

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

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

**CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2019**

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

**CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2019**

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<b>CONTENTS</b>	<b>PAGE</b>
<b>CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION .....</b>	<b>1 - 2</b>
<b>CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME .....</b>	<b>3</b>
<b>CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY .....</b>	<b>4 - 5</b>
<b>CONDENSED INTERIM STATEMENTS OF CASH FLOWS.....</b>	<b>6</b>
<b>NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS .....</b>	<b>7 - 53</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

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

	Notes	Current period unaudited 31 March 2019	Prior period audited 31 December 2018
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	599,421,447	412,668,530
Trade receivables:			
- Related parties	20	260,838,421	150,186,703
- Other parties	5	376,482,355	298,477,736
Inventories	6	920,215,345	1,084,438,951
Prepaid expenses	10	4,359,178	1,083,524
Assets related to current period taxes	18	26,846,178	14,440,995
Other current assets	9	167,102,178	201,223,213
<b>TOTAL CURRENT ASSETS</b>		<b>2,355,265,102</b>	<b>2,162,519,652</b>
<b>NON-CURRENT ASSETS</b>			
Trade receivables:			
- Other parties	5	-	59,597
Other receivables:			
- Other parties		389,321	382,572
Property, plant and equipment	7	595,681,755	590,236,861
Right of use asset		35,840,582	-
Intangible assets	8	275,842,868	268,746,661
Prepaid expenses	10	7,055,046	2,545,194
Deferred tax assets	18	62,455,717	68,763,051
<b>TOTAL NON-CURRENT ASSETS</b>		<b>977,265,289</b>	<b>930,733,936</b>
<b>TOTAL ASSETS</b>		<b>3,332,530,391</b>	<b>3,093,253,588</b>

The condensed interim financial statements prepared for the period 1 January-31 March 2019 have been approved by the Board of Directors on 26 April 2019.

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

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

	Notes	Current period unaudited 31 March 2019	Prior Period audited 31 December 2018
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Short-term financial liabilities	4	166,454	85,033,786
Short-term portion of long-term financial liabilities			
Related parties			
- Lease liabilities		8,602,293	-
Other parties			
- Bank loans	4	1,055,727,997	384,502,921
- Lease liabilities		3,861,269	-
Trade payables:			
- Related parties	20	32,075,903	38,378,018
- Other parties	5	447,794,069	474,202,708
Employee benefit obligations	12	13,484,109	21,249,691
Other payables			
- Other parties		16,301,851	13,065,251
Government incentives and aids	9	4,083,218	4,083,218
Deferred income	10	4,604,459	24,956,098
Short-term provision :			
- Short-term provision for employee benefits	11	3,650,503	1,807,491
- Other short-term provisions	11	34,682,665	35,015,678
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,625,034,790</b>	<b>1,082,294,860</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term financial liabilities			
Related parties			
- Lease liabilities		17,192,051	-
Other parties			
- Bank loans	4	970,824,700	1,303,202,597
- Lease liabilities		7,716,374	-
Long-term provision			
- Long-term provision for employee benefits	11	34,366,471	34,199,225
- Other provisions	11	20,731,582	21,699,184
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,050,831,178</b>	<b>1,359,101,006</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Ana ortaklığa ait özkaynaklar</b>		<b>656,664,423</b>	<b>651,857,722</b>
<b>Parent's equity</b>	13	<b>53,369,000</b>	<b>53,369,000</b>
Paid-in share capital	13	39,014,356	39,014,356
Adjustments to share capital		(5,569,000)	(5,569,000)
Merger reserve		135,620,450	135,620,450
<b>Other accumulated comprehensive income and expense not to be reclassified to profit or loss</b>			
- Actuarial loss arising from defined benefit plans		(38,024,555)	(36,677,082)
<b>Other accumulated comprehensive income and expense to be reclassified to profit or loss</b>			
- Losses on cash flow hedging		(55,007,322)	(53,579,549)
Retained earnings		519,679,547	279,572,898
Net profit for the year		7,581,947	240,106,649
<b>TOTAL LIABILITIES</b>		<b>3,332,530,391</b>	<b>3,093,253,588</b>

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

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2019**

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

		<i>Current period unaudited</i> 1 January - 31 March 2019	<i>Prior Period audited</i> 1 January - 31 March 2018
	Notes		
Revenue	14	817,964,375	1,047,973,517
Cost of sales (-)	14	(722,037,404)	(876,065,230)
<b>GROSS PROFIT</b>		<b>95,926,971</b>	171,908,287
Marketing expenses (-)		(45,200,259)	(59,149,815)
General administrative expenses (-)		(24,052,966)	(24,180,548)
Research and development expenses (-)		(7,655,832)	(6,104,505)
Other income from operating activities	15	126,881,100	75,278,948
Other expenses from operating activities (-)	15	(87,033,635)	(63,577,608)
<b>OPERATING PROFIT</b>		<b>58,865,379</b>	94,174,759
Income from investment activities		3,572,646	-
Expenses from investment activities (-)		-	-
<b>OPERATING INCOME BEFORE FINANCIAL INCOME/ (EXPENSE)</b>		<b>62,438,025</b>	94,174,759
Financial income	16	34,025,736	17,406,033
Financial expenses (-)	17	(91,644,353)	(56,594,927)
<b>PROFIT BEFORE TAXATION ON INCOME</b>		<b>4,819,408</b>	54,985,865
Taxes on income (-)	18	9,852,635	(16,413,098)
Deferred tax (expense)/ income	18	(7,090,096)	17,628,297
<b>NET PROFIT FOR THE YEAR</b>		<b>7,581,947</b>	56,201,064
Earnings per share (TL)	19	0,0014	0,0105
<b>Other comprehensive income/(expense)</b>			
<b>Other comprehensive expense not to be reclassified to profit or loss:</b>			
Actuarial loss arising from defined benefits plans	11	(1,727,530)	939,669
<b>Other comprehensive expense not to be reclassified to profit or loss, tax effect</b>			
Actuarial gain/ loss arising from defined benefit plans, tax effect	18	380,057	(206,727)
<b>Other comprehensive expense to be reclassified to profit or loss</b>			
Losses on cash flow hedging		(1,830,478)	(10,606,681)
<b>Other comprehensive expense to be reclassified to profit or loss, tax effect</b>			
Losses on cash flow hedging, tax effect	18	402,705	2,333,470
<b>Other comprehensive expense after tax</b>		<b>(2,775,246)</b>	(7,540,269)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,806,701</b>	48,660,795

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE INTERIM PERIOD ENDED 31 MARCH 2019

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

				Other comprehensive income or expense items not to be reclassified to profit or loss	Other comprehensive income or expense items to be reclassified to profit or loss				
	Paid-in share capital	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Cash flow hedge losses	Restricted profit reserves	Retained earnings	Net profit for the period	Total shareholders equity
<b>1 January 2019</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>	<b>(36,677,082)</b>	<b>(53,579,549)</b>	<b>135,620,450</b>	<b>279,572,898</b>	<b>240,106,649</b>	<b>651,857,722</b>
Transfers	-	-	-	-	-	-	240,106,649	(240,106,649)	-
Dividends paid	-	-	-	-	-	-	-	-	-
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	-	7,581,947	7,581,947
Other comprehensive income									
Actuarial loss arising from defined benefit plans	-	-	-	(1,347,473)	-	-	-	-	(1,347,473)
Cash flow hedge losses	-	-	-	-	(1,427,773)	-	-	-	(1,427,773)
Total other comprehensive expense	-	-	-	(1,347,473)	(1,427,773)	-	-	-	(2,775,246)
Total comprehensive income	-	-	-	(1,347,473)	(1,427,773)	-	-	7,581,947	4,806,701
<b>31 March 2019</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>	<b>(38,024,555)</b>	<b>(55,007,322)</b>	<b>135,620,450</b>	<b>519,679,547</b>	<b>7,581,947</b>	<b>656,664,423</b>

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

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

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR THE INTERIM PERIOD ENDED 31 MARCH 2019**

