

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

**Information and Review Report on Condensed  
Consolidated Financial Statements as of June 30,  
2016 and for the Six-month Period Then Ended**

Aksis International Independent Audit Inc., August 19,  
2016

This report includes 2 pages of review report and 46 pages of condensed interim financial statements and explanatory notes to the interim financial statements.

## **REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

**To the Board of Management of Tümosan Engine and Tractor Industry Inc.:**

### ***Introduction***

We have reviewed the accompanying interim statement of financial position (balance sheet) of Tümosan Engine and Tractor Industry Inc. (hereinafter the "Company") and its subsidiaries (hereinafter collectively the "Group") prepared as of June 30, 2016 and the related interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. The Company's management is responsible for the preparation and fair presentation of the aforementioned condensed consolidated interim financial information in accordance with the Turkish Accounting Standard 34 (TAS 34) "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### ***Scope of Review***

We conducted our review in accordance with the Standard on Review Engagements 2410 (SRE 2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The scope of a review of interim financial information consisting of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures is substantially less than an audit conducted in accordance with the Standards on Auditing whose objective 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 condensed interim financial statements are not prepared, in all material respects, in accordance with TAS 34 "Interim Financial Reporting".

***Other Issues***

The auditing of financial statements of Tümosan Engine and Tractor Industry Inc. for the year ended December 31, 2015 and of its condensed consolidated financial information for the period ended June 30, 2015 was carried out by an other independent audit company and this audit company expressed a positive opinion in its audit report dated March 10, 2016 and stated in its review report dated August 19, 2015 that there were no issues that did not comply with TAS 34.

Istanbul, August 19, 2016

Aksis International Independent Audit Inc., August 19, 2016

Tayyip Yaşar, CPA, Co-  
Responsible Chief Auditor

# Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

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**Tümosan Engine and Tractor Industry Inc. and its  
Subsidiaries Consolidated Financial Positions as of June 30,  
2016 and December 31, 2015**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

	Note References	Reviewed	Audited
		June 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current Assets</b>		<b>281,544,947</b>	<b>231,429,844</b>
Cash and Cash Equivalents	4	1,974,712	239,778
Financial Investments	5	9,000,000	--
Trade Receivables			
- Trade Receivables from Related Parties	7.24	22,295,534	487,581
- Trade Receivables from Third Parties	7	103,509,790	110,969,841
Other Receivables			
- Other Receivables from Related Parties	8.24		11,723,444
- Other Receivables From Third Parties	8	8,594,615	191,176
Inventories	9	115,228,163	93,965,433
Prepaid Expenses	10	13,068,136	1,746,416
Other Current Assets	16	7,873,997	12,106,175
<b>Fixed Assets</b>		<b>128,724,164</b>	<b>121,948,994</b>
Investment Property	11	1,991,434	2,015,172
Tangible Fixed Assets	12	95,701,205	93,484,854
Intangible Fixed Assets	13	30,447,468	25,789,580
Prepaid Expenses	10	170,694	659,388
Deferred Tax Asset	22	413,363	--
<b>TOTAL ASSETS</b>		<b>410,269,111</b>	<b>353,378,838</b>

The following notes are an integral part of the condensed consolidated interim financial statements.

**Tümosan Engine and Tractor Industry Inc. and its  
Subsidiaries Consolidated Financial Positions as of June 30,  
2016 and December 31, 2015**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

	Note References	Reviewed	Audited
		June 30, 2016	December 31, 2015
<b>RESOURCES</b>			
<b>Short-term Liabilities</b>		<b>110,245,246</b>	<b>86,860,663</b>
Short-term Borrowings	6	50,245,176	32,735,374
Other Financial Liabilities		-	182,606
Trade Payables			
- Trade Payables to Related Parties	7.24	1,198,590	891,848
- Trade Payables to Third Parties	7	45,232,899	37,444,334
Other Payables			
- Other Payables to Related Parties	8	-	28,176
- Other Payables to Third Parties	8	21,745	3,000
Employee Benefits	15	1,899,414	1,595,395
Deferred Income	17	493,962	5,275,137
Tax Liability on Income for the Period		3,342,240	1,020,276
Short-term Provisions			
- Short-term Provisions for Employee Benefits	15	920,931	826,860
- Other Short-term Provisions	14	6,890,289	6,450,210
Other Short-term Liabilities	15		407,447
<b>Long-term Liabilities</b>		<b>10,380,919</b>	<b>3,978,876</b>
Long-term Borrowings	6	6,418,221	-
Long-term Provisions			
- Long-term Provisions for Employee Benefits	15	3,962,698	3,343,451
Deferred Tax Liability	22	-	635,425
<b>EQUITY</b>		<b>289,642,946</b>	<b>262,539,299</b>
<b>Equity of the Parent Company</b>		<b>289,642,946</b>	<b>262,539,299</b>
Paid-in Capital	18	115,000,000	115,000,000
Premiums/Allowances on Shares		13,074,563	13,074,563
Reserves on Retained Earnings	18	13,843,979	13,843,979
Capital Reserves		1,091,990	729,443
Accumulated Other Comprehensive Income and Expenses that will not be Reclassified to Profit or Loss			
- Revaluation and Measurement Gains/Losses		39,371,136	39,371,136
- Actuarial Gains/Losses Fund from Pension Plans		237,985	194,984
Accumulated Profits/Losses		80,325,194	46,730,878
Net Income/Loss for the Period		26,698,099	33,594,316
<b>Non-controlling Interests</b>		<b>-</b>	<b>-</b>
<b>TOTAL RESOURCES</b>		<b>410,269,111</b>	<b>353,378,838</b>

The following notes are an integral part of the condensed consolidated interim financial statements

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Consolidated Income Statements for the Interim Periods from January 1 to June 30, 2016 and January 1 to June 30, 2015**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

