quarter of 2012, within the scope of the cabinet decree dated 3 October 2012 and numbered 2012/3305, the Company was granted a large-scaled investment incentive for the new investment in Adapazarı. During the completion visa of the related incentive certificate with Ministry of Economy on 18 May 2016, the investment incentive was closed by increasing to TRY279,094,080. With the investment contribution rate of 30% on this amount, the Company obtained TRY83,728,224 tax advantage. As of 31 December 2018, deferred tax amount accounted for over related incentive is TRY54,751,674.

Within the scope of the cabinet decree numbered 2012/3305, the Company was granted large-scaled investment incentives certificates in the fourth quarter of 2012 and 2015 and regional investment incentive certificate in the second quarter of 2017. The investment contribution rate of these incentives are 30% and additional 15% contribution rate was obtained for the investments made in 2018, the Company obtained TRY27,940,811 tax advantage. As of 31 December 2018, deferred tax amount accounted for over related incentive is TRY24,822,994.

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	**(13,724,387)**	(9,756,834)
Reflected to other comprehensive income/ (expense)	**12,979,554**	3,211,913
31 December	**68,763,051**	69,507,884

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

	1 January- 31 December 2018	1 January- 31 December 2017
Profit before tax	**256,383,584**	351,095,844
Tax calculated at enacted tax rate	**56,404,389**	70,219,169
Investment incentives	**(27,940,811)**	(31,219,817)
Research and development incentives	**(11,921,261)**	(8,376,398)
Disallowable expenses	**438,932**	363,804
Other	**(704,314)**	(647,244)
Total tax charge	**16,276,935**	30,339,514

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

NOTE 21 - EARNINGS PER SHARE

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

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

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

	2018	2017
Net profit for the year	**240,106,649**	320,756,330
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 TRY)	**0,0450**	0,0601

NOTE 22 - RELATED PARTY EXPLANATIONS

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

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

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

	31 December 2018	31 December 2017
a) Bank deposits and borrowings		
Deposits with related parties:		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	**26,800,000**	20,223,659
	26,800,000	20,223,659

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

b) Due from related parties

	31 December 2018	31 December 2017
Due from group companies		
CNHI International SA ("CNHI International") (*)	**139,441,701**	133,048,916
CNH Industrial (India) Pvt. Ltd.	**3,800,512**	519,562
Iveco Argentina, S.A	**3,108,842**	12,382,869
CNH Industrial Brasil Ltda	**1,759,612**	1,663,100
CNHI Italy SPA ("CNHI Italy")	**71,993**	3,962,306
Other	**2,004,043**	2,378,244
	150,186,703	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 December 2018	31 December 2017
Koç Holding	**4,132,096**	4,012,294
Due to shareholders	**4,132,096**	4,012,294
Zer Merkezi Hizmetler ve Ticaret A.Ş. ("Zer")	**16,090,601**	23,065,152
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. ("Opet Fuchs")	**8,868,393**	13,648,183
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ("Koç Sistem")	**6,535,691**	11,014,177
Otokoç Otomotiv San. ve Tic. A.Ş ("Otokoç")	**652,722**	572,254
Setur Servis Turistik A.Ş. ("Setur")	**603,119**	1,172,255
Ram Sigorta Aracılık Hizmetleri A.Ş. ("Ram Sigorta")	**572,203**	281,257
Koçtaş Yapı Marketleri A.Ş. ("Koçtaş")	**450,066**	868,742
Divan Turizm İşletmeleri ("Divan")	**304,684**	329,515
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. ("Akpa")	**278,980**	252,318
Opet Petrolcülük A.Ş. ("Opet")	**273,645**	174,451
CNH Industrial India Private ("CNHI India")	**-**	2,906,606
Eltek Elektrik İth. İhracat ve Toptan Tic. A.Ş. ("Eltek")	**-**	1,311,649
Other	**323,243**	125,118
Due to group companies	**34,953,347**	55,721,677
Less: Unearned financial expenses	**(707,425)**	(680,166)
	38,378,018	59,053,805

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

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

a) Product sales to related parties

	1 January - 31 Aralık 2018	1 January- 31 Aralık 2017
Product sales to group companies		
CNHI International (*)	**1,927,741,998**	1,083,003,728
Iveco Argentina	**15,602,824**	31,658,094
CNHI Italy	**13,417,220**	8,614,607
CNH Industrial (India) PV	**9,699,119**	1,386,706
CNH Industrial Brasil Ltda	**8,612,560**	6,068,221
Yapı Kredi Finansal Kiralama A.O.	**8,357,187**	14,933,816
Other	**3,219,452**	843,719
	1,986,650,360	1,146,508,891