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

				Other comprehensive income or expense items not to be reclassified to profit or loss	Other comprehensive income or expense items to be reclassified to profit or loss				
	Paid-in share	Adjustment to share capital	Merger reserve	Actuarial loss arising from defined benefit plans	Cash flow hedge losses	Restricted profit reserves	Retained earnings	Net profit for the period	Total shareholders equity
<b>1 January 2018</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>	<b>(21,574,275)</b>	<b>(22,663,938)</b>	<b>155,839,108</b>	<b>238,597,910</b>	<b>320,756,330</b>	<b>757,769,491</b>
Transfers	-	-	-	-	-	25,192,081	295,564,249	(320,756,330)	-
Dividends paid	-	-	-	-	-	(45,410,739)	(254,589,261)	-	(300,000,000)
<b>Comprehensive income</b>									
Net profit for the period	-	-	-	-	-	-	-	56,201,064	56,201,064
<b>Other comprehensive</b>									
Actuarial loss									
arising from									
defined benefit plans	-	-	-	732,942	-	-	-	-	732,942
Cash flow hedge									
losses	-	-	-	-	(8,273,211)	-	-	-	(8,273,211)
<b>Total other comprehensive</b>				<b>732,942</b>	<b>(8,273,211)</b>				
expense	-	-	-			-	-	-	(7,540,269)
<b>Total comprehensive income</b>	-	-	-	<b>732,942</b>	<b>(8,273,211)</b>	-	-	<b>56,201,064</b>	<b>48,660,795</b>
<b>31 March 2018</b>	<b>53,369,000</b>	<b>39,014,356</b>	<b>(5,569,000)</b>	<b>(20,841,333)</b>	<b>(30,937,149)</b>	<b>135,620,450</b>	<b>279,572,898</b>	<b>56,201,064</b>	<b>506,430,286</b>

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS FOR THE INTERIM PERIOD ENDED 31 MARCH 2019

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

		<i>Current period unaudited 1 January - 31 March 2019</i>	<i>Prior period unaudited 1 January - 31 March 2018</i>
	Notes		
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>23,606,082</b>	<b>(86,876,463)</b>
Net profit for the period		7,581,947	56,201,064
Adjustments to reconcile net profit:		89,239,970	76,884,115
Depreciation and amortization		31,733,639	19,689,825
Adjustments related to impairment on inventories	6	810,715	-
Adjustments related to provision for employee termination benefits	11	3,714,168	2,681,561
Adjustments related to impairment on receivables	5	(124,200)	327,787
Adjustments related to other provisions	11	(1,300,615)	1,949,276
Adjustments related to interest income and expense	16, 17	45,298,325	21,389,929
Adjustments related to tax expense	18	(2,762,539)	(1,215,199)
Adjustments related to sales of property, plant and equipment		(3,572,646)	-
Non-cash items		15,443,123	32,060,936
Changes in working capital		(67,231,846)	(214,296,736)
Trade receivables- other parties		(77,820,822)	(33,773,622)
Trade receivables- related parties		(121,561,321)	9,276,052
Inventories		163,412,892	(253,309,504)
Other current assets		34,121,035	(8,926,894)
Other receivables		(6,749)	7,399
Prepaid expenses		(7,785,506)	(8,577,591)
Trade payables-related parties		(6,302,115)	(26,236,923)
Trade payables- other parties		(26,408,639)	105,998,827
Deferred income		(20,351,639)	(3,391,474)
Other liabilities		3,236,600	18,090,698
Payables related to employee benefits		(7,765,582)	(13,453,704)
Net cash provided by operating activities		29,590,071	(81,211,557)
Employment termination benefits paid	11	(3,431,440)	(631,698)
Taxes paid	18	(2,552,549)	(5,033,208)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(37,115,687)</b>	<b>(28,605,564)</b>
Proceeds from sales of property, plant and equipment and intangible assets		5,010,416	-
Payments for purchases of property, plant and equipment and intangible assets		(42,126,103)	(28,605,564)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>191,121,051</b>	<b>(231,172,726)</b>
Proceeds from bank borrowings		497,000,000	333,335,000
Repayment of bank borrowings		(268,436,250)	(244,614,792)
Dividends paid	13	-	(300,000,000)
Interest paid		(62,396,998)	(27,274,540)
Interest received		24,954,299	7,381,606
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)</b>		<b>177,611,446</b>	<b>(346,654,753)</b>
<b>D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>		<b>5,923,384</b>	<b>(2,605,342)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>183,534,830</b>	<b>(349,260,095)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>3</b>	<b>408,307,825</b>	<b>441,212,656</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)</b>	<b>3</b>	<b>591,842,655</b>	<b>91,952,561</b>

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



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

## **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

Türk Traktör ve Ziraat Makineleri A.Ş. (the “Company”) was established in 1954 in Ankara, as Minneapolis Moline Türk Traktör ve Ziraat Makineleri A.Ş. to undertake the manufacturing and trade of farm tractors, harvesters and other agricultural machinery and equipment. The name of the Company was changed as Türk Traktör Ziraat Makineleri A.Ş. in 1968 upon the purchase of 25% of the shares held by Ege Makina ve Ticaret A.Ş., a group company of the Koç Holding A.Ş. (“Koç Holding”). As of 31 March 2019, major shareholders of the Company are Koç Holding and CNHI Österreich GmbH (“CNHI Österreich”) (Note 13). The number of personnel working within the Company as of 31 March 2019 is 2,360 (Permanent: 2,358 temporary: 2) and the average number of personnel is 2,389 (31 December 2018: 2,426 (Permanent: 2,425, temporary: 1), average: 2,790).

The Company conducts marketing and selling activities in the domestic market, through its 126 sales dealers, 147 spare part dealers and 43 heavy construction equipment dealers (31 December 2018: 129 sales dealers, 148 spare part dealers, 43 heavy construction equipment dealers).

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

The Company is registered in Turkey in the following address:

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

As of 31 March 2019, the free float of the Company whose shares are traded in the Borsa Istanbul (“BİST”) is 25% (31 December 2018:25 %) (Note 13).

### **NOTE 2 - BASIS OF PRESENTATION OF CONDENSED INTERIM FINANCIAL STATEMENTS**

#### **2.1 Basis of presentation**

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

#### **Principles governing the preparation of financial statements**

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

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.

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

## **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

#### **2.1 Basis of presentation (Continued)**

The condensed interim financial statements are prepared in accordance with the Communiqué and TAS 34 - “Interim Financial Reporting”. The condensed financial statements are presented in accordance with the format and mandatory information required by POA. In accordance with the TAS 34, entities are allowed to prepare a complete or condensed set of interim financial statements. In this framework, the Group has preferred to prepare condensed financial statements in the interim periods. These interim financial statements should be read in conjunction with the financial statements prepared for the year ended 31 December 2018.

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

#### **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; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively. The accounting policies except the situation stated below used in the preparation of these financial statements for 31 March 2019 are consistent with those used in the preparation of financial statements for the year ended 31 December 2018.

#### **2.3 Change in TFRS**

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 interim financial statements as at 31 March 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of 1 January 2019. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

#### 2.3 Change in TFRS (Continued)

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

- **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.
- **TAS 28 “Investments in associates and joint venture”;** Effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16 “Leases”;**

The Group has adopted TFRS 16 “Leases” as at 1 January 2019 for the first time, in line with the transition provisions of the standard.

Impacts of the first time adoption of TFRS 16 on the condensed interim consolidated financial statements of the Group are as below:

##### *The Company – as a lessee*

At inception of a contract, the Company assesses whether a contract is, or contains a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, The Company assess whether:

- a) the contract involved the use of an identified asset – this may be specified explicitly or implicitly.
- b) the asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.
- c) the Company has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
- d) the Company has the right to direct use of the asset. The Company concludes to have the right of use, when it is predetermined how and for what purpose the Company will use the asset. The Company has the right to direct use of asset if either:
  - i. the Company has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
  - ii. the Company designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

##### 2.3 Change in TFRS (Continued)

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

##### *Right of use asset*

The right of use asset is initially recognized at cost comprising of:

- a) amount of the initial measurement of the lease liability;
- b) any lease payments made at or before the commencement date, less any lease incentives received;
- c) any initial direct costs incurred by the Company; and
- d) an estimate of costs to be incurred by the lessee for restoring the underlying asset to the condition required by the terms and conditions of the lease (unless those costs are incurred to produce inventories)

The Company re-measure the right of use asset:

- a) after netting-off depreciation and reducing impairment losses from right of use asset,
- b) adjusted for certain re-measurements of the lease liability recognized at the present value

The Company applies TMS16 “Property, Plant and Equipment” to amortize the right of use asset and to asses for any impairment.