		Reviewed		Reviewed	
	Note References	01.01.2016 - June 30, 2016	01.04.2016 - June 30, 2016	01.01.2015 - June 30, 2015	01.04.2015 - June 30, 2015
Revenue	19	238,803,892	130,191,356	215,745,005	119,316,745
Cost of Sales (-)	19	(176,093,197)	(98,432,515)	(170,764,604)	(95,085,785)
<b>GROSS PROFIT/(LOSS)</b>		<b>62,710,695</b>	<b>31,758,841</b>	<b>44,980,401</b>	<b>24,230,960</b>
General Administrative Expenses (-)	20.21	(8,027,138)	(4,057,446)	(6,292,364)	(3,430,979)
Marketing Expenses (-)	20.21	(26,582,702)	(11,886,099)	(17,764,819)	(9,640,899)
Research and Development Expenses (-)	20	(1,061,692)	(124,734)	(1,910,913)	(1,053,529)
Other Real Operating Income		11,863,438	9,231,077	7,115,338	1,531,417
Other Real Operating Expenses (-)		(5,710,840)	(4,387,258)	(4,269,492)	(876,312)
<b>REAL OPERATING PROFIT/LOSS</b>		<b>33,191,761</b>	<b>20,534,381</b>	<b>21,858,151</b>	<b>10,760,658</b>
Income from Investing Activities		412,542	233,689	3,701	3,701
Expenses from Investing Activities (-)		--	--	(24,955)	-
<b>OPERATING PROFIT/LOSS BEFORE FINANCING EXPENSES</b>		<b>33,604,303</b>	<b>20,768,070</b>	<b>21,836,897</b>	<b>10,764,359</b>
Financing Income		2,064,798	1,407,352	3,027,892	1,798,769
Financing Expenses (-)		(4,269,901)	(3,271,952)	(3,765,430)	(2,228,825)
<b>PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>31,399,200</b>	<b>18,903,470</b>	<b>21,099,359</b>	<b>10,334,303</b>
Continuing Operations Tax	22	(4,701,101)	(2,402,481)	(2,034,059)	(51,986)
<b>Income/(Expense)</b>					
- Tax Income/(expense) for the Period		(5,736,743)	(3,072,123)	(2,742,601)	(375,104)
- Deferred Tax Income/(Expense) for the		1,035,642	669,642	708,542	323,118
<b>PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>26,698,099</b>	<b>16,500,989</b>	<b>19,065,300</b>	<b>10,282,317</b>
<b>INCOME/(LOSS) FOR THE PERIOD</b>		<b>26,698,099</b>	<b>16,500,989</b>	<b>19,065,300</b>	<b>10,282,317</b>
<b>Distribution of Income/(Loss) for the</b>		<b>26,698,099</b>	<b>16,500,989</b>	<b>19,065,300</b>	<b>10,282,317</b>
Non-controlling Interests		--	--	-	-
Parent Company's Shares		26,698,099	16,500,989	19,065,300	10,282,317
Number of Shares	23	115,000,000	115,000,000	115,000,000	115,000,000
Earnings Per Share	23	0.2322	0.1434	0.1658	0.0894

The following notes are an integral part of the condensed consolidated interim financial statements

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Consolidated Income Statements for the Interim Periods from January 1 to June 30, 2016 and January 1 to June 30, 2015.**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

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**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Consolidated Statements of Other Comprehensive Income for the Interim Periods**  
**from January 1 to June 30, 2016 and January 1 to June 30, 2015**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

		Reviewed		Reviewed	
	Note	01.01.2016 - June 30, 2016	01.04.2016 - June 30, 2016	01.01.2015 - June 30, 2015	01.04.2015 - June 30, 2015
<b>INCOME/LOSS FOR THE PERIOD</b>		26,698,099	16,500,989	19,065,300	10,282,317
<b>OTHER COMPREHENSIVE INCOME</b>					
<b>Not To Be Reclassified to Profit or Loss</b>		(22,899)	(39,835)	549,952	389,608
Actuarial Gains/Losses from Employee Benefits					
- Actuarial Gain/Loss	15	(28,624)	(49,794)	687,440	487,009
- Deferred Tax Expense/Income	15	5,725	9,959	(137,488)	(97,401)
<b>To Be Reclassified As Profit or Loss</b>		-	-		
<b>OTHER COMPREHENSIVE INCOME (AFTER TAX)</b>		<b>(22,899)</b>	<b>(39,835)</b>	<b>549,952</b>	<b>389,608</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>26,675,200</b>	<b>16,461,154</b>	<b>19,615,252</b>	<b>10,671,925</b>
<b>Distribution of the Total Comprehensive Income</b>		<b>26,675,200</b>	<b>16,461,154</b>	<b>19,615,252</b>	<b>10,671,925</b>
Non-controlling Interests		-	-		
Parent Company's Shares		26,675,200	16,461,154	19,615,252	10,671,925

The following notes are an integral part of the condensed consolidated interim financial statements.

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Consolidated Statements of Changes in Equity for the Interim Periods of January 1 - June**  
**30, 2016 and January 1 - June 30, 2015**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

