

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Condensed consolidated interim financial
statements as of June 30, 2014**

Tümosan Engine and Tractor Industry Inc. and its

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Review Report on Interim Financial Information

To the Board of Management of Tümosan Engine and

Tractor Industry Inc.; ***Introduction***

We have reviewed the accompanying consolidated statement of financial position of Tümosan Engine and Tractor Industry Inc. (hereinafter the "Company") and its Subsidiary (hereinafter collectively the "Group") as at June 30, 2014 and the related consolidated statements of income, other comprehensive income, changes in equity and cash flows for the six-month period then ended. The Group's management is responsible for the preparation and fair presentation of the aforementioned interim financial information in accordance with the TAS 34 Interim Financial Reporting standard ("TAS 34"). Our responsibility is to report to you our conclusion on the interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements ("SRE") 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The scope of a review of interim financial information is significantly limited than an audit conducted in accordance with the Standards on Auditing whose intent is to express an opinion. Consequently, a review of interim financial information does not provide assurance that an audit company may identify all material issues that may be determined in an independent audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that the accompanying consolidated interim financial statements are not prepared, in all material respects, in accordance with TAS 34.

Güney Independent Audit and Certified Public Accountancy Inc. A member firm
of Ernst & Young Global Limited

Metin Canoğulları, CPA
Responsible Auditor

Istanbul-Turkey,
August 19, 2014

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Consolidated interim statement of financial position as of June 30, 2014 (Currency: Turkish Lira (TL))

	Note References	Current period	Prior period
		Reviewed June 30, 2014	Audited (Revised) December 31, 2013
Assets			
Current assets		229,910,022	192,221,008
Cash and cash equivalents	5	1,676,614	5,376,059
Financial investments	7	70,754	242,251
Trade receivables	8	88,108,491	54,910,894
<i>Trade receivables from related parties</i>		-	152,625
<i>Trade receivables from third parties</i>	8	88,108,491	54,758,269
Other receivables		-	131,435
<i>Other receivables from related parties</i>		-	131,435
Inventories	9	116,937,386	97,497,807
Prepaid expenses		611,751	2,900,204
Other current assets	13	22,505,026	31,162,358
Fixed assets		106,524,698	106,374,564
Tangible fixed assets, net	10	89,608,029	90,827,394
Intangible fixed assets, net	11	9,090,666	7,801,456
<i>Other intangible fixed assets</i>	11	9,090,666	7,801,456
Investment property	19	1,667,651	1,676,276
Other receivables		6,149,341	6,055,718
<i>Other receivables from related parties</i>		6,149,341	6,055,718
Other fixed assets		9,011	13,720
Total assets		336,434,720	298,595,572
Liabilities		110,730,588	56,558,359
Short-term liabilities		107,811,097	53,423,212
Short-term borrowings	6	30,243,427	639,468
Short-term portions of long-term borrowings:	6	-	2,906,810
Trade payables		66,720,132	36,010,114
<i>Trade payables to related parties</i>		-	139,962
<i>Trade payables to third parties</i>		66,720,132	35,870,152
Liabilities for employee benefits		1,365,991	1,146,217
Deferred income		1,693,451	1,556,375
Other payables		1,750	105,299
<i>Trade payables to third parties</i>		1,750	105,299
Tax liability on income for the period		2,219,516	4,319,199
Short-term provisions		5,284,465	6,365,912
<i>Provisions for employee benefits</i>		646,737	518,366
<i>Other short-term provisions</i>	12	4,637,728	5,847,546
Other short-term liabilities		282,365	373,818
Long-term liabilities		2,919,491	3,135,147
Long-term borrowings	6	-	41,512
Long-term provisions		2,269,627	2,039,725
<i>Provisions for employee benefits</i>		2,269,627	2,039,725
Deferred tax liability		649,864	1,053,910
Equity		225,704,132	242,037,213
Equity of the parent company		224,054,621	233,690,723
Paid-in capital	14	115,000,000	115,000,000
Premiums on shares		13,074,563	13,074,563
Tangible fixed assets valuation fund		39,371,136	39,371,136
Reserves on retained earnings	14	10,504,898	3,954,095
Accumulated other comprehensive income and expenses that will not be		-	-
<i>Actuarial gains/losses fund from pension plans</i>		197,440	227,596
Accumulated profits		29,649,516	-
Net income for the period		16,257,068	62,063,333
Non-controlling interests		1,649,511	8,346,490
Total liabilities and equity		336,434,720	298,595,572

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Consolidated statement of comprehensive income
for the interim period ended June 30, 2014
(Currency: Turkish Lira (TL))**

	Current period		Prior period		
	Notes	Reviewed	Reviewed (revised 2.1)		
		January 1 - June 30, 2014	April 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2013
Sales	15	220,118,240	136,644,997	206,659,177	116,891,188
Cost of sales (-)	15	(184,189,793)	(115,094,001)	(159,723,409)	(89,080,438)
Gross profit		35,928,447	21,550,996	46,935,768	27,810,750
General administrative expenses (-)	16	(3,193,886)	(1,101,019)	(3,310,538)	(2,043,745)
Marketing, sales and distribution expenses (-)	16	(9,654,651)	(6,731,387)	(8,314,696)	(7,942,944)
Research and development expenses (-)		(1,333,547)	(70,862)	(1,099,431)	(597,766)
Other real operating income		1,842,620	917,116	7,242,685	5,363,633
Other real operating expenses (-)		(4,337,442)	(3,918,103)	(9,239,039)	(7,321,009)
Real operating profit		19,251,541	10,646,741	32,214,749	15,268,919
Income from investing activities		15,962	15,963	184,127	12,767
Operating profit before financing		19,267,503	10,662,704	32,398,876	15,281,686
Financing income		2,425,900	1,408,142	18,969,677	13,536,556
Financing expenses (-)		(2,453,700)	(1,234,387)	(14,121,889)	(11,668,079)
Profit before tax from continuing operations		19,239,703	10,836,459	37,246,664	17,150,163
Tax expense for the period (-)		(4,038,341)	(2,103,835)	(7,958,529)	(4,154,298)
Deferred tax income/(expense)		396,508	459,491	821,416	647,574
Period income from continuing operations		15,597,870	9,192,115	30,109,551	13,643,439
Other comprehensive income/(expense)					
Employee benefits					
Actuarial gains/(losses) for employee benefits		(37,695)	(27,692)	212,155	(6,965)
Tax effect		7,539	5,538	(42,431)	1,393
Other comprehensive income/(expense) after tax		(30,156)	(22,154)	169,724	(5,572)
Total comprehensive income		15,567,714	9,169,961	30,279,275	13,637,867
Number of shares	17	115,000,000	115,000,000	115,000,000	115,000,000
Earnings per share (TL)	17	0.1356	0.0799	0.2618	0.1186
<u>Distribution of net income for the period</u>					
Shares of the parent company		16,257,068	9,621,856	30,061,703	13,666,860
Non-controlling interests		659,198	(429,741)	47,848	(23,421)

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Consolidated statement of changes in equity for the
period ended June 30, 2014
(Currency: Turkish Lira (TL))**