##### *Lease Liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted to present value by using the interest rate implicit in the lease if readily determined or with the Company’s incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- a) fixed payments, including in-substance fixed payments;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date,
- c) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewable period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain to terminate early.

After initial recognition, the lease liability is measured:

- a) increasing the carrying amount to reflect interest on lease liability
- b) reducing the carrying amount to reflect the lease payments made and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

##### **2.3 Change in TFRS (Continued)**

###### *Extension and termination options*

In determining the lease liability, the Company considers the extension and termination options. The majority of extension and termination options held are exercisable both by the company and by the respective lessor. Extension options are included in the lease term if the lease is reasonably certain to be extended. The company remeasures the lease term, if a significant event or a significant change in circumstances occurs which affects the initial assessment.

###### *Variable lease payments*

Company's lease contracts also include variable lease payments which are not in the scope of TFRS 16. Variable lease payments are recognised in profit or loss in the related period.

###### *Exemptions and simplifications*

Short-term lease payments and payments for leases of low-value assets like IT equipments (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities in the scope of TFRS 16. Lease payments of these contracts are continued to be recognised in profit or loss in the related period. The Company applied a single discount rate to a portfolio of leases which have similar characteristics (asset classes which have similar remaining rent periods in a similar economic environment).

###### *First time adoption of TFRS 16 Leases*

The Group has applied TFRS 16 "Leases", which replaces TAS 17, for the effective period beginning on 1 January 2019. The cumulative impact of applying TFRS 16 is accounted in the condensed interim consolidated financial statements retrospectively ("cumulative impact approach") at the start of the current accounting period. The simplified transition approach of the related standard does not require a restatement in the comparative periods or in the retained earnings.

With the transition to TFRS 16 "Leases", a "lease liability" is recognized in the condensed interim consolidated financial statements for the lease contracts which were previously measured under TAS 17 as operational leases. At transition, lease liabilities are measured at the net present value of the remaining lease payments, discounted at the Group's incremental borrowing rate on the effective transition date. The Group measured right-of-use assets at an amount equal to the lease liability (adjusted by the amount of any prepaid or accrued lease payments) under TFRS 16 simplified transition approach.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

#### 2.3 Change in TFRS (Continued)

The reconciliation of operating lease commitments under TAS 17 before the transition date and the lease liabilities measured under TFRS 16 as of 1 January 2019 is as below:

	1 January 2019
<b>Operating lease commitments within the scope of TAS 17</b>	<b>46,315,419</b>
- Short term leases (-)	(1,270,080)
- Low value leases (-)	(2,038,339)
- Adjustments for extension or early termination options	-
- Finance lease obligations (+)	-
<b>Total lease liabilities within the scope of TFRS 16 (non-discounted)</b>	<b>43,007,000</b>
<b>Total lease liabilities within the scope of TFRS 16 (discounted with alternative borrowing rate)</b>	<b>34,524,391</b>
- Short term lease liabilities	11,786,723
- Long term lease liabilities	22,737,668

The weighted average of the Group's incremental borrowing rates for all currencies as at 1 January 2019 for Eur %5, for TL %23.

As of January 1, 2019 and March 31, 2019, the details of the right of use assets that are accounted in the condensed consolidated financial statements are as follows:

	31 March 2019	1 January 2019
Buildings	11,249,680	12,684,502
Machinery, equipment and installations	11,238,878	13,039,898
Motor vehicles	13,352,024	10,004,907
<b>Total right of use</b>	<b>35,840,582</b>	<b>35,729,307</b>

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

**2.3 Change in TFRS (Continued)**

- **TFRIC 23, ‘Uncertainty over income tax treatments’**; effective from annual periods beginning on or after 1 January 2019. This TFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that TAS 12, not TAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. TFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The impact of the amendment over financial position or performance of the Company are being assessed.
- **Annual improvements 2015 - 2017**; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
  - IFRS 3, ‘Business combinations’, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, ‘Joint arrangements’, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, ‘Income taxes’ - a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, ‘Borrowing costs’ - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement**; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
  - Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
  - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

#### 2.3 Change in TFRS (Continued)

##### *b. Standards, amendments and interpretations that are issued but not effective as at 31 March 2019:*

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
  - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  - ii) clarify the explanation of the definition of material; and
  - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

#### 2.4 Summary of significant accounting policies

The accounting policies used in the preparation of these interim condensed financial statements for the period ended 31 March 2019 are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2018 except for the following:

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

These interim condensed financial statements for the period 1 January- 31 March 2019 should be read in conjunction with the annual financial statements for the year 1 January - 31 December 2018.

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

#### 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.



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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

##### **2.5 Significant accounting estimates and judgments (Continued)**

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

##### **Warranty expense provisions**

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

##### **Deferred tax assets**

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

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

##### **Cash flow hedge transactions**

As explained in Note 21, the Company uses its loans amounting to EUR46,250,000 as a hedging instrument against the euro spot exchange rate risk the Company is exposed to due to highly probable export sales income and applies cash flow hedge accounting as a result of the effectiveness tests performed. The estimations in budgets for export income used for effectiveness test include estimations such as sales quantities, sales prices and foreign exchange rates. Based on the sensitivity analysis performed for the estimations used in effectiveness tests, the Company concluded that 10% increase/decrease in estimations do not have any significant effect on the assessment of effectiveness tests.

##### **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.

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

##### 2.5 Significant accounting estimates and judgments (Continued)

###### Provision for employment termination benefits

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

###### Provision for impairment of inventories

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

#### NOTE 3 - CASH AND CASH EQUIVALENTS

	31 March 2019	31 December 2018
Cash	-	-
Banks:		
- TRY denominated demand deposits	6,917,180	12,606,729
- TRY denominated time deposits	464,498,784	346,204,631
- Foreign currency denominated demand deposits	618,475	1,775,250
- Foreign currency denominated time deposits	127,387,008	52,081,920
	<b>599,421,447</b>	<b>412,668,530</b>

As of 31 March 2019, the weighted average effective annual interest rate for TRY and Euro ("EUR") time deposits are 20.43% and 1.13%, respectively (31 December 2018: TRY: 23.28%, EUR: 2.38%). As of 31 March 2019 and 31 December 2018, remaining time to maturity of time deposits is less than three months.

As of 31 March 2019, the Company has no restricted deposits (31 December 2018: None).

The cash and cash equivalents included in the statement of cash flows at 31 March 2019 and 31 December 2018 is as follows:

	31 March 2019	31 December 2018
Banks	599,421,447	412,668,530
Less: Interest accruals	(7,578,792)	(4,360,705)
<b>Cash and cash equivalents</b>	<b>591,842,655</b>	<b>408,307,825</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

### NOTE 4 - FINANCIAL LIABILITIES

#### a) Short-term financial liabilities

##### Short-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018	31 March 2019	31 December 2018
TRY borrowings	166,454	85,033,786	-	29.50	166,454	85,033,786
					166,454	85,033,786

##### Current portion of long-term bonds

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018	31 March 2019	31 December 2018
TRY bonds issued (*)	82,792,912	81,461,538	12.84	12.84	82,792,912	81,461,538
Total short term bonds					82,792,912	81,461,538

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

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

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018	31 March 2019	31 December 2018
EUR borrowings	24,552,997	11,232,989	2.29	1.62	155,145,477	67,712,459
TRY borrowings	817,789,608	235,328,924	14.22	14.00	817,789,608	235,328,924
					972,935,085	303,041,383

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

### NOTE 4 - FINANCIAL LIABILITIES (Continued)

#### b) Long-term financial liabilities

##### Long-term bank borrowings

	Original currency amount		Weighted average effective interest rate p.a. (%)		TRY equivalent	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018	31 March 2019	31 December 2018
EUR borrowings	42,117,894	58,313,279	1.83	2.00	266,134,547	351,512,444
TRY borrowings	629,715,108	876,801,212	19.92	17.79	629,715,108	876,801,212
					895,849,655	1,228,313,656
Prepaid commission (*)					(24,955)	(111,059)
<b>Total long-term borrowings</b>					<b>895,824,700</b>	<b>1,228,202,597</b>

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

##### Long term bonds

	Original currency amount		Weighted average effective interest rate p.a. (%)ss		TRY equivalent	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018	31 March 2019	31 December 2018
TRY bonds issued (*)	75,000,000	75,000,000	20.14	25.67	75,000,000	75,000,000
<b>Total long term bonds</b>					<b>75,000,000</b>	<b>75,000,000</b>