	Paid-in Capital	Share Premiums	Tangible Fixed Assets Valuation Funds	Restricted Profit Reserves	Capital Reserves	Actuarial Gains/Losses from Pension Plans	Accumulated Profits/Losses	Net Income/(Loss) for the Period	Equity of the Parent Company	- Non-controlling Interests	Total Equity
<b>01 Jan.16</b>	<b>115,000,000</b>	<b>13,074,563</b>	<b>39,371,136</b>	<b>13,843,979</b>		<b>194,984</b>	<b>46,730,878</b>	<b>33,594,316</b>	<b>261,809,856</b>	-	<b>261,809,856</b>
Transfers	-	-	-		-	-	33,594,316	(33,594,316)	--	-	--
R&D Grants					1,091,990				1,091,990		1,091,990
Net Income for the Period	-	-	-	-	-	-	-	26,698,099	26,698,099	-	26,698,099
Other Comprehensive Income	-	-	-	-	-	43,001	-	-	43,001	-	43,001
<b>30 Jun.16</b>	<b>115,000,000</b>	<b>13,074,563</b>	<b>39,371,136</b>	<b>13,843,979</b>	<b>1,091,990</b>	<b>237,985</b>	<b>80,325,194</b>	<b>26,698,099</b>	<b>289,642,946</b>	<b>--</b>	<b>289,642,946</b>
<b>01 Jan.15</b>	<b>115,000,000</b>	<b>13,074,563</b>	<b>39,371,136</b>	<b>10,504,898</b>		<b>(112,686)</b>	<b>28,324,897</b>	<b>21,745,062</b>	<b>227,907,870</b>		<b>227,907,870</b>
Transfers	-	-	-	3,339,081	-	-	18,405,981	(21,745,062)	-	-	-
R&D Grants	-	-	-	-	511,923	-	-	-	511,923	-	511,923
Net Income for the Period	-	-	-	-	-	-	-	19,065,300	19,065,300	-	19,065,300
Other Comprehensive Income	-	-	-	-	-	549,952	-	-	549,952	-	549,952
<b>30 Jun.15</b>	<b>115,000,000</b>	<b>13,074,563</b>	<b>39,371,136</b>	<b>13,843,979</b>	<b>511,923</b>	<b>437,266</b>	<b>46,730,878</b>	<b>19,065,300</b>	<b>248,035,045</b>	<b>--</b>	<b>248,035,045</b>

The following notes are an integral part of the condensed consolidated interim financial statements

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Consolidated Cash-flow Statements for the Interim Periods from January 1 to June 30, 2016 and January 1 to June 30, 2015.**

(Amounts are expressed in Turkish lira (TL) unless stated otherwise)

		Reviewed	Reviewed
	Note	01.01.2016 30.06.2016	01.01.2015 30.06.2015
		June 30, 2016	June 30, 2015
Net income for the period		26,698,099	21,099,359
<b>Reconciliation between net cash provided by operating activities and net income:</b>			
-			
Adjustments related to depreciation and amortisation expenses	11,12,13	9,005,579	6,994,599
Adjustments related to severance payment		788,345	914,808
Tax income/expense		5,736,743	--
Adjustments related to provision for doubtful receivables		--	2,157,763
Change in deferred tax		(1,048,788)	
Actuarial difference		43,001	
Adjustments related to provision/(cancellation) for inventory impairment	9	(1,923,766)	308,373
Provision for unused vacation entitlements	15	94,071	25,090
Provision for Impairment of Shares		--	24,955
Adjustments related to fixed asset sales profit/loss, net		(412,542)	--
Provision for lawsuits, net		--	566,348
Provision for warranties, net	14	440,079	4,393,658
Interest and factoring expenses		(4,269,901)	453,586
Interest income		2,064,798	(4,420,700)
<b>Net cash from operating activities before changes in operating assets and liabilities</b>			
<b>Change in assets and liabilities</b>			
Adjustments related to changes in financial investments	5	(9,000,000)	79,353
Adjustments related to increase/decrease in trade and other receivables	7.8	(943,388)	(5,869,883)
Adjustments related to increase/decrease in trade and other payables/receivables with related parties	7.8	(9,805,943)	(2,346,911)
Adjustments related to increase/decrease in inventories	9	(19,338,964)	(14,613,994)
Adjustments related to increase/decrease in Prepaid Expenses and Other Current Assets	10.16	(7,089,542)	8,403,372
Adjustments related to increase/decrease in Prepaid Expenses and Other Fixed Assets		488,694	(71,502)
Adjustments related to increase/decrease in trade and other payables	7.8	7,807,310	1,310,242
Adjustments related to other liabilities and provisions		(286,034)	1,993,353
Adjustments related to deferred income		(4,781,175)	(316,279)
Severance payments paid	15	(169,098)	308,882
Taxes paid		(3,414,779)	(4,146,681)
Expenses (income) not requiring Cash Outflow (Inflow) net		362,547	98,307
<b>Net cash from/(used in) operating activities</b>		<b>(8,954,654)</b>	<b>17,346,098</b>
<b>Cash flows from investing activities</b>			
Cash outflows from purchases of tangible and intangible fixed assets	11,12,13	(15,723,456)	(11,264,769)
Proceeds from the sales of tangible fixed assets		279,918	76,807
<b>Net cash from/(used in) investing activities</b>		<b>(15,443,538)</b>	<b>(11,187,962)</b>
<b>Net cash used in financial activities</b>			
Changes in financial payables, net		28,338,229	(4,388,677)
Interest paid		(4,269,901)	(1,417,580)
Interest earned		2,064,798	878,056
<b>Net cash from financial activities</b>		<b>26,133,126</b>	<b>(4,928,201)</b>
Net increase/decrease in cash and cash equivalents		<b>1,734,934</b>	<b>1,229,935</b>
Cash and cash equivalents at the beginning of the period	4	<b>239,778</b>	<b>1,229,935</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>1,974,712</b>	<b>2,459,870</b>

The following notes are an integral part of the condensed consolidated interim financial statements

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 1 - The Company's Organization and Area of Activity**

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 Istanbul Stock Exchange.

Shares of Tümosan Engine and Tractor Industry Inc. 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:

Maltepe Mahallesi Londra Asfaltı Caddesi No. 28/1, Topkapı, 34010-Zeytinburnu, Istanbul/Turkey

Factory:

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

# Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

## Condensed Consolidated Notes to Financial Statements as of June 30, 2016

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

### Note 1 - The Company's Organization and Area of Activity (continued)

Information on the Company's shareholders and their shares is as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
<b>Name/Title</b>	<b>Share Rate</b>	<b>Share Rate</b>
Ereğli Textile Tourism Industry and Trade Inc.	65.46	66.33
Muzaffer Albayrak	1.74	1.74
Ahmet Albayrak	1.74	1.74
Bayram Albayrak	1.74	1.74
Nuri Albayrak	1.74	1.74
Kazım Albayrak	1.74	1.74
Mustafa Albayrak	1.74	1.74
Free-float portion	24.1	23.23
<b>Total</b>	<b>100</b>	<b>100</b>

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

The upper limit of the Company's registered capital is TL 500 million with the Capital Markets Board's permission dated 29.06.2012 and numbered 22/778. The upper limit of the registered capital approved by the Capital Markets Board is valid for 2012-2016 (5 years).