		Paid-in capital	Share premium	Tangible fixed assets valuation fund	Reserves on retained earnings	Actuarial gains/losses funds from pension plans	Accumulated profits/losses	Net income for the period	Equity of the parent company	Non-controlling interests	Total
January 1, 2014	14	115,000,000	13,074,563	39,371,136	3,954,095	227,596	-	62,063,333	233,690,723	7,687,293	241,378,016
Dividend Paid		-	-	-	-	-	-	(17,250,000)	(17,250,000)	-	(17,250,000)
Transfers		-	-	-	6,550,803	-	38,262,530	(44,813,333)	-	-	-
Acquisition of shares of subsidiaries under		-	-	-	-	-	(8,613,014)	-	(8,613,014)	(5,378,584)	(13,991,598)
Net income for the period		-	-	-	-	-	-	16,257,068	16,257,068	659,198	15,597,870
Other comprehensive income/(expense)		-	-	-	-	(30,156)	-	-	(30,156)	-	(30,156)
June 30, 2014	14	115,000,000	13,074,563	39,371,136	10,504,898	197,440	29,649,516	16,257,068	224,054,621	1,649,511	225,704,132
January 1, 2013	14	115,000,000	26,241,624	39,371,136	85,576	341,015	(12,092,063)	29,542,521	198,489,809	9,404,581	207,894,390
Transfers		-	(13,167,061)	-	3,868,519	-	38,841,063	(29,542,521)	-	-	-
Dividends paid		-	-	-	-	-	(26,749,000)	-	(26,749,000)	-	(26,749,000)
Capital increase		-	-	-	-	-	-	-	-	18,155	18,155
Net income for the period		-	-	-	-	-	-	30,061,703	30,061,703	47,848	30,109,551
Other comprehensive income		-	-	-	-	169,724	-	-	169,724	-	169,724
June 30, 2013	14	115,000,000	13,074,563	39,371,136	3,954,095	510,739	-	30,061,703	201,972,236	9,470,584	211,442,820

(*) The Company purchased 7,000,000 shares amounting to 70% in the paid-in capital of TL 10,000,000 of Tümosan Foundry Inc., which is owned by the Company's main shareholder, at the rate of TL 14,000,000.

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the interim period
ended June 30, 2014
(Currency: Turkish Lira (TL))**

	Current period	Prior period
	Revised	(Note 2.1)
	Revised	Revised
Notes	January 1 - June 30, 2014	January 1 - June 30, 2013
Operating activities: Profit before tax	19,239,703	37,246,664
Depreciation expense	2,927,507	3,046,151
Amortisation charges	1,076,048	420,247
Provision for severance payments	229,902	458,881
Provision for unused vacation entitlements	128,371	123,398
Interest income	9,684	(69,467)
Provision for inventories	-	716,182
Expenses from provision for doubtful receivables	-	184,778
Net cash flow before changes in assets and liabilities for operating activities	23,611,215	42,126,834
Changes in assets and liabilities for operating activities - net:		
Trade receivables from third parties	(33,350,222)	(36,533,678)
Receivables from related parties	152,625	(128,136)
Other receivables from related parties	37,812	78,700,554
Inventories	(19,439,579)	(9,607,066)
Other current assets	8,647,648	(12,981,857)
Other short-term liabilities	(91,451)	7,658,368
Prepaid expenses	2,288,453	(2,014,540)
Other long-term receivables from related parties	-	(3,076,919)
Other fixed assets	13,335	350,674
Fixed assets held for sale Payables to related parties	-	-
Trade payables	(139,962)	(42,309)
Other payables to third parties	-	9,630,515
Deferred income	30,849,980	2,778
Other short-term provisions	137,076	(2,370,459)
Other payables	(1,764,480)	528,627
Short-term provisions for employee benefits Other long-term liabilities	(103,549)	1,995,857
Severance payments paid	219,774	-
Taxes paid	-	(88,029)
	(6,138,024)	(8,260,991)
Net cash from operating activities	4,930,651	65,890,223
Investing activities:		
Purchases of tangible and intangible fixed assets	(4,073,400)	(3,472,348)
Net cash used in investing activities	(4,073,400)	(3,472,348)
Financing activities:		
Cash received from bank loans	60,396,697	23,045,460
Repayment of financial payables	(31,365,312)	(48,646,237)
Dividend paid	(17,250,000)	(26,749,000)
Interest paid	(2,375,747)	3,379,213
Share acquisition	(13,962,333)	-
Net cash used in financing activities	(4,556,696)	(48,970,564)
Increase/(decrease) in cash and cash equivalents	(3,699,445)	13,447,311
Opening balance of cash and cash equivalents	5,376,059	22,006,522
Period-end balance of cash and cash equivalents	1,676,614	35,453,833

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the interim period ended June 30, 2014 (Currency: Turkish Lira (TL))

1. Organization and area of activity of the Company

Tümosan Engine and Tractor Inc. (formerly Alçelik Çelik Yapı Construction Industry and Trade Inc.) (hereinafter "Tümosan" or the "Company") was established in 1975 to produce engine parts, transmission organs and similar equipment, but later on has concentrated its activities in the production of diesel engines and tractors. Tümosan, being Turkey's first diesel-engine manufacturer, has been supplying diesel engines for tractors manufactured under the same brand, as well as other manufacturers of diesel-powered vehicles for many years.

The Company was included in the privatization program on August 18, 1998, and the Company's shares belonging to the Mechanical and Chemical Industry Corporation were transferred to the Privatization Administration and it was decided to complete the privatization process within one year.

Four companies participated in the privatization tender held on April 24, 2000. Anadolu Joint Venture Group ranked first and Konya Selçuklu Joint Venture Group ranked second, according to the results of the tender. As the entrepreneurs determined to be the buyers as per the tender result were not able to sign the sales contract offered to them respectively within the given time period, the tender could not be concluded positively and their tender guarantees were forfeited in connection therewith.

Tümosan, which continued its activities limitedly after the tender, was attached to Sümer Holding on February 7, 2003.

The second tender for its privatization was announced in 2004 and Alçelik Çelik Yapı Construction Industry and Trade Inc. purchased Tümosan by means of an asset sale and the transfer was completed on July 1, 2004.

On December 5, 2012, 26% of the Company's shares were offered to the public at the Istanbul Stock Exchange.

Tümosan Engine and Tractor Industry Inc.'s shares are traded on the Istanbul Stock Exchange since 5 December 2012. The Company's headquarters and factory are located at the following addresses:

Head office:

Istanbul World Trade Centre A3 Blok Kat: 8, 34149-Istanbul/Turkey

Factory:

Büyükkayacık Mahallesi Aksaray Çevre Yolu Caddesi No: 7/1,

Selçuklu/Konya/Turkey Information on the Company's shareholders and their shares

is as follows:

	June 30, 2014	December 31, 2013
Ereğli Textile Tourism Industry and Trade Inc.	67.20%	67.58%
Muzaffer Albayrak	1.74%	5.72%
Ahmet Albayrak (son of Ahmet)	1.74%	2.84%
Bayram Albayrak	1.74%	2.84%
Nuri Albayrak	1.74%	2.84%
Kazım Albayrak	1.74%	2.84%
Mustafa Albayrak	1.74%	2.84%
Hedef Venture Capital Investment Trust Inc.	1.30%	-
Free-float portion	21.06%	12.50%
	100%	100%

The Company is controlled by the Albayrak Family although Ereğli Textile Tourism Industry and Trade Inc. is the main shareholder.

As of June 30, 2014, the average number of white-collar workers employed by the Company is 135

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the interim period
ended June 30, 2014**

(Currency: Turkish Lira (TL))

(December 31, 2013 - 128) and the number of blue-collar workers is 301 (December 31, 2013 - 318).

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

2. Basis of presentation of financial statements

2.1 Basis of presentation

The Group maintains its statutory books and prepares its statutory financial statements in accordance with the accounting principles set out in the Turkish Commercial Code ("TCC") and tax legislation.