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

Redemption schedule of the long-term bank borrowings and bonds as of 31 March 2019 and 31 December 2018 is as follows:

Year	31 March 2019	31 December 2018
2020	261,995,354	1,107,065,694
2021	143,259,906	139,431,039
2022	565,569,440	56,705,865
	<b>970,824,700</b>	<b>1,303,202,597</b>

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

As of 31 March 2019, the Company has a total of EUR 20,416,666.32 fixed rate investment loan, EUR 26,000,000 fixed rate working capital loan, and EUR 20,000,000 floating rate working capital loan. EUR 20,416,666.32 fixed rate loan has 6-year maturity (maturity date 15.07.2022), principal and interest payable every 6 months and the interest rate is 0.95% p.a. fixed. EUR 26,000,000 fixed rate working capital loan consist of (a) EUR 10,000,000, 3-year maturity (maturity date 03.02.2020), interest payable every 3 months, principal is to be paid at maturity and the interest rate is 2.95% p.a. fixed. (b) EUR 16,000,000, 5-year maturity (maturity date 14.11.2022), principal and interest payable every 6 months and the interest rate is 2.60% p.a. fixed. EUR 20,000,000 floating rate loan consist of; (a) EUR 10,000,000, 3-year maturity (maturity date 26.03.2021), monthly interest payment, 2 years grace period, after the 2nd year principal payable every 6 months, interest rate is 2.25% + Euribor p.a. (b) EUR 10,000,000, 2-year maturity (maturity date 29.06.2020), interest payable every 3 months and interest rate is 1.90% + Euribor p.a. The company, in accordance with contracts made with regard to investment loan that had been used, has an obligation to not to exceed the rate specified below, which is calculated at the end of each financial period using the financial statements prepared in accordance with Turkey Financial Reporting Standards. No collaterals or mortgages given for loans.

Obligation rate is;

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

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

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

	Carrying Value		Fair Value	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
Bank borrowings	<b>1,868,926,239</b>	1,616,277,766	<b>1,741,265,743</b>	1,604,720,505

As of 31 March 2019, fair values of the bank borrowings, for EUR and TRY bank borrowings are determined by using the discounted cash flow method over weighted effective discount rates 1.97% and 19.02% per annum, respectively (31 December 2018: EUR: 1.96% and TRY: 20.00% per annum)

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

**NOTE 5 - TRADE RECEIVABLES AND PAYABLES**

	31 March 2019	31 December 2018
<b>Short-term trade receivables:</b>		
Customer current accounts	366,897,270	254,696,513
Notes receivables and protested notes	70,946,709	104,105,935
	<b>437,843,979</b>	<b>358,802,448</b>
Less: Provision for doubtful receivables	(51,423,073)	(51,547,274)
Unearned financial income	(9,938,551)	(8,777,438)
<b>Short-term trade receivables</b>	<b>376,482,355</b>	<b>298,477,736</b>
Trade receivables from related parties (Note 20)	260,838,421	150,186,703
<b>Total short-term trade receivables</b>	<b>637,320,776</b>	<b>448,664,439</b>

As of 31 March 2019, the average maturity of trade receivables is between 67 days (31 December 2018: 70 days). The weighted average effective annual interest rates for discount of TRY and Euro trade receivables are 25% and (0.38)% (31 December 2018: TRY: 23.49% and, EUR: (0.38)%).

Movements of the provisions for short-term doubtful receivables for the periods ended 31 March 2019 and 2018 are as follows:

	2019	2018
<b>1 January</b>	<b>(51,547,274)</b>	<b>(49,389,742)</b>
Cancelled during the period (Note 17)	1,322,542	57,322
Charge during the period (Note 17)	(1,198,342)	(385,109)
<b>31 March</b>	<b>(51,423,073)</b>	<b>(49,717,529)</b>

	31 March 2019	31 December 2018
<b>Long-term trade receivables:</b>		
Notes receivables	-	59,597
	-	59,597

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

	31 March 2019	31 December 2018
<b>Trade payables:</b>		
Supplier current accounts	467,061,384	491,231,448
Less: Unincurred financial expense	(19,267,315)	(17,028,740)
<b>Trade payables</b>	<b>447,794,069</b>	<b>474,202,708</b>
Trade payables to related parties (Note 20)	32,075,903	38,378,018
<b>Total trade payables</b>	<b>479,869,972</b>	<b>512,580,726</b>

As of 31 March 2019, the average maturity of trade payables is between 78 days (31 December 2018: 85 days). The weighted average effective annual interest rates for discount of TRY and Euro trade receivables are 25% and (0.38)% (31 December 2018: TRY: 23.49% and, EUR: (0.38)%).

#### NOTE 6 - INVENTORIES

	31 March 2019	31 December 2018
Raw materials	381,339,275	367,063,753
Work in progress	10,754,769	18,224,559
Finished goods	236,338,706	334,277,707
Commercial goods	202,779,345	219,109,540
Spare parts	64,074,408	65,147,898
Goods in transit (*)	55,553,867	110,429,804
<b>Gross</b>	<b>950,840,370</b>	<b>1,114,253,261</b>
Provision for impairment of inventories (-)	(30,625,025)	(29,814,310)
<b>Net</b>	<b>920,215,345</b>	<b>1,084,438,951</b>

The cost of inventories recognised as expense in the current period is amounting to TRY 637,526,227 (31 December 2018: TRY3,176,439,695)

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

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

	2019	2018
<b>1 January</b>	<b>(29,814,310)</b>	<b>(33,875,335)</b>
Cancelled due to sales inventory during the period	(810,715)	-
<b>31 March</b>	<b>(30,625,025)</b>	<b>(33,875,335)</b>

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

**NOTE 6 – INVENTORIES (Continued)**

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

	31 March 2019	31 December 2018
Raw materials	(24,772,244)	(24,814,722)
Finished goods	(3,684,450)	(6,892,282)
Spare parts	(2,168,331)	(2,168,331)
	(30,625,025)	(33,875,335)

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

	1 January 2019	Additions	Disposals	Transfers	31 March 2019
<b><u>Cost</u></b>					
Land	52,418,380	-	-	-	52,418,380
Land improvements	15,920,720	-	-	-	15,920,720
Buildings	242,860,556	-	-	-	242,860,556
Machinery and equipment	705,553,430	24,953,724	-	-	730,507,154
Special costs	6,516,202	-	-	-	6,516,202
Motor vehicles	8,417,604	-	(2,084,448)	-	6,333,156
Furniture and fixtures	95,156,839	603,381	-	-	95,760,220
Construction in progress	7,439,146	167,014	-	-	7,606,160
	1,134,282,877	25,724,119	(2,084,448)	-	1,157,922,548
<b><u>Accumulated depreciation</u></b>					
Land improvements	5,370,659	120,444	-	-	5,491,103
Buildings	60,836,089	1,305,709	-	-	62,141,798
Machinery and equipment	406,349,245	13,949,368	-	-	420,298,613
Special costs	4,444,148	171,711	-	-	4,615,859
Motor vehicles	3,449,668	371,299	(646,678)	-	3,174,289
Furniture and fixtures	63,596,207	2,922,924	-	-	66,519,131
	544,046,016	18,841,455	(646,678)	-	562,240,793
<b>Net book value</b>	<b>590,236,861</b>				<b>595,681,755</b>



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

	1 January 2018	Additions	Disposals	Transfers	31 March 2018
<b><u>Cost</u></b>					
Land	37,740,200	-	-	-	37,740,200
Land improvements	14,492,387	78,693	-	-	14,571,080
Buildings	234,001,543	145,911	-	-	234,147,454
Machinery and equipment	598,410,208	13,504,616	-	-	611,914,824
Special costs	5,859,199	452,263	-	-	6,311,462
Motor vehicles	8,211,037	945,575	-	-	9,156,612
Furniture and fixtures	82,922,128	887,405	-	-	83,809,533
Construction in progress	5,375,563	187,587	-	-	5,563,150
	987,012,265	16,202,050	-	-	1,003,214,315
<b><u>Accumulated depreciation</u></b>					
Land improvements	4,875,531	119,463	-	-	4,994,994
Buildings	55,541,085	1,262,436	-	-	56,803,521
Machinery and equipment	369,845,930	10,128,784	-	-	379,974,714
Special costs	3,771,264	156,892	-	-	3,928,156
Motor vehicles	2,905,162	385,825	-	-	3,290,987
Furniture and fixtures	52,846,199	2,558,618	-	-	55,404,817
	489,785,171	14,612,018	-	-	504,397,189
<b>Net book value</b>	497,227,094				498,817,126

Allocation of the depreciation expenses of property, plant and equipment as of 31 March 2019 and 2018 is as follows:

	31 March 2019	31 March 2018
Production costs	13,806,166	10,242,810
General administrative expenses	3,390,567	2,613,882
Marketing, expenses	902,249	939,292
Research and development expenses	742,473	816,034
	18,841,455	14,612,018

The Company does not have any financial costs in the current period arising from foreign exchange denominated borrowings capitalized on construction in progress as of 31 March 2019 (31 March 2018: None)

There is not mortgage on property, plant and equipment as of 31 March 2019 (31 December 2018: None).