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

b) Service sales to related companies

	1 January - 31 Aralık 2018	1 January- 31 Aralık 2017
Service sales to group companies		
CNHI International (1)	**6,079,148**	2,940,777
CNHI Italy (2)	**2,634,753**	1,779,589
Other	**759,506**	182,557
	9,473,407	4,902,923

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

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

c) Product purchases from related parties

	1 January - 31 Aralık 2018	1 January- 31 Aralık 2017
Product purchases from group companies		
CNHI International (1)	**768,887,684**	586,212,375
Opet Fuchs (2)	**53,592,895**	55,843,027
Zer	**9,815,910**	8,235,478
Koç Sistem	**6,759,885**	11,997,955
Akpa	**4,331,738**	4,490,958
Opet (2)	**3,060,360**	2,663,041
CNHI India (3)	**1,588,480**	44,032,130
Other	**9,201,991**	5,468,092
	857,238,943	718,943,056

(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 Aralık 2018	1 January- 31 Aralık 2017
Service purchases from shareholders		
Koç Holding (1)	**8,052,491**	7,431,599
	8,052,491	7,431,599
Service purchase from group companies		
Zer (2)	**92,326,338**	101,069,275
CNHI International (3)	**33,406,913**	11,223,071
Koç Sistem (4)	**10,148,480**	5,299,754
Setur (5)	**7,554,100**	7,308,182
Otokoç (6)	**5,619,528**	4,007,579
Ram Sigorta (7)	**3,893,001**	3,256,072
Eltek	**-**	12,539,656
Other	**6,228,810**	4,149,669
	159,177,170	148,853,258
	167,229,661	156,284,857

(1) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Koç Holding A.Ş. regarding their related services according to the conceiled gain distirubition described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.
(2) Services purchased from Zer are related with security, cleaning, transportation and other services.
(3) Services purchased from CNHI International is related with engineering services, strategy development, consulting and brokerage.
(4) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licences.
(5) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
(6) Service purchased from Otokoç is related with motor vehicles leasing services.
(7) Insurance service purchased from Ram Sigorta Aracılık Hizmetleri A.Ş. is related interim period include premium amounts paid and accrued ended on 31 December 2018.

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

NOTE 22 - RELATED PARTY EXPLANATIONS (Continued)

iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January - 31 December 2018 and 2017:

Financial income and expense from group companies

	1 January - 31 Aralık 2018	1 January- 31 Aralık 2017
Interest income		
Yapı Kredi	**2,784,148**	23,659

iv) Dividends paid to related parties:

	1 January - 31 Aralık 2018	1 January- 31 Aralık 2017
Koç Holding	**112,500,000**	93,750,000
CNHI Osterreich	**112,500,000**	93,750,000
	225,000,000	187,500,000

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

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

As of 31 December 2018, the Company paid TRY26,956,194 benefits to the key management personnel (31 December 2017: TRY17,599,881). The payment made due to leaving the Company is TRY8,100,500 (31 December 2017: None) and the remaining amount consists of short term benefits.

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

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

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

a) Market Risk

Foreign currency risk

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

Cash flow hedge accounting

There is an effective foreign currency cash flow hedge relationship between EUR long term financial borrowings and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 July 2016. The related long-term borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/ (gains) on cash flow hedges". The amount of the related borrowings as of 31 December 2018 is EUR39,333,333 (31 December 2017: EUR49,166,667). The amount of foreign exchange rate losses recognized in equity is TRY53,579,549 (31 December 2017: TRY22,663,938).