As of June 30, 2016, the number of personnel employed at the Company is 449 (December 31, 2015 - 478).

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 1 - The Company's Organization and Area of Activity (continued)**

#### **Subsidiaries Included in Consolidation (According to effective rate)**

**Tümosan Foundry Inc.:** It is engaged in all kinds of casting and processing activities and trading.

**Tümosan Defence Inc.:** It is engaged in the development of new products in defence and weapons industries, in R&D activities, in the contribution to the production and development of existing products, in the production, purchase and sale of weapons and subsidiary industry products thereof.

The consolidated interim financial statements as of June 30, 2016 have been prepared by consolidating the following subsidiaries in accordance with the full consolidation method:

<b>Company</b>	<b>Ownership Ratio</b>	
	<b>June 30, 2016</b>	<b>December</b>
Tümosan Foundry Inc.	100%	100%
Tümosan Defence Inc.	100%	100%

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 2 - Basis of Presentation of Financial Statements**

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

##### **2.1.1 Implemented financial reporting standards**

Companies of the Group operating in Turkey prepare their accounting records and legal financial statements in Turkish lira in accordance with the accounting and financial reporting standards ("CMB Financial Reporting Standards") adopted by the Capital Markets Board ("CMB"), Turkish Commercial Code ("TCC"), provisions of the Turkish Tax Legislation and requirements of the Uniform Chart of Accounts promulgated by the Ministry of Finance. Subsidiaries operating in foreign countries prepare their accounting records and legal financial statements in accordance with the laws and regulations of the countries in which they operate.

The condensed consolidated interim financial statements are based on the legal records of the Company and its subsidiaries and expressed in Turkish lira and have been prepared subject to certain adjustments and reclassifications so as to duly present the Group's financial position in accordance with CMB's communiqués. The main one of adjustment records are: the application of consolidation accounting, the recognition of business combinations, the calculation of deferred taxes, the calculation of severance pay and other provisions consist the major adjustments. Financial statements are prepared on a cost basis except for financial assets and liabilities that are carried at fair value and assets and liabilities that are included in the application of business combinations.

The interim financial statements have been prepared in accordance with the provisions of the Capital Markets Board's "Communiqué on Principles of Financial Reporting in Capital Market" (Serial: II, No: 14.1) ("Communiqué"), promulgated in the Official Gazette edition 28676 on June 13, 2013 and thus pursuant to Article 5 of the Communiqué, Turkish Accounting Standards/Turkish Financial Reporting Standards promulgated by the the Public Oversight, Accounting and Auditing Standards Authority and annexes and interpretations thereof have been taken as a basis.

The Group has prepared its consolidated financial statements for the interim period ended June 30, 2016, within the framework of the CMB's Communiqué (Serial: II, No. 14.1) and announcements clarifying this Communiqué, according to TAS 34 "Interim Financial Reporting". The condensed consolidated interim financial statements and notes are presented in accordance with the formats recommended by CMB and with the inclusion of the mandatory information.

The entities are free to prepare their interim financial statements as complete or condensed set in accordance with TAS 34 standards. In this context, the Group has preferred to prepare condensed consolidated financial statements for interim periods.

Furtmermore, pursuant to the Communiqué and announcements clarifying this Communiqué, the statement of guarantee, pledge and mortgage, the statement of foreign-exchange position, the total export and total import volumes and the hedged portion of total foreign-currency liability are presented in the notes to the condensed financial statements (Note 25).

The Company's condensed consolidated financial information prepared as at June 30, 2016 were approved by the Board of Management on August 19, 2016.

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 2 - Basis of presentation of financial statements (continued)**

#### **2.1.2 Changes in accounting policies and estimates and errors**

In the event of changes in accounting policies and estimates, and errors, the material changes made and accounting errors detected are applied retrospectively and the prior period financial statements are revised. If the changes in accounting estimates are only relevant to one period, they are applied in the period in which the change is made, if they are relevant to future periods, they are applied both in the period in which the change is made and prospectively.

The condensed consolidated interim financial statements as of June 30, 2016 have been prepared using the accounting policies consistent with the accounting policies applied during the preparation of the financial statements for year ended December 31, 2015. Therefore, these condensed consolidated interim financial statements should be evaluated together with the consolidated financial statements for the year ended December 31, 2015.

#### **2.1.3 Functional and reporting currency**

The items in the financial information of each company included in the condensed consolidated interim financial statements are measured using the currency applicable in the primary economic environment in which the entity operates ("functional currency"). The condensed consolidated interim financial statements are presented in Turkish lira ("TL"), the functional and reporting currency of Tümosan Engine and Tractor Industry Inc.

#### **2.1.4 Group companies**

The financial positions and results of foreign operations that have a functional currency other than the reporting currency are translated into the reporting currency as follows:

- For each balance sheet presented, assets and liabilities are translated from the closing rate at the balance sheet date,
- Transactions for each income statement and statement of other comprehensive income are translated at average exchange rates at transaction dates (unless the cumulative effect of rates of the transaction dates is a reasonable estimate, in which case the income and expenses are translated on the transaction date),
- All resulting translation differences are recognised in the other comprehensive income.



# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 2 - Basis of presentation of financial statements (continued)**

#### **2.2 New and Revised Turkish Accounting Standards**

##### **a) Standards in force as of June 30, 2016 and amendments and interpretations to existing and former standards:**

- Amendment to TFRS 11 "Joint Arrangements": Acquisition of shares in joint operations is effective for annual periods beginning on or after 1 January 2016. The amendment in the standard clarifies how the share will be accounted for when a share is acquired in a joint operation that falls within the definition of the entity.