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

**NOTE 8 - INTANGIBLE ASSETS**

	1 January 2019	Additions	Disposals	Transfers	31 March 2019
<b><u>Cost</u></b>					
Rights	88,912,993	702,459	-	-	89,615,452
Development costs	232,075,537	-	-	-	232,075,537
Development costs in progress	58,054,633	16,600,000	-	-	74,654,633
	<b>379,043,163</b>	<b>17,302,459</b>	<b>-</b>	<b>-</b>	<b>396,345,622</b>
<b><u>Accumulated amortisation</u></b>					
Rights	34,329,690	3,072,783	-	-	37,402,473
Development costs	75,966,812	7,133,469	-	-	83,100,281
	<b>110,296,502</b>	<b>10,206,252</b>	<b>-</b>	<b>-</b>	<b>120,502,754</b>
<b>Net book value</b>	<b>268,746,661</b>				<b>275,842,868</b>

	1 January 2018	Additions	Disposals	Transfers	31 March 2018
<b><u>Cost</u></b>					
Rights	68,747,944	3,391,177	-	-	72,139,121
Development costs	110,150,931	-	-	-	110,150,931
Development costs in progress	120,256,568	9,979,144	-	-	130,235,712
	<b>299,155,443</b>	<b>13,370,321</b>	<b>-</b>	<b>-</b>	<b>312,525,764</b>
<b><u>Accumulated amortisation</u></b>					
Rights	24,410,680	2,081,219	-	-	26,491,899
Development costs	58,845,477	3,963,395	-	-	62,808,872
	<b>83,256,157</b>	<b>6,044,614</b>	<b>-</b>	<b>-</b>	<b>89,300,771</b>
<b>Net book value</b>	<b>215,899,286</b>				<b>223,224,993</b>

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

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

### NOTE 8 - INTANGIBLE ASSETS (Continued)

Allocation of the amortization expenses of intangible assets that has suspended as of 31 March 2019 and 2018 are as follows:

	31 March 2019	31 March 2018
Production costs	2,164,948	1,484,097
General administrative expenses	553,825	316,785
Marketing, selling and distribution expenses	185,817	129,562
Research and development expenses	6,401,187	3,147,363
Reflected to development cost in progress	900,475	966,807
	10,206,252	6,044,614

### NOTE 9 - OTHER ASSETS AND LIABILITIES

	31 March 2019	31 December 2018
<b>a) Other current assets:</b>		
Deferred value added tax ("VAT")	144,261,423	152,328,930
Reclaimed taxes	14,589,523	45,985,269
Other	8,251,232	2,909,014
	167,102,178	201,223,213

	31 March 2019	31 December 2018
<b>b) Government grants and aids:</b>		
Government grants and aids	4,083,218	4,083,218
	4,083,218	4,083,218

### NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME

	31 March 2019	31 December 2018
<b>a) Received during the period:</b>		
Prepaid expenses	4,359,178	1,083,524
	4,359,178	1,083,524

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

**NOTE 10 - PREPAID EXPENSES AND DEFERRED INCOME (Continued)**

	31 March 2019	31 December 2018
<b>b) Long-term prepaid expenses:</b>		
Advances given for purchases of fixed assets	7,055,046	2,545,194
	7,055,046	2,545,194

	31 March 2019	31 December 2018
<b>c) Deferred income:</b>		
Deferred income (*)	4,561,340	24,940,048
Advances received	43,119	16,050
	4,604,459	24,956,098

(\*) 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 March 2019 and 31 December 2018.

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

	31 March 2019	31 December 2018
Provision for unused vacation	3,650,503	1,807,491
	3,650,503	1,807,491

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

	2019	2018
<b>1 January</b>	<b>1,807,491</b>	<b>2,051,334</b>
Charge/ (used) for the period- net	1,843,012	1,216,379
<b>31 March</b>	<b>3,650,503</b>	<b>3,267,713</b>

**Other short-term provisions**

	31 March 2019	31 December 2018
Warranty provision	26,552,983	28,133,964
Provision for legal cases (*)	8,129,682	6,881,714
	34,682,665	35,015,678

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

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

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

	2019	2018
<b>1 January</b>	<b>6,881,714</b>	7,704,448
Cancelled/Charge provision for the period (Note 15)	<b>1,247,968</b>	(822,734)
<b>31 March</b>	<b>8,129,682</b>	6,881,714

#### b) Long-term provisions

##### Long-term provision for employee benefits

	31 March 2019	31 December 2018
Provision for employee termination benefits	<b>34,366,471</b>	34,199,225
	<b>34,366,471</b>	34,199,225

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

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

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

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

	31 March 2019	31 December 2018
Inflation rate (%)	<b>6.5</b>	6.5
Interest rate (%)	<b>11.77</b>	11.77
Turnover rate to estimate the probability of retirement (%)	<b>93.68</b>	93.68

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The Company's provision for employee termination benefit was calculated over TRY6,017.60 valid as of 1 January 2019 (1 January 2018: TRY5,001.76).

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

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

	2019	2018
<b>1 January</b>	<b>34,199,225</b>	23,730,294
Interest cost	<b>1,023,626</b>	1,232,427
Current period service cost	<b>847,530</b>	232,755
Paid during the period	<b>(3,431,440)</b>	(631,698)
Actuarial loss	<b>1,727,530</b>	939,669
<b>31 March</b>	<b>34,366,471</b>	25,503,447

Sensitivity analysis of key assumptions used for termination benefits calculations as at 31 March 2019 are as follows:

	Net discount rate		Turnover related to the probability of retirement	
<b>Sensitivity level</b>	<b>0.5% decrease</b>	<b>0.5% increase</b>	<b>0.5% decrease</b>	<b>0.5% increase</b>
<b>Rate</b>	<b>(%4,45)</b>	<b>(%5,45)</b>	<b>(%93.16)</b>	<b>(%94.16)</b>
Change in employee benefits liability	1,821,634	(1,657,148)	(425,815)	450,869

### Other long-term provisions

	31 March 2019	31 December 2018
Warranty provision	<b>20,731,582</b>	21,699,184
	<b>20,731,582</b>	21,699,184

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

	2019	2018
<b>1 January</b>	<b>49,833,148</b>	73,445,026
Used during the period	<b>(8,485,825)</b>	(13,254,637)
Charge for the period	<b>5,937,242</b>	15,203,913
<b>31 March</b>	<b>47,284,565</b>	75,394,302

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

#### NOTE 11 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (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 March 2019 and 31 December 2018; the Company's guarantee/pledge/mortgage positions are as follows:

	31 March 2019	31 December 2018
A. The total amount of collaterals given on behalf of its own legal entity	66,142,078	105,076,721
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	-	-
	66,142,078	105,076,721

As at 31 March 2019, the Company has given its own legal entity on behalf of the original collateral denominated in foreign currency amounts of EUR2,724,350 (31 December 2018: EUR2,724,350).

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

#### d) Contingent assets

	Original currency amount						TRY equivalent	
	31 March 2019			31 December 2018			31 March 2019	31 December 2018
	EUR	USD	TRY	EUR	USD	TRY		
Letters of guarantees received	-	270,000	683,522,400	-	270,000	741,094,800	685,042,068	742,515,243
Direct debit	-	-	386,934,568	-	-	385,439,385	386,934,568	385,439,385
Mortgages	-	-	438,714	-	-	438,714	438,714	438,714
Cash TL guarantees	8,000	-	2,402,996	-	-	787,257	2,453,547	787,257
Guarantee bonds		-	773,651	8,000	-	1,500,000	773,651	1,548,224
							1,075,642,549	1,130,728,823



# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

### NOTE 12 - PROVISION FOR EMPLOYEE BENEFITS

#### Liabilities for employee benefits

	31 March 2019	31 December 2018
Accrued premiums and liabilities to personnel	8,469,938	9,074,562
Taxes payable and liabilities (*)	5,014,171	12,175,129
	13,484,109	21,249,691

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

### NOT 13 - SHAREHOLDERS' EQUITY

#### Paid-in share capital

The Company's registered share capital amounts to TRY250,000,000 (31 December 2018: TRY250,000,000).