The accompanying financial statements have been prepared in accordance with the Turkish Accounting Standards ("TAS"), which are put into force by the Public Oversight, Accounting and Auditing Standards Authority pursuant to the provisions of the Capital Markets Board's ("CMB") "Communiqué on Principles of Financial Reporting in Capital Market" (Serial: II, No: 14.1) ("Communiqué"), which was promulgated in the Official Gazette edition 28676 on June 13, 2013. TAS comprises the Turkish Accounting Standards, the Turkish Financial Reporting Standards and annexes and interpretations thereof.

Companies, which report according to CMB legislation, apply the Turkish Accounting Standards / Turkish Financial Reporting Standards and annexes and interpretations thereof, which are promulgated by the Public Oversight, Accounting and Auditing Standards Authority ("POA") pursuant to Article 5 of Communiqué.

Entities are free to prepare their interim financial statements as complete or condensed set according to the Turkish Accounting Standard 34 "Interim Financial Reporting". In this context, the Group has preferred to prepare condensed consolidated financial statements for interim periods since the six-month interim period ended June 30, 2014. Therefore, these condensed consolidated interim financial statements should be read together with the Group's consolidated financial statements dated December 31, 2013.

Business combination under common control

In 2014, the Company purchased 7,000,000 shares amounting to 70% in the paid-in capital of TL 10,000,000 of Tümosan Foundry Inc., which is owned by the Company's main shareholder, at the rate of TL 14,000,000. Because; i) business combinations under common should be accounted for by the pooling of interest method, ii) goodwill should therefore not be included in financial statements, iii) financial statements should be adjusted when applying the pooling of interest method as if the combination was realized at the beginning of the reporting period in which the common control occurred and they should be presented comparatively from the beginning of the reporting period in which common control occurred, the Company has readjusted its prior year's/period's financial statements in this context.

Functional and reporting currency

Turkish lira is the functional and presentation currency of the Company and its subsidiaries. **Going concern**

The Group has prepared the financial statements on a going concern basis.

Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Management and their publication was authorised on August 19, 2014. The General Meeting has the authority to modify the financial statements.

The consolidated financial statements as of June 30, 2014 have been prepared by consolidating the following subsidiary in accordance with the full consolidation method:

June 30, 2014 **December 31,**

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

<u>Company</u>	<u>Participation rate (%)</u>	<u>Participation rate</u>
Tümosan Foundry Inc.	70.00	0.00

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

2. Basis of presentation of financial statements (continued)

2.2 Amendments in TFRS

New and amended standards and interpretations

The accounting policies adopted in preparation of the condensed consolidated financial statements for the interim period ended June 30, 2014 are consistent with those of the previous year, except for the new and amended TFRS standards and TFRIC interpretations effective as of January 1, 2014. The effects of these standards and interpretations on the Company's / Group's financial position and performance are disclosed in the related paragraphs.

i) The new standards, amendments and interpretations effective from 1 January 2014

TAS 32 Financial Instruments: Presentation - Offsetting of Financial Assets and Liabilities (Amendment)

The amendment clarifies the meaning of the expression "presence of a legal right available on offsetting the amounts accounted for" and clarifies the application area of TAS 32 offsetting principle in accounting systems (such as clearing offices) which are not realized simultaneously and where gross settlement is made. This standard did not have any significant effect on the Company's / Group's financial position or performance.

TFRS Interpretation 21 Levies

This interpretation clarifies that an entity should recognize a liability for a levy at the time the action that triggers the payment of the levy takes place in accordance with the relevant legislation. Furthermore, this interpretation clarifies that the levy liability can only be recognized progressively if the obligating event that triggers the payment occurs over a period of time in accordance with the relevant legislation. If an obligation is triggered on reaching a minimum threshold, the levy liability is not recognized as liability unless that minimum threshold is reached. This interpretation does not apply to the Company / Group and has not affected the Company's / Group's financial position or performance.

TAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets (Amendment)

Certain disclosures about the recoverable amounts of impaired assets under TAS 36 "Impairment of assets" have been amended after the amendment to TFRS 13 "Fair value measurement". The amendment provides additional disclosure requirements for the measurement of the recoverable amount of impaired assets (or an asset group) at fair value less costs to derecognise. This standard did not have any significant effect on the Company's / Group's financial position or performance.

TAS 39 Financial Instruments: Recognition and Measurement - Novation of derivatives and continuation of hedge accounting (Amendment)

The amendment to this standard introduces a narrow exception to the provision that requires the cessation of the hedge accounting in the event that the hedging instrument is transferred to a central counterpart according to law or due to arrangements. This standard did not have any effect on the Company's / Group's financial position or performance.

TFRS 10 Consolidated Financial Statements (Amendment)

TFRS 10 has been amended to provide an exception to the waiver of companies that meet the definition of an investment company from the consolidation provisions. With the exception introduced for the consolidation provisions, investment companies are required to account for their subsidiaries at fair value in accordance with the provisions of TFRS 9 Financial Instruments. This amendment has not affected the Company's / Group's financial position or performance.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

2. Basis of presentation of financial statements (continued)

ii) Standards issued but not yet effective and not applied early

The new standards, interpretations and amendments published as of the date of approval of the condensed consolidated interim financial statements but not yet effective for the current reporting period and not applied early by the Company / Group are as follows. Unless otherwise stated, the Company / Group will make the necessary changes that will affect its consolidated financial statements and notes after the entry into force of the new standards and interpretations.

TFRS 9 Financial Instruments - Classification and Disclosure

With the amendment made in December 2012, the new standard will be effective for annual periods beginning on or after January 1, 2015. The first phase of the standard TFRS 9 Financial Instruments introduces new provisions for the measurement and classification of financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and the measurement of financial liabilities that are classified as the ones which are measured by reflecting the fair value difference to profit or loss. These amendments require that the portion relating to credit risk of the fair value changes in this kind of financial liabilities be presented in the statement of other comprehensive income.

The Group will assess the impact of the standard on its financial position and performance after the other phases of the standard are adopted by POA.

The new and amended standards and interpretations published by the International Accounting Standards Board (IASB) but not published by POA.

The below-mentioned new standards, interpretations and amendments in existing IFRS standards are published by IASB but are not yet effective for the current reporting period. However, these new standards, interpretations and amendments are not yet adapted to TFRS, or published, by POA and therefore do not form a part of TFRS. The Group will make the necessary changes in its financial statements and notes after these standards and interpretations become effective as TFRS standards.

Improvements to IFRS

In December 2013, IASB published two series of 'Annual Improvements to IFRS' for '2010-2012 period' and '2011-2013 period'. The amendments other than the amendments affecting the "Basis for Conclusions" of the Standards are effective from 1 July 2014.

Annual Improvements - 2010–2012

Cycle IFRS 2 Share-based Payment:

Definitions of vesting conditions were amended and performance condition and service condition were defined in order to resolve the problems. The amendment will be applied prospectively.

IFRS 3 Business Combinations

A contingent consideration that is not classified as equity in a business combination is measured at fair value in subsequent periods and recognized in the income statement, whether or not it is within the scope of IFRS 9 Financial Instruments. The amendment will be applied prospectively for business combinations.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

2. Basis of presentation of financial statements

(continued) IFRS 8 Operating Segments

The amendments are as follows: i) Operating segments may be combined/aggregated if aggregation is consistent with the core principles of the the standard. ii) Reconciliations of the total assets to the entity's assets shall be disclosed if this reconciliation is reported to the director who is authorized to take decisions related to operating activities. The amendments will be applied retrospectively.