- The amendment to TAS 16 "property, plant and equipment" and TAS 41 "agricultural activities" on bearer plants applies to annual periods beginning on or after 1 January 2016. This amendment changes the financial reporting of plants such as grape vines, rubber trees, palm trees. Since fruit-bearing plants are similar to the use of tangible fixed assets in the production process, it has been decided to be accounted for in the same way as tangible fixed assets. Accordingly, the amendment excluded these plants from the scope of TAS 41 and brought them into scope of TAS 16. These plants will continue to be covered by TAS 41 during the growing period.

- Amendments to TAS 16 "property, plant and equipment" and TAS 38 "intangible assets" on depreciation and amortisation are effective for annual periods beginning on or after 1 January 2016. This amendment discloses that revenue-based methods are not appropriate when calculating the depreciation of an asset. This is because the revenue obtained as a result of an operation using an asset usually reflects factors that are different from the consumption of an asset's economic benefit. It is also disclosed that revenue is not an appropriate basis for the measurement of the consumption of an asset's economic benefit.

- TFRS 14 "Regulatory deferral accounts" is effective for an entity's first annual TFRS financial statements that are for a period beginning on or after 1 January 2016. This amendment allows companies adopting TFRS for the first-time to avoid changes in accounting policies in respect of regulatory deferral accounts. However, in order to provide comparability with other companies that have previously applied TFRS and will not account for the related amount, it is required that the effect of the rate regulation be presented separately from other items.

- TAS 27 "Separate financial statements" applies to annual periods beginning on or after 1 January 2016. This amendments allows an entity to account for investments in subsidiaries, associates and joint ventures using the equity method.

- TFRS 10 "Consolidated financial statements" and TAS 28 "Investments in associates and joint ventures" applies to annual periods beginning on or after 1 January 2016. This amendment addresses a conflict between the requirements of TFRS and TAS 28 with respect to the sale or contribution of an asset between an investor and its associate or joint venture. The main outcome of this amendment is that when a transaction that constitutes a business occurs (whether the business is housed in a subsidiary or not), a full gain or loss arising from that transaction is recognised; if it is an asset purchase or sale [to an associate or joint venture], a part of the gain or loss arising from that transaction is recognised.

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 2 - Basis of presentation of financial statements (continued)**

#### **2.2 New and Revised Turkish Accounting Standards (continued)**

- Annual Improvements 2014 is effective for annual periods beginning on or after 1 January 2016. Improvements have made amendments to 4 standards:

- TFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" - change in disposal methods
- TFRS 7 Financial Instruments: Disclosures" - amendment to servicing contracts in relation to TFRS 1
- TAS 19 "Employee Benefits" - amendment to reduction rates
- Amendment to TAS 34 "Interim financial reporting" - amendment to disclosure of information.

- TAS 1 "Presentation of Financial Statements" applies to annual periods beginning on or after 1 January 2016. These amendments aim to improve the presentation and disclosure of financial reports.

- TFRS 10 "Consolidated financial statements" and TAS 28 "Investments in associates and joint ventures" applies to annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

#### **b) Standards and amendments published as of March 31, 2016 but not yet effective:**

- TAS 7 "Cash flow statements" is effective for annual periods beginning on or after 1 January 2017. Improvements are a part of the 'disclosure initiative' project. The amendments were issued in the direction of investor requests to provide information about changes in companies' financial liabilities and to help better understand the changes in companies' liabilities. The amendment provides for better analysis of the effect of changes in liabilities on cash flows arising from financing activities and the effect of cash and non-cash changes (such as foreign exchange difference income and expenses).

- TAS 12 "Income taxes" is effective for annual periods beginning on or after 1 January 2017. The amendment clarifies the recognition of a deferred tax asset when an asset is measured at fair value and the fair value of the asset is below its taxable profit. It also clarifies some other aspects of accounting for deferred tax assets.

- TFRS 15 "Revenue from contracts with customers" applies to an annual reporting period beginning on or after 1 January 2018. The new standard that came up as a result of the harmonisation work done with US Acceptable Accounting Standards aims to provide for the financial reporting of revenue and worldwide comparability of the total income of financial statements.

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 2 - Basis of presentation of financial statements (continued)**

#### **2.2 New and Revised Turkish Accounting Standards (continued)**

- TFRS 9 "Financial instruments" is effective for annual reporting periods beginning on or after 1 January 2018. This standard replaces TAS 39. It comprises the requirements for the classification and measurement of financial assets and liabilities, as well as the expected credit risk model that will replace the actual impairment loss model currently being used.

- TFRS 16 "Leases" is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted as long as TFRS 15 is also applied. The new standard requires a lessee to recognise a lease liability that reflects future lease payments and a 'right-of-use asset' in return. In addition to this requirement, the IASB also provides an optional exception for lessees which only applies to short-term lease transactions and low-valued asset leases. Accounting for lessors remains substantially unchanged. As of the approval date of the financial statements, the following standards, interpretations and amendments have been published by the Public Oversight Accounting and Auditing Standards Authority as exposure draft for public comment:

- TFRS 9 "Financial instruments"
- TFRS 15 "Revenue from contracts with customers"

The Group will evaluate the effects of the above amendments on its operations and apply them from the effective date.

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 3 - 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.

**Note 4 - Cash and Cash Equivalents**

The details of cash and cash equivalents as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Cash	1,756	1,545
Demand deposits in banks	1,972,956	238,233
<b>Total</b>	<b>1,974,712</b>	<b>239,778</b>

There are no time deposits as of June 30, 2016.