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

The composition of the Company's statutory share capital at 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019		31 December 2018	
	Participation (%)	Share amount (TRY)	Participation (%)	Share amount (TRY)
Koç Holding	37.50	20,013,375	37.50	20,013,375
CNHI Österreich	37.50	20,013,375	37.50	20,013,375
Public quotation in BIST	25.00	13,342,250	25.00	13,342,250
	100.00	53,369,000	100.00	53,369,000
Adjustments to share capital		39,014,356		39,014,356
		92,383,356		92,383,356

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

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

As of 11 June 2004, the Company has been quoted to BIST and its shares started to be traded in the stock exchange market from that date. As of 31 March 2019, 25% (31 December 2018: 25%) of the Company shares are quoted at BIST.

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

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

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

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

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

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

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

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

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

#### Dividend distribution

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

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

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

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

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

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

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

The proposal regarding the non-distribution of dividends from 2018 profit was accepted at the 65th General Assembly dated 12 March 2019.

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

	<b>1 January - 31 March 2019</b>	<b>1 January- 31 March 2018</b>
Domestic sales	<b>406,663,257</b>	854,854,631
Export sales	<b>478,818,263</b>	315,780,654
<b>Sales income (gross)</b>	<b>885,481,520</b>	1,170,635,285
Less: Discount and returns	<b>(67,517,145)</b>	(122,661,768)
<b>Sales income (net)</b>	<b>817,964,375</b>	1,047,973,517
Cost of sales	<b>(722,037,404)</b>	(876,065,230)
<b>Gross profit</b>	<b>95,926,971</b>	171,908,287

**Sales quantities:**

	<b>31 March 2019</b>			<b>31 March 2018</b>		
	<b>Domestic sales</b>	<b>Export sales</b>	<b>Total sales</b>	<b>Domestic sales</b>	<b>Export sales</b>	<b>Total sales</b>
Tractor	<b>2,345</b>	<b>3,553</b>	<b>5,898</b>	7,820	2,828	10,648
Combine	<b>8</b>	<b>-</b>	<b>8</b>	68	-	68
	<b>2,353</b>	<b>3,553</b>	<b>5,906</b>	7,888	2,828	10,716

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

**NOTE 15 - OTHER OPERATING INCOME/ (EXPENSES)**

	<b>1 January - 31 March 2019</b>	<b>1 January - 31 March 2018</b>
Foreign exchange gain from trade receivable/ payables	<b>75,112,818</b>	49,170,241
Financial income from credit sales	<b>41,867,063</b>	22,604,620
Reversal of provision for doubtful receivables (Note 5)	<b>1,322,542</b>	57,322
Other income	<b>8,578,677</b>	3,446,765
<b>Other operating income</b>	<b>126,881,100</b>	75,278,948
Foreign exchange loss from trade receivable/ payables	<b>(71,140,091)</b>	(39,091,610)
Financial income from credit sales	<b>(13,447,234)</b>	(24,100,889)
Reversal of provision for doubtful receivables (Note 5)	<b>(1,198,342)</b>	(385,109)
Other income (Note 11)	<b>(1,247,968)</b>	-
<b>Other operating expenses</b>	<b>(87,033,635)</b>	(63,577,608)

**NOTE 16 - FINANCIAL INCOME**

	<b>1 January – 31 March 2019</b>	<b>1 January- 31 March 2018</b>
Foreign exchange gain	<b>5,853,351</b>	8,627,469
Interest income	<b>28,172,385</b>	8,778,564
<b>Financial income</b>	<b>34,025,736</b>	17,406,033

**NOTE 17 - FINANCIAL EXPENSES**

	<b>1 January - 31 March 2019</b>	<b>1 January - 31 March 2018</b>
Foreign exchange loss	<b>(17,483,489)</b>	(26,316,793)
Interest expenses of bank borrowings	<b>(70,252,623)</b>	(30,168,493)
Other	<b>(3,908,241)</b>	(109,641)
<b>Financial expenses</b>	<b>(91,644,353)</b>	(56,594,927)

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

### NOTE 18 - TAX ASSETS AND LIABILITIES

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

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

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

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

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

The aforementioned law has been enacted as of April 1, 2008. Accordingly, income tax-payers can deduct 100% of the expenditures made as of then, which are related to research and development related to new technology and information developments. Research and development incentives shall be calculated over the total expenditures made in 2019 and 2018.

As of 31 March 2019 and 31 December 2018, income tax payables are presented net of prepaid taxes in the balance sheet as follows:

	31 March 2019	31 December 2018
Corporate tax expenses	(9,852,635)	2,552,548
Less: Prepaid taxes	(16,993,543)	(16,993,543)
<b>Tax liability/ (Current tax assets)</b>	<b>(26,846,178)</b>	<b>(14,440,995)</b>

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

The breakdown of total tax expense for the periods ended 31 March 2019 and 2018 are as follows:

	1 January - 31 March 2019	1 January - 31 March 2018
Corporate tax expenses	9,852,635	(16,413,098)
Deferred tax income/(expense)	(7,090,096)	17,628,297
<b>Tax expenses</b>	<b>2,762,539</b>	<b>1,215,199</b>

### Deferred taxes

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

The breakdown of cumulative temporary differences and the resulting deferred tax assets/ (liabilities) at 31 March 2019 and 31 December 2018 are as follows:

	Temporary differences		Deferred tax assets/ (liabilities)	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
Property, plant and equipment and intangible assets, restatement and useful life differences	240,399,983	255,885,852	(52,887,996)	(56,294,887)
Provision for employee termination benefits	(34,366,471)	(34,199,225)	7,560,624	7,523,830
Warranty provision	(47,284,565)	(49,833,149)	10,402,604	10,963,293
Provision for lawsuits	(8,129,682)	(6,881,714)	1,788,530	1,513,977
Unearned finance income/ (expense) on trade receivables, payables and due from related parties, net	35,849,183	1,520,485	(7,886,820)	(334,507)
Doubtful trade receivables provision	124,201	(2,157,532)	(27,324)	474,657
Provision for inventories	(30,625,025)	(29,814,310)	6,737,506	6,559,148
Sales premium accrued	(61,215,343)	(26,459,516)	13,467,375	5,821,094
Other expense provisions	(3,650,503)	(2,047,491)	803,111	450,448
Investment incentive tax assets	265,248,893	265,248,893	79,574,668	79,574,668
Deferred income	3,392,136	(16,263,501)	(746,270)	3,577,970
Other	(16,680,500)	(40,606,184)	3,669,710	8,933,360
<b>Deferred tax assets</b>			<b>62,455,717</b>	<b>68,763,051</b>

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

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

	2019	2018
<b>1 January</b>	<b>68,763,051</b>	69,507,884
Charged to profit for the period	<b>(7,090,096)</b>	17,628,297
Charged to other comprehensive income/ (expense)	<b>782,762</b>	2,126,743
<b>31 March</b>	<b>62,455,717</b>	89,262,924

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

	1 January - 31 March 2019	1 January - 31 March 2018
<b>Profit before tax</b>	<b>4,819,408</b>	54,985,865
Tax calculated at enacted tax rate	<b>1,060,270</b>	12,096,890
Investment allowances	-	(11,517,594)
Research and development allowances	<b>(3,652,000)</b>	(2,058,405)
Disallowable expenses	<b>4,621</b>	15,239
Other	<b>(175,430)</b>	248,671
<b>Total tax expense/(income)</b>	<b>(2,762,539)</b>	(1,215,199)

#### NOTE 19 - EARNINGS PER SHARE

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

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

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



## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

#### NOTE 19 - EARNINGS PER SHARE (Continued)

	1 January- 31 March 2019	1 January- 31 March 2018
Net profit for the period	7,581,947	56,201,064
Weighted average number of the ordinary shares	5,336,900,000	5,336,900,000
Earnings per share (Kr1 nominal value per share as TRY)	0.0014	0.0105