IFRS 13 Fair Value Measurement

As explained in the basis for conclusion of the decision, short-term trade receivables and payables with no stated interest rate may be shown at the original invoice amount if the effect of discounting is immaterial. The amendments will be implemented immediately.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows: i) Adjust the gross carrying amount of the asset to market value; or ii) Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment will be applied retrospectively.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. The amendment will be applied retrospectively.

Annual Improvements - 2011–2013 Period

IFRS 1 First-time Adoption of International Financial Reporting Standards

An entity may choose to apply either the current standard or the new standard, if the new standard is not yet mandatory, but permits early application. After the standard is selected, it will need to be applied consistently throughout the periods presented in the entity's first IFRS financial statements. The amendment will be implemented immediately

IFRS 3 Business Combinations

The amendment clarifies i) that not only joint ventures but also joint arrangements are excluded from the scope of IFRS 3, and ii) that this scope exception only applies to the accounting in the financial statements of the joint arrangement. The amendment will be applied prospectively.

Basis for Conclusions of IFRS 13 Fair Value Measurement

It is clarified that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The amendment will be applied prospectively.

IAS 40 Investment Property

The amendment clarifies the interrelationship between IFRS 3 and IAS 40 in classification of a property as investment property or owner-occupied property. The amendment will be applied prospectively. It is not expected that these amendments will have a significant effect on the Group's financial position or performance.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

2. Basis of presentation of financial statements

(continued) IFRS 14 – Regulatory Deferral Accounts

IASB issued this standard in January 2014. IFRS 14 permits a rate-regulated entity which is a first-time adopter of IFRS to continue to carry the amounts recognized in accordance with the previous legislation on rate regulation in its financial statements prepared according to IFRS. It is currently prohibited for companies that prepare financial statements according to IFRS to apply this standard. This standard will be applied retrospectively for annual periods beginning on or after 1 January 2016, whereby an earlier application is permitted. The standard does not apply to the Group and will not affect the Group's financial position or performance.

IAS 19 - Defined Benefit Plans: Employee Contributions (Amendment)

When accounting for defined benefit plans in accordance with IAS 19, contributions from employees or third parties should be taken into account. The amendment clarifies that if the amount of contribution is independent of the number of years of service, the entity should recognize this contribution in the year in which the service is given by deducting it from the cost of the service, rather than when it is paid or payable. The amendment will be applied retrospectively for annual periods beginning on or after 1 July 2014. This amendment will not affect the Group's financial position or performance.

IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

In May 2014, IASB amended IFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in this IFRS. Accordingly, the acquirer has to disclose information required by IFRS 3 and other IFRSs relevant for business combinations. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted. This amendment will not affect the Group's financial position or performance.

IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

In May 2014, IASB issued the amendments to IAS 16 and IAS 38 and has prohibited the use of revenue-based depreciation calculation for tangible fixed assets and significantly limited the use of revenue-based depreciation calculation for intangible assets. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted. This amendment will not affect the Group's financial position or performance.

IFRS 15- Revenue from Contracts with Customers

In May 2014, IASB published the standard IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard specifies the requirements for the recognition and measurement of revenue. The standard is to be applied to the revenue from contracts with customers and is a model for the recognition and measurement of the sale of some non-financial assets (such as tangible fixed asset outflows) that are not relevant for an entity's ordinary activities. IFRS 15 applies for annual reporting periods starting from 1 January 2017 onward. Two alternative applications are presented for transition to IFRS 15; full retroactive application or modified retroactive application. If modified retroactive application is preferred, prior periods will not be restated but comparative quantitative information will be provided in the notes to financial statements. The effect of this amendment on the Group's financial position and performance is being assessed.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

2. Basis of presentation of financial statements (continued)

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Bearer Plants (Amendments)

In June 2014, IASB published an amendment that requires the recognition of "bearer plants" within the scope of the standard "IAS 16 - Property, plant and equipment". The published amendment states that bearer plants from biological assets, such as grape vines, rubber trees or date palms, bear produce more than one period after maturation and are held by entities during productive life. However, once bearer plants reach their maturity, they no longer undergo significant biological transformation and their functions are similar to production, the amendment reveals that bearer plants need to be accounted for within the scope of IAS 16 rather than IAS 41 and allows them to be valued either using the "cost model" or "revaluation model". The produce on the bearer plants will be accounted for using the fair value model less costs to sell in IAS 41. The amendments will be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted. The amendment does not apply to the Group and will not affect the Group's financial position or performance.

On [24] July 2014, IASB issued the final version of its project IFRS 9 Financial Instruments, which is a replacement of IAS 39 Financial Instruments: Recognition and Measurement, consisting of classification and measurement, impairment and hedge accounting phases. IFRS 9 relies on a rational, single classification and measurement approach that reflects the business model and cash flow characteristics that are managed within financial assets. A single model has been established that can be applied to all financial instruments subject to impairment accounting with a forward "expected credit loss" model that will enable credit losses to be accounted for more timely. In addition, if banks and other entities choose an option to measure their financial payables at fair value, IFRS 9 addresses the so-called "own credit risk", which results in the recording of income in the income statement due to a decrease in the fair value of the financial liability due to the decrease in its creditworthiness. The standard also includes a hedging model developed to better correlate risk management economics with accounting practices. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Furthermore, amendments to 'own credit risk' are allowed to be applied early, alone, without changing the accounting for financial instruments. The Group is assessing the impact of the standard on its financial position and performance.

2.3 Summary of significant accounting policies

There were no significant changes in accounting policies from those disclosed in the financial statements for the period ended June 30, 2014.

3. Business combinations

In 2014, the Company purchased 7,000,000 shares amounting to 70% in the paid-in capital of TL 10,000,000 of Tümosan Foundry Inc., which is owned by the Company's main shareholder, at the rate of TL 14,000,000. Since i) business combinations under common should be accounted for by the pooling of interest method, ii) goodwill should therefore not be included in financial statements, iii) financial statements should be adjusted when applying the pooling of interest method as if the combination was realized at the beginning of the reporting period in which the common control occurred and they should be presented comparatively from the beginning of the reporting period in which common control occurred, the Group has readjusted its prior year's financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

4. Reporting by segments

The Group's management does not report financial information by segments because there are no different types of products and different geographical areas that require reporting by segments. The distribution of the Group's sales according to geographical markets (domestic-foreign) and product groups are shown in Note 18.

5. Cash and cash equivalents

As of June 30, 2014 and December 31, 2013, the amounts of the Group's time deposits, their average rates of return and their average maturity are as follows:

	June 30, 2014	December 31,
Cash	6,860	16,982
Demand deposits in banks	1,669,754	5,309,173
Time deposits in banks	-	49,904
	1,676,614	5,376,059

There are no time deposits as of June 30, 2014. (On 31 December 2013, the TL-denominated time deposit amounting to TL 40,000 is a guarantee for an oil company with which the Company has an agreement and is maintained as time deposit in the bank. This time deposit's interest rate is 6.5% per annum.