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

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

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

	31 December 2018					
	TRY Equivalent	**USD**	**EUR**	**GBP**	**CHF**	**YEN**
1.Trade receivables	**156,523,027**	**718,161**	**25,339,226**	**-**	**-**	**-**
2.Monetary financial assets (including banks accounts) (Note 3)	**53,857,203**	**97,701**	**8,840,397**	**5,279**	**1,925**	**165,649**
3.Other	-	-	-	-	-	-
4. Current assets (1+2+3)	**210,380,230**	**815,862**	**34,179,623**	**5,279**	**1,925**	**165,649**
5.Trade receivables	-	-	-	-	-	-
6.Other	-	-	-	-	-	-
7.Non-current assets (5+6)	**-**	**-**	**-**	**-**	**-**	**-**
8.Total assets (4+7)	**210,380,230**	**815,862**	**34,179,623**	**5,279**	**1,925**	**165,649**
9.Trade payables	**110,841,294**	**1,131,311**	**15,124,885**	**106,801**	**-**	**273,545,061**
10.Financial liabilities (Note 4)	**67,712,459**	**-**	**11,232,989**	**-**	**-**	**-**
11.Other monetary liabilities	**34,762,271**	**-**	**5,766,800**	**-**	**-**	**-**
12.Current liabilities (9+10+11)	**213,316,024**	**1,131,311**	**32,124,674**	**106,801**	**-**	**273,545,061**
13.Financial liabilities (Note 4)	**351,512,444**	**-**	**58,313,279**	**-**	**-**	**-**
14.Non-current liabilities (13)	**351,512,444**	**-**	**58,313,279**	**-**	**-**	**-**
15.Total liabilities (12+14)	**564,828,468**	**1,131,311**	**90,437,953**	**106,801**	**-**	**273,545,061**
16. Cash flow hedge accounting amounts	**237,101,333**	-	**39,333,333**	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	**(117,346,905)**	(315,449)	**(16,924,997)**	(101,522)	1,925	(273,379,412)
18.Net monetary foreign currency asset/ (liability) position (8-15)	**(354,448,238)**	**(315,449)**	**(56,258,330)**	**(101,522)**	**1,925**	**(273,379,412)**

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

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

	31 December 2017					
	TRY Equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	169,975,100	76,979	37,578,284	-	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	117,483,120	39,063	25,954,323	11,937	6,452	1,388,347
3.Other	-	-	-	-	-	-
4. Current assets (1+2+3)	287,458,220	116,042	63,532,607	11,937	6,452	1,388,347
5. Trade receivables	1,583,590	-	350,701	-	-	-
6. Other	3,844	1,019	-	-	-	-
7. Non-current assets (5+6)	1,587,434	1,019	350,701	-	-	-
8. Total assets (4+7)	289,045,654	117,061	63,883,308	11,937	6,452	1,388,347
9. Trade payables	118,095,824	3,666,533	21,703,846	73,070	-	176,269,229
10. Financial liabilities (Note 4)	106,061,352	-	23,488,285	-	-	-
11. Other monetary liabilities	17,515,537	-	3,878,981	-	-	-
12. Current liabilities (9+10+11)	241,672,713	3,666,533	49,071,112	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)	509,592,377	3,666,533	108,404,445	73,070	-	176,269,229
16. Cash flow hedge accounting amounts	128,429,583	-	32,083,333	-	-	-
17. Fair value of hedged funds of foreign currency (16+18)	(92,117,140)	(3,549,472)	(12,437,804)	(61,133)	6,452	(174,880,882)
18. Net monetary foreign currency asset/ (liability) position (8-15)	(220,546,723)	(3,549,472)	(44,521,137)	(61,133)	6,452	(174,880,882)

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

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

The import and export amounts of the Company for the years ended 31 December 2018 and 2017 are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Total export amount	**1,899,619,829**	1,133,809,911
Total import amount	**1,647,758,605**	1,066,131,455

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

	31 December 2018			
	Profit/Loss		**Shareholders' equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Had TRY appreciate/ (depreciate) by 10% against USD				
Profit/(loss) from USD net asset position	**(165,955)**	**165,955**	**-**	**-**
Hedged amount against USD risk (-)	**-**	**-**	**-**	**-**
Net effect of USD	**(165,955)**	**165,955**	**-**	**-**
Had TRY appreciate/ (depreciate) by 10% against EUR				
Profit/ (loss) from EUR net liability position	**(33,912,522)**	**33,912,522**	**6,326,587**	**(6,326,587)**
Hedged amount against EUR risk (-)	**15,599,124**	**(15,599,124)**	**18,493,904**	**(18,493,904)**
Net Effect of EUR	**(18,313,398)**	**18,313,398**	**24,820,491**	**(24,820,491)**
Had TRY appreciate/ (depreciate) by 10% against other				
Profit/ (loss) from other net liability position	**(1,502,986)**	**1,502,986**	**-**	**-**
Hedged amount against other (-)	**-**	**-**	**-**	**-**
Net effect of other	**(1,502,986)**	**1,502,986**	**-**	**-**
Total net effect	**(19,982,338)**	**19,982,338**	**24,820,491**	**(24,820,491)**

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

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

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

Interest rate risk

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

	31 December 2018	31 December 2017
Financial instruments with fixed interest rate		
Time deposits (Note 3)	**398,286,551**	424,900,094
Financial liabilities (Note 4)	**1,577,179,304**	991,592,011

	31 December 2018	31 December 2017
Financial instruments with floating interest rate		
Financial liabilities (Note 4)	**195,560,000**	135,314,180

For financial instruments with variable interest rates, if the interest on 31 December 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 TRY1,839,719 (2017: TRY532,756).