#### NOTE 20 - RELATED PARTY DISCLOSURES

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

Summary of the intercompany balances as of 31 March 2019 and 31 December 2018 and significant intercompany transactions are as follows:

##### i) Balances with related parties as of 31 March 2019 and 31 December 2018:

	31 March 2019	31 December 2018
<b>a) Bank deposits and borrowings</b>		
<b>Deposits with related parties:</b>		
Yapı ve Kredi Bankası A.Ş. ("Yapı Kredi")	100,000,000	26,800,000
	100,000,000	26,800,000

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

	<b>31 March 2019</b>	<b>31 December 2018</b>
<b>Due from group companies</b>		
CNHI International SA ("CNHI International") (*)	<b>253,002,794</b>	139,441,701
CNH Industrial (India) Pvt. Ltd.	<b>2,353,560</b>	3,800,512
CNH Industrial Brasil Ltda	<b>2,052,267</b>	1,759,612
Iveco Argentina, SA	<b>1,692,281</b>	3,108,842
CNHI Italy SpA ("CNHI Italy")	<b>1,007,254</b>	71,993
Other	<b>730,265</b>	2,004,043
	<b>260,838,421</b>	150,186,703

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

**c) Due to related parties**

	<b>31 March 2019</b>	<b>31 December 2018</b>
Koç Holding	<b>392,350</b>	4,132,096
<b>Due to shareholders</b>	<b>392,350</b>	4,132,096
Opet Fuchs Madeni Yağ Sanayi ve Ticaret A.Ş. ("Opet Fuchs")	<b>14,702,339</b>	8,868,393
Zer Merkezi Hizmetler ve Ticaret A.Ş. ("Zer")	<b>9,587,085</b>	16,090,601
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ("Koç Sistem")	<b>2,779,812</b>	6,535,691
Ram Sigorta Aracılık Hizmetleri A.Ş. ("Ram Sigorta")	<b>2,102,005</b>	572,203
Setur Servis Turistik A.Ş. ("Setur")	<b>1,680,945</b>	603,119
Otokoç Otomotiv San. ve Tic. A.Ş. ("Otokoç")	<b>700,521</b>	652,722
Koçtaş Yapı Marketleri A.Ş. ("Koçtaş")	<b>257,613</b>	450,066
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Paz. A.Ş. ("Akpa")	<b>298,423</b>	278,980
Other	<b>421,188</b>	901,572
<b>Due to group companies</b>	<b>32,529,931</b>	34,953,347
Less: Unearned financial expenses	<b>(846,378)</b>	(707,425)
	<b>32,075,903</b>	38,378,018

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

#### ii) Significant sales and purchases transactions with related parties for the periods between 1 January - 31 March 2019 and 2018:

##### a) Product sales to related parties

	1 January - 31 March 2019	1 January- 31 March 2018
<b>Product sales to group companies:</b>		
CNHI International SA(*)	476,382,128	316,591,062
CNHI Italy	4,365,039	3,342,837
CNH Industrial (India) PV	1,720,683	-
CNH Industrial Brasil Ltda	1,680,097	2,390,932
Iveco Argentina	927,795	5,544,970
Yapı Kredi Finansal Kiralama A.O.	-	2,922,826
Other	155,565	944,373
	<b>485,231,307</b>	<b>331,737,000</b>

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

##### b) Service sales to related parties

	1 January- 31 March 2019	1 January- 31 March 2018
<b>Service sales to group companies</b>		
Otokar Otomotiv ve Savunma San. A.Ş.	1,107,085	-
Cnh Industrial (India) PRI	382,058	-
CNHI International SA(1)	240,295	19,783
CNHI Italy (2)	62,757	1,768,814
Other	12,156	-
	<b>1,804,351</b>	<b>1,788,597</b>

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

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

	<b>1 January- 31 March 2019</b>	<b>1 January- 31 March 2018</b>
<b>Product purchases from group companies</b>		
CNHI International (1)	<b>73,472,419</b>	281,582,877
Opet Fuchs (2)	<b>13,527,203</b>	17,839,548
Zer	<b>972,161</b>	2,019,002
Koç Sistem	<b>629,851</b>	1,029,206
Akpa	<b>694,491</b>	1,392,267
Opet (2)	<b>731,165</b>	766,626
CNHI India (3)	<b>21,902</b>	2,196,364
Other	<b>350,232</b>	2,249,254
	<b>90,399,424</b>	309,075,144

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

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

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

**d) Service purchases from related parties**

	<b>1 January- 31 March 2019</b>	<b>1 January- 31 March 2018</b>
<b>Service purchases from shareholders</b>		
Koç Holding (1)	<b>997,500</b>	942,500
	<b>997,500</b>	942,500
<b>Service purchase from group companies</b>		
Zer (2)	<b>17,295,899</b>	23,650,134
CNHI International (3)	<b>7,959,560</b>	2,131,376
Setur (4)	<b>3,654,879</b>	2,274,217
Ram Sigorta (5)	<b>3,282,475</b>	2,033,629
Eltek (6)	<b>2,990,158</b>	-
Otokoç (7)	<b>1,622,159</b>	1,153,674
Koç Sistem (8)	<b>601,203</b>	1,107,788
Other	<b>770,549</b>	1,334,787
	<b>38,176,882</b>	33,685,605
	<b>39,174,382</b>	34,628,105

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

- (1) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Koç Holding A.Ş. regarding their related services according to the concealed gain distribution described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.
- (2) Services purchased from Zer are related with security, cleaning, transportation and other services.
- (3) Services purchased from CNHI International are related with engineering services, strategy development, consulting and brokerage.
- (4) Services purchased from Setur are generally arising from plane tickets, accommodation and associated with various organizations within the sales and marketing activities.
- (5) As of 31 March 2019, the amounts contain the paid and accrued premiums within the insurance policy signed with insurance companies through the related party Ram Sigorta Aracılık Hizmetleri A.Ş. which is operating as insurance agent.
- (6) Services purchased from Eltek related to electricity.
- (7) Service purchased from Otokoç is related with motor vehicles leasing services.
- (8) Services received from Koç Sistem mainly includes support services related to repair and maintenance of computers and licenses.

### iii) Financial income and expenses arising from transactions with related parties for the periods between 1 January - 31 March 2019 and 2018:

#### Financial income and expense from group companies

	1 January- 31 March 2019	1 January- 31 March 2018
<b>Faiz geliri</b>		
Yapı Kredi	3,905,753	7,314

### iv) Dividends paid to shareholders:

	1 January- 31 March 2019	1 January 31 March 2018
Koç Holding	-	112,500,000
CNHI Osterreich	-	112,500,000
	-	225,000,000

## TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

### EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

**v) Other transactions with related parties for the periods between 1 January - 31 March 2019 and 31 December 2018:**

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

As of 31 March 2019, the Company paid TRY3,185,017 benefits to the key management personnel (31 March 2018: TRY3,558,863). The payment made due to leaving the Company is TRY320,350 (31 March 2018: 1,052,845) and the remaining amount consists of short term benefits.

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

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

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

**a) Market risk**

*Foreign currency risk*

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

*Cash flow hedge accounting*

There is an effective foreign currency cash flow hedge relationship between EUR long term financial borrowing related with investment expenditures and highly probable EUR export sales income. In this content, the Company applied cash flow hedge accounting beginning from 15 July 2016. The related long term investment borrowings, designated as cash flow hedges and qualified as effective, are recognised in equity as "losses/gains on cash flow hedges. The amount of the related investment borrowing as of 31 March 2019 is EUR36,416,667 (31 December 2018 EUR39,333,333). The amount of foreign exchange losses recognized after tax in equity is TRY55,007,322 (31 December 2018: TRY53,579,549).