The details of the cash and cash equivalents in the cash-flow statements as of June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014	December 31,
Cash	6,860	16,982
Banks	1,669,754	5,259,077
Cash and cash equivalents in the cash-flow	1,676,614	5,336,059

6. Financial payables

The interest and foreign exchange details of financial loans are as follows:

	June 30, 2014		December 31,	
	Effecti ve interest	TL amoun	Effecti ve interest	TL amount
<u>Short term:</u>				
- US dollar	-	-	0%	439,965
- TL	12.41% - 18.96%	30,243,427	11.47% - 19.64%	199,503
<u>Short-term portion of long-term loans:</u>				
- TL	-	-	11.47% - 19.64%	2,906,810
<u>Long term:</u>				
- US dollar	-	-	0%	41,512

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

	30,243,427	3,587,790
6. Financial payables (continued)		

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

The maturities of long-term financial payables are as follows:

	June 30, 2014	December 31, 2013
2014	-	
2015	-	41,512
	-	41,512

7. Financial investments

- **Short term**

	June 30, 2014	December 31, 2013
Cosmos Investment Trust Inc.	70,754	242,251
	70,754	242,251

8. Trade receivables and payables

a) Trade receivables

	June 30, 2014	December 31, 2013
Trade receivables	24,517,841	26,168,346
Postdated cheques and notes receivable	63,638,008	30,606,117
	88,155,849	56,774,463
Less: Provision for doubtful receivables	(47,358)	(2,016,194)
	88,108,491	54,758,269
Trade receivables from related parties	-	152,625
	88,108,491	54,910,894

The movements of provision for doubtful receivables as of June 30, 2014 and December 31, 2013 is as follows:

	2014	2013
Balance on January 1	(2,504,861)	(2,504,861)
Provisions allocated during the period	-	(247,373)
Provisions no longer required	2,457,503	736,040
Balance on December 31	(47,358)	(2,016,194)

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

8. Trade receivables and payables (continued)

The aging schedule relating to trade receivables for which a provision for doubtful receivables is not allocated as of June 30, 2014 and December 31, 2013 is as follows:

	Total	Amounts that are not past due and for which a	Provision not allocated			depite
			Up to 1 month	1 to 3 months	3 to 4 months	4 mont
June 30, 2014	24,470,483	22,980,532	814,246	45,917	262,341	367,447
December 31, 2013	24,304,777	23,087,583	518,931	69,680	27,406	601,177

The Group did not allocate any provision for its past-due receivables not yet collected because it does not foresee a problem in their collections due to its long-term relationship with the related customers and the ongoing trade with the customers in question.

b) Trade payables

	June 30, 2014	December 31, 2013
Trade payables	40,545,407	33,042,359
Notes payable	13,903,508	2,113,064
Other trade payables	12,271,217	714,729
	66,720,132	35,870,152
Trade payables to related parties	-	139,962
	66,720,132	36,010,114

9. Inventories

	June 30, 2014	December 31,
Materials and spare parts	59,465,252	64,605,115
Work in process inventories	6,693,043	5,596,405
Finished goods inventories	30,564,547	6,268,288
Trade goods	15,169	4,309,758
Goods in transit	20,199,375	17,544,922
	116,937,386	98,324,488
Less: Provision for decline in value of inventories	-	(826,681)
	116,937,386	97,497,807

As of June 30, 2014 and December 31, 2013, there are no pledges or mortgages on inventories.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

9. Tangible fixed assets

	January 1 - June 30, 2014	January 1 - June 30, 2013
Opening balance on January 1		
Cost Value	124,397,757	109,260,430
Accumulated depreciation	(33,570,363)	(27,512,016)
Net book value	90,827,394	81,748,414
Net book value at the beginning of the period	90,827,394	81,748,414
Inflows	1,688,162	3,355,170
Depreciation for the current period (-)	(2,907,527)	(3,046,151)
Net book value at the end of the period	89,608,029	82,057,433
Cost value at the end of the period	126,085,919	112,615,600
Accumulated depreciation	(36,477,890)	(30,558,167)
Net book value	89,608,029	82,057,433

11. Intangible Fixed Assets

	January 1 - June 30, 2014	January 1 - June 30, 2013
Net book value on January 1	7,801,456	418,512
Purchases	2,365,258	546,799
Amortisation charges	(1,076,048)	(420,247)
Net book value on June 30	9,090,666	545,064
	1 January - 30 June 2014	1 January - 30 June 2013
Cost	12,411,868	2,196,218
Accumulated amortisation charges	(3,321,202)	(1,651,154)
Net book value on June 30	9,090,666	545,064

There are no pledges or mortgages on the Group's intangible fixed assets.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

12. Provisions, contingent assets and

liabilities Debt Provisions

13. Other assets and liabilities

a) Other current assets

	June 30, 2014	December 31,
Deferred VAT	22,244,320	30,901,884
Deposits and guarantees given	66,120	67,056
Other	194,586	193,418
	22,505,026	31,162,358

b) Other fixed assets

	June 30, 2014	December 31, 2013
Other fixed assets	9,010	13,721
	9,010	13,721

c) Other liabilities Other

short-term liabilities

	June 30, 2014	December 31,
Taxes and funds payable	244,061	338,971
Other	38,304	34,847
	282,365	373,818

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

14. Equity

a) Capital

The Group's shareholders and their shares in the capital as of June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014		December 31, 2013	
	Rate %	TL	Rate %	TL
Ereğli Textile Tourism Industry and Trade Inc.	67.20	77,285,492	68.57	78,855,500
Other	11.74	13,500,000	12.18	14,007,000
Free-float portion	21.06	24,214,508	19.25	22,137,500
Capital	100	115,000,000	100	115,000,000
Paid-in capital		115,000,000		115,000,000

As of June 30, 2014, the Group's capital is fully paid up and consists of 115,000,000 shares with nominal value of TL 115,000,000 and TL 1 per share (December 31, 2012 - Capital: TL 115,000,000 and 115,000,000 shares with TL 1 per share).

In accordance with the Communiqué (Serial: XI, No: 29), which entered into force on January 1, 2008, and CMB announcements explaining this Communiqué, "Paid-in Capital", "Reserves on Retained Earnings" and "Share Premiums" are required to be presented at the amounts in statutory records.

The differences in valuations during the implementation of the said Communiqué:

- should be related with the "Capital Adjustment Difference" to be coming after the "Paid-in Capital" item if the differences arise from the "Paid-in Capital" and are not yet added to the capital;
- should be related with the "Accumulated Profits/Losses" if the differences arise from "Reserves on Retained Earnings" and "Share Premiums" and are not yet subject to profit distribution or capital increase. Other equity items are presented with their amounts valued within the framework of CMB's Financial Reporting Standards.

Share premium:

In the public offering held on December 5, 2012, the Group increased its capital by TL 10,000,000 by restricting its shareholders' subscription rights and reflected the share premium of TL 26,241,624, which was obtained after deducting the public offering expenses of TL 3,758,376 occurred during this transaction, in the equity on its financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

14. Equity

Dividend

Distribution

Companies whose shares are traded on ISE are subject to the dividend requirement imposed by CMB as follows:

Pursuant to Article 19 of the Capital Markets Law No. 6392 which entered into force on 30 December 2012, publicly-listed companies distribute their profits within the frame of their dividend distribution policies to be determined by the general meeting of shareholders and in accordance with the provisions of the applicable legislation. The Capital Markets Board may identify different principles by corporations of similar characteristics with regard to dividend distribution policies of corporations.

Unless and until both the reserve required to be set aside according to the law, and the dividend determined for payment to shareholders in the articles of association are reserved, it cannot be decided to set aside other reserve, or to carry dividend forward to next year, or to distribute dividend to beneficial interest certificate, board members and company's employees, nor can profit shares be distributed to the said persons unless and until the dividend determined for shareholders are fully paid in cash.

In publicly-listed companies, dividends shall be distributed equally to all of the shares existing as of the date of distribution, regardless of their dates of issuance and acquisition.