**Note 5 - Financial Investments**

The details of financial investments as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
<b>Financial investments to be held until maturity</b>		
Private Sector Bonds	9,000,000	--
<b>Total</b>	<b>9,000,000</b>	<b>--</b>

A 180-day maturity bond was acquired from Ereğli Textile Tourism Industry and Trade Inc., a related party. -

**Note 6 - Financial Payables**

The interest and foreign exchange details of financial loans as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	<b>Effective Interest Rate</b>	<b>Amount in TL</b>	<b>Effective Interest Rate</b>	<b>Amount in TL</b>
Short-term Loans				
- TL	13.50% -	50,245,176	12.00% -	32,735,374
Long-Term Loans				
- TL	-	6,418,221	-	-
<b>Total Loans</b>		<b>56,663,397</b>		<b>32,735,374</b>

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 7 - Trade Receivables and Payables**

As of June 30, 2016 and December 31, 2015, the details of short-term trade receivables from related parties and third parties are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
<b><i>Trade Receivables from Related Parties</i></b>	<b>22,295,534</b>	<b>487,581</b>
Trade receivables	21,786,292	487,581
Postdated cheques and notes receivable	509,242	--
<b><i>Trade Receivables from Third Parties</i></b> Trade	<b>103,509,790</b>	<b>110,919,841</b>
receivables	50,084,773	57,088,940
Other Trade Receivables	135,208	--
Postdated cheques and notes receivable	58,471,136	56,907,190
Rediscount for Notes Receivable	(1,640,268)	--
- Less: Provision for doubtful receivables	(3,541,059)	(3,076,289)
<b>Total</b>	<b>125,805,324</b>	<b>111,407,422</b>

The reconciliation of the provision for doubtful trade receivables at the beginning and end of the period is as follows:

	<b>Jan. 1-Dec. 31, 2016</b>	<b>Jan. 1-Dec. 31,</b>
		<b>2015</b>
<b>Balance as of January 1</b>	<b>(3,076,289)</b>	<b>(453,730)</b>
Provisions allocated during the period	(464,770)	(2,622,559)
Provisions no longer required	--	--
<b>Period-end balance</b>	<b>(3,541,059)</b>	<b>(3,076,289)</b>

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 7 - Trade Receivables and Payables**

(continued)

**Short-term Trade Payables**

As of June 30, 2016 and December 31, 2015, the details of short-term trade payables to related parties and third parties are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
<b><i>Trade Payables to Related Parties</i></b>	<b><i>1,198,590</i></b>	<b><i>891,848</i></b>
Trade payables	1,198,590	891,848
<b><i>Trade Payables to Third Parties</i></b> Trade	<b><i>45,232,899</i></b>	<b><i>37,444,334</i></b>
payables	38,995,771	33,958,963
Postdated cheques and notes payable	5,903,542	3,485,371
Other Trade Payables	420,955	--
Rediscount for Notes Payable	(87,369)	--
<b>Total</b>	<b>46,431,489</b>	<b>38,336,1826</b>

**Not 8 - Other Receivables and Payables**

**Other Receivables**

As of June 30, 2016 and December 31, 2015, the details of other receivables from related parties and third parties are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
<b><i>Other Receivables From Related Parties</i></b>	<b><i>--</i></b>	<b><i>11,723,444</i></b>
Ereğli Textile Tourism Industry Trade Inc.	--	11,723,187
Other	--	257
<b><i>Other Receivables from Third Parties</i></b>	<b><i>8,594,615</i></b>	<b><i>191,176</i></b>
Other Receivables	8,594,615	191,176
<b>Total</b>	<b>8,594,615</b>	<b>11,914,620</b>

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 8 - Other Receivables and Payables**

(continued)

**Other Payables**

As of June 30, 2016 and December 31, 2015, the details of other payables to related parties and third parties are as follows:

	June 30, 2016	December 31,
<i>Other Payables to Related Parties</i>	--	28, 176
Kademe Waste Technologies Industry Inc.	--	28, 176
<i>Other Payables to Third Parties</i> Guarantees	21,745	3,000
received	21,745	3,000
<b>Total</b>	<b>21,745</b>	<b>31,176</b>

**Note 9 - Inventories**

The details of inventories as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31,
Materials and spare parts	67,532,287	67,890,812
Work in process inventories	8,524,287	6,224,040
Finished goods inventories	33,977,983	8,077,305
Trade goods	4,034,225	3,118,799
Goods in transit	--	10,689,490
Other Inventories	1,291,359	20,731
Provision for inventories (-)	(131,978)	(2,055,744)
<b>Total</b>	<b>115,228,163</b>	<b>93,965,433</b>

There are no pledges or mortgages on the inventories as of June 30, 2016 and December 31, 2015.

The reconciliation of the provision for inventories at the beginning and end of period is as follows:

	Jan. 1-Dec. 31, 2016	Jan. 1-Dec. 31,
<b>Balance at the beginning of the period</b>	<b>(2,055,744)</b>	<b>(1,882,053)</b>
Expense for the current period	--	(173,691)
Cancelled during the period	1,923,766	--
<b>Period-end balance</b>	<b>(131,978)</b>	<b>(2,055,744)</b>

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
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(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 10 - Prepaid expenses**

As of June 30, 2016 and December 31, 2015, the prepaid expenses and other current assets of the Group consist of the following items:

**Short-term prepaid expenses:**

	<b>June 30, 2016</b>	<b>December 31,</b>
Advances given	12,828,271	1,638,447
Expenses and income accruals for future months	172,358	34,798
Work advances	67,507	73,171
<b>Total</b>	<b>13,068,136</b>	<b>1,746,416</b>

**Long-term prepaid expenses**

As of June 30, 2016 and December 31, 2015, the long-term prepaid expenses consist of the following items:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Advances given	93,699	107,287
Expenses for future years	76,995	552,101
<b>Total</b>	<b>170,694</b>	<b>659,388</b>

**Note 11 - Investment Property**

As of June 30, 2016 and December 31, 2015, the investment property consists of the following items:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Cost</b>		
Balance on January 1	2,373,804	2,373,804
<b>Period-end balance</b>	<b>2,373,804</b>	<b>2,373,804</b>
<b>Depreciation</b>		
Balance on January 1	(358,632)	(280,023)
Depreciation expense for the period	(23,738)	(78,609)
<b>Period-end balance</b>	<b>(382,370)</b>	<b>(358,632)</b>
<b>Net book value at the end of the period</b>	<b>1,991,434</b>	<b>2,015,172</b>

The Group's assessment and accounting policies for Investment Property are disclosed in the consolidated financial statements of December 31, 2015.