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

b) Credit risk

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

The Company has applied the simplified approach stated in TFRS 9 for the calculation of expected credit loss provision for trade receivables. This approach allows expected credit loss provision for all trade receivables. In order to measure expected credit losses, the Company appropriately classified its trade receivables based on maturity and credit risk characteristics. The expected credit loss ratio for each class of trade receivables, which is grouped using past loan loss experiences and forward-looking macroeconomic indicators, is calculated and the expected credit loss provision has been calculated by multiplying the determined rate and totals of trade receivable.

As of 31 December 2018, The company identified provisions rates of 0.04% for 1 month overdue receivables; 0.9% for 1-3 month overdue receivables; 3.5% for the 3 months and older overdue receivables based on the calculation of expected credit losses.

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

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

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

	31 December 2018					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	**150,186,703**	**296,552,252**	**-**	**382,572**	**412,668,530**	**-**
Net book value of due dated but not impaired assets	**-**	**1,985,081**	**-**	**-**	**-**	**-**
Net book value of impaired assets						
- Due dated (gross book value)	**-**	**51,547,274**	**-**	**-**	**-**	**-**
- Provision (-)	**-**	**(51,547,274)**	**-**	**-**	**-**	**-**
- Undue (gross book value)	**-**	**-**	**-**	**-**	**-**	**-**
- Provision (-)	**-**	**-**	**-**	**-**	**-**	**-**
Net book value of financial assets which are undue and not impaired	**-**	**-**	**-**	**-**	**-**	**-**
Amount exposed to maximum credit risk (*)	**150,186,703**	**298,537,333**	**-**	**382,572**	**412,668,530**	**-**

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

As of 31 December 2018, the guarantee amount of the maximum exposure to credit risk is TRY650,122,562. Besides, all assets which are due but not impaired are guaranteed.

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

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

	31 December 2018					
	Trade Receivables		Other Receivables			
	Related party	Third party	Related party	Third party	Bank deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	153,954,997	641,344,718	-	381,220	441,722,150	-
Net book value of due dated but not impaired assets			-	-	-	-
Net book value of impaired assets	-	19,544,687	-	-	-	-
- Due dated (gross book value)						
- Provision (-)	-	49,389,742	-	-	-	-
- Undue (gross book value)	-	(49,389,742)	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Net book value of financial assets which are undue and not impaired	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	153,954,997	660,889,405	-	381,220	441,722,150	-

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

As of 31 December 2017, the guarantee amount of the maximum exposure to credit risk is TRY614,574,000. Besides, all assets which are due but not impaired are guaranteed.

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

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

c) Liquidity risk

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

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

As of 31 December 2018 and 2017, the undiscounted cash flows and liabilities according to their remaining maturities are presented in the following tables:

	31 December 2018					
	Book value	**Less than 3 months**	**Between 3-12 months**	**Between 1-5 years**	**On Demand**	**Total cash outflows according to contract**
Financial liabilities (Note 4)	**1,772,739,304**	**213,963,294**	**280,382,432**	**1,588,415,545**	**-**	**2,082,761,271**
Trade payables (Note 5)	**474,202,708**	**491,231,448**	**-**	**-**	**-**	**491,231,448**
Due to related parties (Note 22)	**38,378,018**	**38,378,018**	**-**	**-**	**-**	**38,378,018**
Other payables	**13,065,251**	**13,065,251**	**-**	**-**	**-**	**13,065,251**
Non-derivative financial instruments	**2,298,385,281**	**756,638,011**	**280,382,432**	**1,588,415,545**	**-**	**2,625,435,988**
Derivative cash inflows	**-**	**-**	**-**	**-**	**-**	**-**
Derivative cash outflows	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**

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

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

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

d) Capital risk management

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

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

	31 December 2018	31 December 2017
Total Financial liabilities (Note 4)	**1,772,739,304**	1,126,906,191
Less: Cash and cash equivalents (Note 3)	**(412,668,530)**	(441,722,150)
Net financial debt	**1,360,070,774**	685,184,041
Total shareholders' equity	**651,857,722**	757,769,491
Total liabilities	**2,011,928,496**	1,442,953.532
Net financial debt/ total liabilities	**67.60%**	47,48%

Fair value of financial assets

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

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

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

Financial assets

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

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

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

Financial liabilities

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

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

NOTE 24 - SUBSEQUENT EVENT

None.

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