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

The amounts of foreign currency assets, liabilities and TRY equivalents of the Company as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019					
	TRY equivalent	USD	EUR	GBP	CHF	YEN
1. Trade receivables	237,376,720	387,661	37,221,436	-	-	-
2. Monetary financial assets (including banks accounts) (Note 3)	128,005,483	25,055	20,209,431	20,880	1,735	42,680
3. Other	-	-	-	-	-	-
<b>4. Current assets(1+2+3)</b>	<b>365,382,203</b>	<b>412,716</b>	<b>57,430,867</b>	<b>20,880</b>	<b>1,735</b>	<b>42,680</b>
5. Trade receivables	-	-	-	-	-	-
6. Other	-	-	-	-	-	-
<b>7. Non-current assets(5+6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>8. Total assets (4+7)</b>	<b>365,382,203</b>	<b>412,716</b>	<b>57,430,867</b>	<b>20,880</b>	<b>1,735</b>	<b>42,680</b>
9. Trade payables	110,898,959	2,540,046	13,171,492	44,182	-	257,384,895
10. Financial liabilities (Note 4)	162,933,214	51,217	25,739,847	-	-	-
11. Other monetary liabilities	12,888,339	-	2,039,681	-	-	-
<b>12. Current liabilities (9+10+11)</b>	<b>286,720,512</b>	<b>2,591,263</b>	<b>40,951,021</b>	<b>44,182</b>	<b>-</b>	<b>257,384,895</b>
13. Financial liabilities (Note 4)	281,698,338	102,356	44,489,814	-	-	-
<b>14. Non-current liabilities (13)</b>	<b>281,698,338</b>	<b>102,356</b>	<b>44,489,814</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>15. Total liabilities (12+14)</b>	<b>568,418,851</b>	<b>2,693,619</b>	<b>85,440,835</b>	<b>44,182</b>	<b>-</b>	<b>257,384,895</b>
16. Cash flow hedge accounting amounts	230,109,633	-	36,416,667	-	-	-
<b>17. Fair value of hedged funds of foreign currency (16+18)</b>	<b>27,072,985</b>	<b>(2,280,903)</b>	<b>8,406,699</b>	<b>(23,302)</b>	<b>1,735</b>	<b>(257,342,215)</b>
<b>18. Net monetary foreign currency asset/ (liability) position (8-15)</b>	<b>(203,036,648)</b>	<b>(2,280,903)</b>	<b>(28,009,968)</b>	<b>(23,302)</b>	<b>1,735</b>	<b>(257,342,215)</b>

**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

	31 December 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)



**TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.****EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

The import and export amounts of the Company for the periods ended 31 March 2019 and 2018 are as follows:

	<b>1 January- 31 March 2019</b>	<b>1 January- 31 March 2018</b>
Total export amount	<b>478,818,263</b>	315,780,654
Total import amount	<b>208,488,244</b>	390,720,382

The Company is exposed to foreign exchange risk primarily with respect to EUR and USD. The effect of the Company's EUR and USD foreign currency position as of 31 March 2019 and 31 December 2018 under the assumption of the appreciation and depreciation of TRY against other currencies by 10% considering all variables are constant, the effect of net profit/loss and shareholder's equity for the period is as follows:

	<b>31 March 2019</b>			
	<b>Appreciation of foreign currency</b>	<b>Profit/ Loss Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Shareholders' equity Depreciation of foreign currency</b>
<b>Had TRY appreciate/ (depreciate) by 10% against USD</b>				
Profit/(loss) from USD net asset position	<b>(1,283,783)</b>	<b>1,283,783</b>	-	-
Hedged amount against USD risk (-)	-	-	-	-
<b>Net effect of USD</b>	<b>(1,283,783)</b>	<b>1,283,783</b>	-	-
<b>Had TRY appreciate/ (depreciate) by 10% against EUR</b>				
Profit/ (loss) from EUR net liability position	<b>(17,698,939)</b>	<b>17,698,939</b>	<b>6,846,393</b>	<b>(6,846,393)</b>
Hedged amount against EUR risk (-)	<b>14,233,536</b>	<b>(14,233,536)</b>	<b>17,948,551</b>	<b>(17,948,551)</b>
<b>Net Effect of EUR</b>	<b>(3,465,403)</b>	<b>3,465,403</b>	<b>24,794,945</b>	<b>(24,794,945)</b>
<b>Had TRY appreciate/ (depreciate) by 10% against other</b>				
Profit/(loss) from other net liability position	<b>(1,453,037)</b>	<b>1,453,037</b>	-	-
Hedged amount against other (-)	-	-	-	-
<b>Net effect of other</b>	<b>(1,453,037)</b>	<b>1,453,037</b>	-	-
<b>Total net effect</b>	<b>(6,202,223)</b>	<b>6,202,223</b>	<b>24,794,945</b>	<b>(24,794,945)</b>

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

	31 December 2018			
	Appreciation of foreign currency	Profit/ loss Depreciation of foreign currency	Appreciation of foreign currency	Shareholders' equity Depreciation of foreign currency
<b>Had TRY appreciate/ (depreciate) by 10% against USD</b>				
Profit/ (loss) from USD net asset position	(165,955)	165,955	-	-
Hedged amount against USD risk (-)	-	-	-	-
<b>Net effect of USD</b>	(165,955)	165,955	-	-
<b>Had TRY appreciate/(depreciate) by 10% against EUR</b>				
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)
<b>Net effect of EUR</b>	(18,313,398)	18,313,398	24,820,491	(24,820,491)
<b>Had TRY appreciate/(depreciate) by 10% against other</b>				
Profit/(loss) from other net liability position	(1,502,986)	1,502,986	-	-
Hedged amount against other (-)	-	-	-	-
<b>Net effect of other</b>	(1,502,986)	1,502,986	-	-
<b>Total net effect</b>	(19,982,338)	19,982,338	24,820,491	(24,820,491)

*Price risk*

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

*Interest rate risk*

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

	31 March 2019	31 December 2018
<b>Financial instruments with fixed interest rate</b>		
Time deposits (Not 3)	591,885,792	398,286,551
Bank Loans and bonds (Not 4)	1,825,343,151	1,577,179,304
Lease liabilities	37,371,987	-
	<b>31 March 2019</b>	<b>31 December 2018</b>
<b>Financial instruments with floating interest rate</b>		
Bank Loans and bonds (Not 4)	201,376,000	195,560,000

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

### **EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

For financial instruments with variable interest rates, if the interest on 31 March 2019 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 TRY460,892 (31 March 2018: TRY337,712),

##### **b) Credit risk**

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

The Company 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 March 2019, 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,

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

The Company's maximum exposure to credit risk as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019					
	Trade receivables		Other receivables			
	Related party	Third party	Related party	Third party	Banks deposits	Derivative instruments
Net book value of financial assets which are undue and not impaired	260,838,421	366,983,520	-	389,321	599,421,447	-
Net book value of restructured financial assets, otherwise that will be considered as due dated or impaired	-	9,498,835	-	-	-	-
Net book value of impaired assets						
- Due dated (gross book value)	-	51,423,073	-	-	-	-
- Provision (-)	-	(51,423,073)	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Provision (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
<b>Amount exposed to maximum credit risk (*)</b>	<b>260,838,421</b>	<b>376,482,355</b>	<b>-</b>	<b>389,321</b>	<b>599,421,447</b>	<b>-</b>

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

As of 31 March 2019, the guarantee amount of the maximum exposure to credit risk is TRY558,759,332, Besides, all assets which are due but not impaired and are impaired are guaranteed,

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

	31 December 2018					
	Trade Receivables		Other receivables		Bank deposits	Derivative instruments
	Related party	Third party	Related party	Third party		
Net book value of financial assets which are undue and not impaired	150,186,703	296,552,252	-	382,572	412,668,530	-
Net book value of restructured financial assets, otherwise that will be considered as due dated or impaired	-	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 (-)	-	-	-	-	-	-
Off-balance sheet items exposed to credit risk	-	-	-	-	-	-
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 overdue but not impaired and are impaired are guaranteed,

# TÜRK TRAKTÖR VE ZİRAAT MAKİNELERİ A.Ş.

## EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019

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

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

#### c) Liquidity risk

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

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

#### Capital risk management

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

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

	31 March 2019	31 December 2018
Total financial liabilities	2,064,091,138	1,772,739,304
Less: Cash and cash equivalents (Not 3)	(599,421,447)	(412,668,530)
<b>Net financial debt</b>	<b>1,464,669,691</b>	<b>1,360,070,774</b>
Total shareholders' equity	656,664,423	651,857,722
Total liabilities	2,121,334,114	2,011,928,496
<b>Net financial debt/ total liabilities</b>	<b>% 69,04</b>	<b>% 67,60</b>

#### Fair value of financial assets

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

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

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

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

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AT 1 JANUARY - 31 MARCH 2019**

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

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

*Financial assets*

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

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

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

*Financial liabilities*

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

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

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

None,

„.....“