**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
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(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 12 - Tangible Fixed Assets**

The movement table of tangible fixed assets for the period ended June 30, 2016 is summarised as follows:

	Land	Overland plants	Buildings	Plants, Machinery and Equipment	Vehicles	Furniture and fixtures	Special costs	Total
<b>Cost value</b>								
Opening balance on January 1,	44,313,079	337,287	12,908,332	69,603,276	5,146,449	9,118,337	976,504	142,403,264
Additions	100,000	-	329,159	1,203,376	3,353,186	2,875,431	122,161	7,983,313
Transfer			-	-	-	-		-
Outflow			0	0	(886,346)	(46,790)	-	(933,136)
<b>June 30, 2016</b>	<b>44,413,079</b>	<b>337,287</b>	<b>13,237,491</b>	<b>70,806,652</b>	<b>7,613,289</b>	<b>11,946,978</b>	<b>1,098,665</b>	<b>149,453,441</b>
<b>Less: Accumulated</b>								
<b>depreciation</b> Opening	--	(1,145)	(1,653,995)	(39,963,765)	(2,490,102)	(4,629,043)	(646,415)	(49,384,465)
Depreciation for the current	--	(11,244)	(132,375)	(3,226,444)	(598,679)	(981,274)	(70,973)	(5,020,989)
Transfer	--	--	--		--			--
Outflow	--	--	--		649,961	3,257		653,218
<b>June 30, 2016</b>	<b>--</b>	<b>(12,389)</b>	<b>(1,786,370)</b>	<b>(43,190,209)</b>	<b>(2,438,820)</b>	<b>(5,607,060)</b>	<b>(717,388)</b>	<b>(53,752,236)</b>
<b>Net book value on December 31,</b>	<b>44,313,079</b>	<b>336,142</b>	<b>11,254,337</b>	<b>29,639,511</b>	<b>2,656,347</b>	<b>4,489,294</b>	<b>330,089</b>	<b>93,018,799</b>
<b>June 30, 2016</b>	<b>44,413,079</b>	<b>324,898</b>	<b>11,451,121</b>	<b>27,616,443</b>	<b>5,174,469</b>	<b>6,339,918</b>	<b>381,277</b>	<b>95,701,205</b>

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 12 - Tangible Fixed Assets (continued)**

The movement tables of tangible fixed assets for the period ended December 31, 2015 are summarised as follows.

	Land	Overland plants	Buildings	Plants, Machinery and Equipment	Vehicles	Furniture and fixtures	Special costs	Investments in Progress	Total
<b>Cost value</b>									
Opening balance on January 1, 2015	44,113,075	2,520	11,508,332	65,259,203	3,770,520	7,335,632	768,901		132,758,183
Additions	200,000	--	1,400,000	4,508,617	1,632,959	1,796,338	207,600	636,284	10,381,798
Transfer	--	--	--	--	--	--	--	--	--
Outflow	--	--	--	--	(257,030)	(13,632)	--	--	(270,662)
<b>December 31, 2015</b>	<b>44,313,075</b>	<b>2,520</b>	<b>12,908,332</b>	<b>69,767,820</b>	<b>5,146,449</b>	<b>9,118,338</b>	<b>976,501</b>	<b>636,284</b>	<b>142,869,319</b>
<b>Less: Accumulated depreciation</b>									
Opening balance on January 1, 2015	--	(934)	(1,400,495)	(32,464,746)	(1,875,877)	(3,236,692)	(554,342)	--	(39,533,086)
Depreciation for the current period	--	(211)	(253,500)	(7,499,019)	(803,529)	(1,405,525)	(92,073)	--	(10,053,857)
Transfer	--	--	--	--	--	--	--	--	--
Outflow	--	--	--	--	189,304	13,174	--	--	202,478
<b>December 31, 2015</b>	<b>--</b>	<b>(1,145)</b>	<b>(1,653,995)</b>	<b>(39,963,765)</b>	<b>(2,490,102)</b>	<b>(4,629,043)</b>	<b>(646,415)</b>	<b>--</b>	<b>(49,384,467)</b>
<b>Net book value on December 31, 2014</b>	<b>44,113,075</b>	<b>1,586</b>	<b>10,107,837</b>	<b>32,794,457</b>	<b>1,894,643</b>	<b>4,098,940</b>	<b>214,559</b>	<b>636,284</b>	<b>93,861,381</b>
<b>December 31, 2015</b>	<b>44,313,075</b>	<b>1,375</b>	<b>11,254,337</b>	<b>29,804,055</b>	<b>2,656,347</b>	<b>4,489,295</b>	<b>330,086</b>	<b>636,284</b>	<b>93,484,854</b>

The Group does not have any capitalised financing cost on tangible fixed assets.

There are no mortgages, guarantees and pledges on the Group's tangible fixed assets.