According to the legislation in force, dividends can be distributed, depending on the decision of the general meeting of shareholders, in cash, or as bonus share distribution to shareholders by adding the capital, or both in cash and bonus share form with certain rates, or the amount of dividends can be kept in the company without distributing them as per the principles set out in the Communiqué Serial: IV, No: 27, in which CMB regulates the principles regarding distribution of dividends to be followed by the publicly-listed companies, the provisions of articles of association, the company's dividend distribution policies disclosed to public.

b) Reserves on retained earnings

Pursuant to the Turkish Commercial Code, the first order legal reserves are required to be set aside as 5% of the statutory net profit until reaching up to 20% of the company's paid-in capital. Pursuant to the Turkish Commercial Code, legal reserves can only be used for transactions aimed at offsetting losses or ensuring the entity's ability to continue as a going concern, unless they exceed 50% of the paid-in capital. Furthermore, in order to benefit from real estate and participating interests sales gains exemption, 75% of such gains must be held in a passive fund account (special reserves) and not withdrawn for 5 years.

The details of the reserves on retained earnings mentioned above as follows:

	June 30, 2014	December 31,
Legal reserves on retained earnings	10,504,898	3,954,095
	10,504,898	3,954,095

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

14. Equity (contd)

c) Accumulated profits/(losses)

The equity items in the Group's statutory financial statements prepared in accordance with the Tax Procedure Law are as follows:

	June 30, 2014	December 31,
Legal reserves	10,504,898	3,954,095
Accumulated profits/(losses)	30,476,385	-
Net income for the period	21,663,853	62,063,333
	62,645,136	66,017,428

15. Sales and cost of sales

a) Statement of sales and cost of sales

Sales:	January 1 - June 30, 2014	April 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2013
Domestic sales	211,003,789	134,518,327	205,352,227	115,914,166
Foreign sales	9,411,395	2,401,331	1,634,826	1,229,508
Sales returns and allowances	(296,944)	(274,661)	(327,876)	(252,486)
Total sales, net	220,118,240	136,644,997	206,659,177	116,891,188
Total cost of sales (-)	(184,189,793)	(115,094,001)	(159,723,409)	(89,080,438)
Gross profit	35,928,447	21,550,996	46,935,768	27,810,750

b) Distribution of sales by product groups (net)

	January 1 - June 30, 2014	April 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2013
Tractor sales	212,738,236	131,500,668	194,365,609	107,015,318
Spare part sales	5,950,369	4,264,411	9,180,414	7,357,265
Engine sales	1,429,635	879,918	3,113,154	2,518,605
Total sales	220,118,240	136,644,997	206,659,177	116,891,188

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)**
(Currency: Turkish Lira (TL))

16. Operating Expenses

	January 1 - June 30, 2014	April 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2013
Research and development expenses	1,333,547	70,862	1,099,431	597,766
Marketing, sales and distribution expenses	9,654,651	6,731,387	8,314,696	7,942,944
General administrative expenses	3,193,886	1,101,019	3,310,538	2,043,745
	14,182,084	7,903,268	12,724,665	10,584,455

a) Marketing, sales and distribution expenses

	January 1 - June 30, 2014	April 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2013
Provision for warranty expenses	1,985,189	1,567,622	3,440,298	5,682,460
Sales transportation expenses	2,269,879	1,929,071	1,604,843	717,443
Personnel expenses	1,445,118	809,512	1,313,745	769,801
Advertising and announcement expenses	2,225,974	1,174,033	492,141	393,528
Promotion expenses	423,946	423,946	497,162	79,847
Fair and exhibition expenses	-	-	245,368	81,295
Fuel expenses	124,515	68,281	127,830	74,693
Accommodation expenses	194,950	143,904	335,046	143,877
Vehicle rental expenses	17,240	17,240	12,911	-
Mobile service meal and accommodation expenses	-	-	14,760	-
Mobile service car rental expenses	-	-	3,842	-
Other	967,840	597,778	226,750	-
	9,654,651	6,731,387	8,314,696	7,942,944

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
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(Currency: Turkish Lira (TL))

16. Operating expenses

(contd) General

	January 1 - June 30, 2014	April 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2013
Litigation, Enforcement and Proceeding	85,720	45,216	1,068,126	616,484
Personnel Expenses	1,368,032	384,948	663,318	537,102
Data Processing Materials Expenses	122,437	66,177	317,782	76,566
Financial and Legal Consulting Expenses	618,401	160,884	182,312	152,299
Real Estate Rental Expenses	212,650	77,284	164,204	83,413
Depreciation and Amortisation Expenses	169,906	109,475	148,931	76,622
Subscription Expenses	-	-	81,706	43,996
Commission expenses for public offering	21,652	652	50,566	-
Letter of Guarantee Commissions	128,661	38,230	41,524	39,981
Electricity Expenses	46,082	27,149	8,907	3,428
Vehicle Rental Expenses	-	-	1,391	691
Other	420,345	191,004	581,771	413,163
	3,193,886	1,101,019	3,310,538	2,043,745

17. Earnings per share (TL)

Earnings per share is calculated by dividing the net income for the period by the weighted average number of shares in issue during the period.

In Turkey, companies are entitled to increase their capital through the distribution of bonus shares to be covered from the revaluation surplus fund or accumulated profits. In the calculation of earnings per share, such increases are accepted as bonus issue. Dividend distributions added to capital are also considered in the same way. Therefore, when calculating the average number of shares, it is considered that such shares are in issue during the year. Thus, the weighted average number of the shares used to calculate the earnings per share has been determined taking into account retrospective effects.

	June 30, 2014	December 31,
The weighted average number of shares outstanding during the year	115,000,000	115,000,000
Net income for the period	15,597,870	30,109,551
Earnings per share (TL)	0.1356	0.2618

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

18. Related party disclosures

The Group conducts various transactions with related parties during its operations. The details of outstanding balances with related parties are as follows:

(a) Receivables/payables concerning related parties:

							June 30, 2014		
							Receivables	Payables	
							Short term	Long term	Short term
Balances with related parties	Trade	non-trade	Trade	non-trade	Trade	non-trade			
Shareholders									
Ereğli Textile Tourism Industry Trade Inc. (1)	-	-	-	6,149,341	-	-			
	-	-	-	6,149,341	-	-			
							December 31, 2013		
							Receivables	Payables	
							Short term	Long term	Short term
Balances with related parties	Trade	non-trade	Trade	non-trade	Trade	non-trade			
Shareholders									
Ereğli Textile Tourism Industry Trade Inc. (1)	-	131,435	-	6,055,718	-	-			
Other companies managed by the main shareholder									
Albil Central Services and Trade Inc. (2)	-	-	-	-	75,823	-			
Albayrak Tourism Travel Construction Trade Inc. (2)	-	-	-	-	15,690	-			
Yeşil Adamlar Waste Management and Transport Inc. (2)	-	-	-	-	45,500	-			
Kademe Waste Technologies Industry Inc. (2)	152,625	-	-	-	2,949	-			
	152,625	131,435	-	6,055,718	139,962	-			

(1) Shareholder

(2) Companies controlled by the ultimate partner (Albayrak Group)

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

18. Related party disclosures (continued)

As of June 30, 2014 and December 31, 2013, there is no guarantee obtained from and/or given to related parties.

(b) Transactions made with related parties

during the year: Service and other purchases

	2014	2013
Albil Central Services and Trade Inc. (a)	755,525	467,911
Ağa Mining Industry Trade Ltd. (d)	97,364	-
Kademe Waste Technologies Industry Inc. (d)	85,334	30,600
Yeşil Adamlar Waste Management and Transport Inc. (d)	15,567	-
Reklam Piri Media Communication Inc. (b)	10,700	22,430
Ereğli Textile Tourism Industry and Trade Inc.	1,551	-
Birlikte Distribution Inc. (d)	1,323	1,055
Dolu Fuel Marketing Inc.	387	-
	967,751	521,996

(1) Albayrak Group controls the company.

(a) The Group receives data processing service from this

* Tümosan has purchased service and other goods amounting to TL 3,619,029 as of June 30, 2014 from its associate Tümosan Foundry Inc.

Sales and other income

	January 1 - June 30, 2014			January 1 - June 30, 2013		
	Interest	Rent	Other	Interest	Rent	Other
Albayrak Tourism Travel Construction Trade	2,781	-	-	4,908,388	-	-
Ereğli Textile Tourism Industry and Trade	282,035	31,896	17,603	550,192	32,926	-
Yeşil Adamlar Waste Management and	-	-	38,559	-	-	-
Kademe Waste Technologies Industry Inc.	-	75,255	37,670	-	76,462	9,315
Albayrak Foundation (1)	-	2,400	-	-	2,400	-
	284,816	109,551	93,832	5,458,580	111,788	9,315

(1) Albayrak Group controls the company.

(2) Main shareholder

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
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18. Parties Related party disclosures

(contd) Dividends paid to related parties

	2014	2013
Ereğli Textile Tourism Industry and Trade Inc.	11,592,824	20,087,105
Muzaffer Albayrak	300,000	465,200
Ahmet Albayrak	300,000	465,200
Bayram Albayrak	300,000	465,200
Nuri Albayrak	300,000	465,200
Kazım Albayrak	300,000	465,200
Mustafa Albayrak	300,000	465,200
Hedef Venture Capital Investment Trust Inc.	225,000	465,200
CSD	3,632,176	3,405,495
	17,250,000	26,749,000

Benefits provided to the top management

As of June 30, 2014, the total amount of benefits and advantages provided to the top management is TL 458,176 (June 30, 2013 - TL 380,388).

19. Investment property

As of June 30, 2014, assets classified as investment property consist of buildings that have a net book value of TL 1,667,651. In the current period, the Group obtained a rental income of USD 86,400 from these investment properties. The Group determined the fair value of these investment properties approx. as TL 8,100,000 according to the valuation study dated April 25, 2014.

20. Financial risk management and policies

The Group's major financial instruments consist of bank loans, finance lease liabilities, factoring liabilities, cash and short-term deposits. The main purpose of the financial instruments is to finance the activities of the Group. The Group also has financial instruments such as trade receivables and payables which arise as a result of its activities. The main risks which the Group's financial instruments generate are interest rate risk, foreign currency risk, credit risk and liquidity risk. The management's policies regarding the management of these risks are summarized below. The Group also takes into account the market-value risk of all its financial instruments.

Capital management

The Group aims to increase its profitability in capital management by trying to maintain the continuity of its activities on the one hand and using the debt and equity balance in the most efficient way on the other hand. The Group's capital structure consists of payables, cash and cash equivalents and equity items, which comprise issued capital, capital reserves and profit reserves, as disclosed in Note 14. The Group's top management assesses the capital cost of the Group and the risk inherent in each capital class. Based on the assessments of the top management and of the Board of Management, the Group intends to keep the capital structure stable by acquiring new debt or repaying existing debt. The Group monitors the capital using the debt/equity ratio. This ratio is calculated by dividing net debt by total equity. Net debt is calculated by deducting cash and cash equivalents from total debt (which comprises financial payables, trade and other payables and other short- and long-term liabilities as shown in the balance sheet).

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period
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20. Financial risk management and policies (continued)

	June 30, 2014	December 31,
Total debt	110,730,587	56,558,360
Less: Cash and cash equivalents	1,676,614	5,376,059
Net debt	109,053,973	51,182,301
Total equity	225,704,132	242,037,213
Debt equity balance	116,650,159	190,854,912
Net financial liability/equity ratio	48%	21%

Interest rate risk

30 As of June 30, 2014 and December 31, 2013, the Group does not bear any interest rate risk since it has no variable interest rate loans.

Foreign currency risk

The Group is exposed principally to currency risk in respect of the euro and US dollar and this currency risk arises in general from trade receivables, trade payables and financial payables in the euro and US dollar. In order to minimise this risk, the Group monitors its financial position, cash inflows/outflows with detailed cash-flow statements.

As of June 30, 2014 and December 31, 2013, the Group's net foreign-exchange position is as follows:

On a total basis	June 30, 2014	December 31,
A. Assets in foreign currency	1,075,808	6,159,101
B. Liabilities in foreign currency	(12,010,411)	(15,058,548)
Net foreign-exchange position (A + B)	(10,934,603)	(8,899,447)

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

20. Financial risk management and policies (continued)

As of June 30, 2014 and December 31, 2013, the details of the Group's foreign-currency position are as follows:

	June 30, 2014								
	US dollar	TL Equivalent	Euro	TL equivalent	GBP	TL equivalent	CHF	TL equivalent	Total TL equivalent
Cash and cash equivalents	49	103	45,561	131,758	-	-	-	-	131,861
Trade receivables	75,228	159,738	250,174	723,479	-	-	-	-	883,217
Other current assets	-	-	21,000	60,730	-	-	-	-	60,730
Current assets	75,277	159,841	316,735	915,967	-	-	-	-	1,075,811
Total assets	75,277	159,841	316,735	915,967	-	-	-	-	1,075,811
Trade payables	(219,575)	(466,246)	(4,001,257)	(11,571,236)	7,500	27,071	-	-	(12,010,411)
Short-term liabilities	(219,575)	(466,246)	(4,001,257)	(11,571,236)	7,500	27,071	-	-	(12,010,411)
Total liabilities	(219,575)	(466,246)	(4,001,257)	(11,571,236)	7,500	27,071	-	-	(12,010,411)
Net foreign-currency position	(144,298)	(306,405)	(3,684,522)	(10,655,269)	7,500	27,071	-	-	(10,934,603)

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

**20. Financial risk management and policies
(continued)**

	December 31,								
	US dollar	TL Equivalent	Euro	TL equivalent	GBP	TL equivalent	CHF	TL equivalent	Total TL equivalent
Cash and cash equivalents	17,040	36,369	970,900	2,851,048	-	-	-	-	2,887,417
Trade receivables	228,484	487,654	259,520	762,080	-	-	-	-	1,249,734
Prepaid expenses	282,682	603,329	406,365	1,193,292	53,962	189,480	15,000	35,849	2,021,950
Current assets	528,206	1,127,352	1,636,785	4,806,420	53,962	189,480	15,000	35,849	6,159,101
Total assets	528,206	1,127,352	1,636,785	4,806,420	53,962	189,480	15,000	35,849	6,159,101
Short-term financial payables and factoring payables	(206,140)	(439,965)	-	-	-	-	-	-	(439,965)
Trade payables	(68,667)	(146,554)	(4,928,326)	(14,472,029)	-	-	-	-	(14,618,583)
Short-term liabilities	(274,807)	(586,519)	(4,928,326)	(14,472,029)	-	-	-	-	(15,058,548)
Long-term financial payables	(19,450)	(46,484)	-	-	-	-	-	-	(46,484)
Long-term liabilities	(19,450)	(46,484)	-	-	-	-	-	-	(46,484)
Total liabilities	(294,257)	(633,003)	(4,928,326)	(14,472,029)	-	-	-	-	(15,105,032)
Net foreign-currency position	233,949	494,349	(3,291,541)	(9,665,609)	53,962	189,480	15,000	35,849	(8,945,931)

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

20. Financial risk management and policies (continued)

In the profit/loss segment of the foreign currency sensitivity statement, it is presented how the statement of comprehensive income will be affected if the TL gains/loses 10% against the following foreign currencies as of June 30, 2014 and December 31, 2013. When analyzing, it is assumed that all other variables, especially the interest rates, remain constant.

The Group's sensitivity analysis for exchange rate risk as of June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014	
	Appreciation of the foreign currency	Depreciation of the foreign currency
Profit/(loss)		
<i>If the US dollar appreciates/depreciates 10% against the Turkish lira</i>		
1- Income/(loss) arising from US dollar net asset/(liability)	(30,640)	30,640
2- Hedged amount from US dollar risk (-)	-	-
Net effect of the US dollar	(30,640)	30,640
<i>If the euro appreciates/depreciates 10% against the Turkish lira</i>		
3- Income/(loss) arising from euro net asset/(liability)	(1,065,527)	1,065,527
4- Hedged amount from euro risk (-)	-	-
Net effect of the euro	(1,065,527)	1,065,527
Total net effect	(1,096,167)	1,096,167

	December 31,	
	Foreign Currency's Value Appreciation	Foreign Currency's Value Depreciation
Profit/(loss)		
<i>If the US dollar appreciates/depreciates 10% against the Turkish lira</i>		
1- Income/(loss) arising from US dollar net asset/(liability)	49,435	(49,435)
2- Hedged amount from US dollar risk (-)	-	-
Net effect of the US dollar	49,435	(49,435)
<i>If the euro appreciates/depreciates 10% against the Turkish lira</i>		
3- Income/(loss) arising from euro net asset/(liability)	(966,561)	966,561
4- Hedged amount from euro risk (-)	-	-
Net effect of the euro	(966,561)	966,561
Total net effect	(917,126)	917,126

20. Financial risk management and policies (continued)

The accompanying accounting policies and notes on pages 6 to 34 are an integral part of these financial statements.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

Credit risk

Credit risk is defined as the risk that the Group could incur a loss as a result of one of the parties of the financial instrument not fulfilling its contractual obligation. The Group seeks to mitigate credit risk by performing transactions only with creditworthy parties and, where possible, by obtaining sufficient guarantees. The credit risks to which the Group is exposed and the credit ratings of its customers are monitored continuously. The credit risk is controlled through the limits set for the customers and reviewed and approved by the Group's management.

Trade receivables include a large number of customers. Credit evaluations are made continuously based on the balances of the customers' trade receivables.

As of June 30, 2014	Receivables					
	Trade receivables		Other receivables		Deposits in banks	
	Related party	Other party	Related Other party party	Other Current Assets		
The maximum exposure to credit risk at the reporting date (A+B+C+D+E) (1)		88,108,491		- 6,149,341	-	1,669,754
- The portion of maximum risk secured by guarantee, etc. (2)	-	-		--	-	-
A. Net book value of financial assets that are neither past due nor impaired		88,108,491		- 6,149,341		1,669,754
B. Book value of financial assets that would otherwise be considered past due or impaired whose terms have been renegotiated	-	-		--	-	-
C. Net book value of assets that are past due but not impaired						
- The portion secured by guarantee, etc.	-	-		--	-	-
D. Net book value of impaired assets						
- Past due (gross book value)	-	47,358		--	-	-
- Impairment (-)	-	(47,358)		--	-	-
- The portion of net value secured by guarantee, etc.	-	-		--	-	-
- Not past due (gross book value)	-	-		--	-	-
- Impairment (-)	-	-		--	-	-
- The portion of net value secured by guarantee, etc.	-	-		--	-	-
E. Off-balance sheet items with credit risk	-	-		--	-	-

(1)→In determining the amount, the guarantees received, factors that increase the credit reliability are not considered.

(2) Guarantees consist of collateral bonds, guarantee cheques and mortgages received from the customers.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

**Notes to the financial statements for the period
ended June 30, 2014 (continued)
(Currency: Turkish Lira (TL))**

20. Financial risk management and policies (continued)

As of December 31, 2013	Receivables					
	Trade receivables		Other receivables		Other current assets	Deposits in banks
	Related party	Other party	Related party	Other party		
The maximum exposure to credit risk at the reporting date (A+B+C+D+E) (1)	311,079	53,792,169	6,187,153	-	-	5,341,663
- The portion of maximum risk secured by guarantee, etc. (2)	-	53,464,000	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	311,079	52,849,487	6,187,153			5,341,663
B. Book value of financial assets that would otherwise be considered past due or impaired whose terms have been renegotiated	-	-	-	-	-	-
C. Net book value of assets that are past due but not impaired		942,682				
- The portion secured by guarantee, etc.	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	2,016,194	-	-	-	-
- Impairment (-)	-	(2,016,194)	-	-	-	-
- The portion of net value secured by guarantee, etc.	-	-	-	-	-	-
- Not past due (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The portion of net value secured by guarantee, etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

- (1) In determining the amount, the guarantees received, factors that increase the credit reliability are not considered.
(2) Guarantees consist of collateral bonds, guarantee cheques and mortgages received from the customers.

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its net funding requirements. Liquidity risk is managed through cash inflows and outflows that are balanced within credit limits that are predetermined with credit institutions.

The breakdown of financial liabilities according to their maturities is shown taking into account the period from balance sheet date to maturity date.

Tümosan Engine and Tractor Industry Inc. and its Subsidiary

Notes to the financial statements for the period ended June 30, 2014 (continued) (Currency: Turkish Lira (TL))

20. Financial risk management and policies (continued)

The following statement presents the position of the Group's financial liabilities as of June 30, 2014 and December 31, 2013 according to the maturities of undiscounted contractual payments.

June 30, 2014	Book value	Less than 3	3 to 12	1 to 5	Having no	Total
Bank loans	30,243,427	12,655,057	17,588,369	-	-	30,243,426
Trade payables	66,720,132	66,859,984	-	-	-	66,859,984
Other payables	1,750	1,750	-	-	-	1,750
Other short-term liabilities	282,365	282,365	-	-	-	282,365
Total	97,247,674	79,799,156	17,588,369	-	-	97,387,525

December 31, 2013	Book value	Less than 3	3 to 12	1 to 5 years	Having no	Total
Bank loans	3,587,790	2,211,498	1,494,046	41,512	-	3,747,056
Trade payables	36,010,114	33,335,361	-	-	-	33,335,361
Other short-term liabilities	373,818	332,586	-	-	-	332,586
Total	39,971,722	35,879,445	1,494,046	41,512	-	37,415,003

20. Financial instruments (Fair value disclosures and disclosures related to hedge accounting)

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties in an arm's-length transaction, other than a forced sale or liquidation.

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

The following methods and assumptions were used to estimate the fair value of financial instruments for which fair value could be determined:

Financial assets

It is accepted that the fair value of the foreign-currency-based balances translated with the year-end exchange rates approximates their carrying amounts. Cash and cash equivalents are shown at their fair values. Trade receivables and receivable from related parties are recorded at their discounted values and it is assumed that their fair values approximate their carrying amounts.

Financial liabilities

Trade payables, payables to related parties, financial payables and other monetary liabilities are estimated to approximate their fair values at their discounted carrying amounts and it is accepted that the fair values of the foreign-exchange-based balances translated with the year-end exchange rates approximate their carrying amounts.

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**Notes to the financial statements for the period
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21. Events after the balance sheet date

The Defence Industry Executive Committee completed bid evaluations on August 6, 2014 and decided to start negotiations for an agreement with Tümosan Engine and Tractor Industry Inc. for the Altay Main Battle Tank Power Development Project.