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
**Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 13 - Intangible Fixed Assets**

As of June 30, 2016 and December 31, 2015, intangible fixed assets consist of the following items:

	<b>June 30, 2016</b>	<b>December 31,</b>
<b>Net book value on January 1</b>	<b>25,789,580</b>	<b>12,660,443</b>
Purchases	8,618,740	19,028,344
Outflows	--	(961,741)
Amortisation charges	(3,960,852)	(4,937,466)
<b>Net book value at the end of the period</b>	<b>30,447,468</b>	<b>25,789,580</b>
<b>Period-end</b>		
Cost	43,325,798	34,764,923
Accumulated amortisation charges	(12,878,330)	(8,975,343)
<b>Net book value</b>	<b>30,447,468</b>	<b>25,789,580</b>

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

**Note 14 - Provisions, Contingent Assets and Liabilities**

**Debt Provisions**

As of June 30, 2016 and December 31, 2015, debt provisions consist of the following items:

	<b>June 30, 2016</b>	<b>December 31,</b>
Provision for warranties	6,483,452	6,043,373
Provision for lawsuits	406,837	406,837
<b>Total</b>	<b>6,890,289</b>	<b>6,450,210</b>

The movements of provision for warranty expenses over periods are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Balance on January 1	6,043,373	5,845,270
Increase/decrease during the period	440,079	198,103
<b>Total</b>	<b>6,483,452</b>	<b>6,043,373</b>

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**Note 14 - Provisions, Contingent Assets and Liabilities (continued)**

The Group's position for the guarantees, pledges and mortgages (GPM) as of June 30, 2016 and December 31, 2015 is as follows: GPMs given by the Group:

<b>GPMs given by the Group (in TL)</b>	<b>June 30, 2016</b>	<b>December</b>
A. The Total Amount of GPMs Given on Behalf of its Own Legal Entity	12,000,000	3,132,657
B. The Total Amount of GPMs Given on Behalf of Companies Included in Full Consolidation	-	-
C. The Total Amount of GPMs Given on Behalf of Other 3rd parties for the Continuation of its Ordinary Business Operations (*)	67,411,246	568,317,734
D. The Total Amount of Other GPMs Given	-	-
i. The Total Amount of GPMs Given on Behalf of the Main Shareholder	-	-
ii. The Total Amount of GPMs Given on Behalf the Other Related Companies that Do Not Fall under Articles B and C	-	-
iii. The Total Amount of GPMs Given on Behalf of 3rdParties that Do Not Fall under Article C	-	-
<b>Total</b>	<b>79,411,246</b>	<b>571,450,391</b>

Details of GPMs in foreign currency are as follows (TL equivalents);

	<b>June 30, 2016</b>	<b>December 31,</b>
Turkish lira	14,763,259	570,727,504
Euro	62,101,272	--
US dollar	2,546,715	722,887
<b>Total</b>	<b>79,411,246</b>	<b>571,450,391</b>

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**Note 15 - Employee Benefits**

**Short-term Employee Benefits**

Provisions for short-term employee benefits as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Provision for unused vacations	920,931	826,860
<b>Total</b>	<b>920,931</b>	<b>826,860</b>

**Long-Term Employee Benefits**

Provisions for long-term employee benefits as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Provision for severance payments	3,962,698	3,343,451
<b>Total</b>	<b>3,962,698</b>	<b>3,343,451</b>

Pursuant to the existing Turkish Labour law, the Group is obligated to make a certain amount of severance payment to the personnel, who has served at least for one year, that leaves work due to retirement or resignation or that is dismissed from work for reasons other than misconduct or that is obliged to leave work because of compulsory military service. The amount payable consists of one month's salary for each year of service and is limited to TL 4,092 as of 30 June 2016 and TL 3,828 as of 31 December 2015. Based on the information gained from past experience, the Group has discounted the benefits gained by employees entitled to severance payments by using the government bond rates valid at the balance sheet date and reflected the discounted net values to the financial statements. Provision for severance payments is allocated by calculating the present value of the possible liability to be paid in case of the employees' retirement.

Accordingly, the actuarial assumptions used to calculate the liability as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30,</b>	<b>December</b>
Discount rate	11.50%	11.50%
Estimated wage increase rate	9.00%	9.00%
Net discount rate	2.29%	2.29%

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**Note 15 - Employee Benefits (continued)**

The movement of provision for severance payment for the years ended June 30, 2016 and December 31, 2015 is as follows:

<b>Movement table of provision for severance</b>	<b>June 30, 2016</b>	<b>December 31,</b>
<b>Balance on January 1</b>	<b>3,343,451</b>	<b>2,808,016</b>
Service cost	624,720	345,756
Interest expense	192,248	322,922
- Actuarial gain/loss	(28,624)	(384,587)
Provisions allocated during the period	--	422,749
Payments	(169,098)	(171,405)
<b>Period-end Balance</b>	<b>3,962,698</b>	<b>3,343,451</b>

**Provisions for Short-term Employee Benefits and Other Short-term Liabilities:**

The details of the Group's short-term payables for its employee benefits as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Taxes and Funds Payable	451,287	330,117
Social Security Withholdings Payable	584,241	848,464
Payables to Employees	863,886	746,931
Other	--	77,330
<b>Total</b>	<b>1,899,414</b>	<b>2,002,842</b>

**Note 16 - Other Current Assets**

Other current assets of the Group as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Deferred VAT	7,873,997	12,027,238
Deposits and guarantees given	--	72,119
Other	--	6,818
<b>Total</b>	<b>7,873,997</b>	<b>12,106,175</b>

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**Note 17 - Deferred Income**

Deferred income of the Group as of June 30, 2016 and December 31, 2015 is as follows:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Income for future months	412,838	479,952
Expense accruals	0	142,032
Advances received	81,124	4,653,153
<b>Total</b>	<b>493,962</b>	<b>5,275,137</b>

**Note 18 - Equity**

**A. Capital**

The Group's shareholders and their shares in the capital as of June 30, 2016 and December 31, 2015 are as follows:

Name/Title	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	Share Rate %	Share Amount (TL)	Share Rate %	Share Amount (TL)
Ereğli Textile Tourism Industry and Trade Inc.	65.46	75,279,000	66.33	76,285,493
Other	10.44	12,006,000	10.44	12,000,000
Free-float portion	24.1	27,715,000	23.23	26,714,507
<b>Capital</b>	<b>100</b>	<b>115,000,000</b>	<b>100</b>	<b>115,000,000</b>
<b>Paid-in Capital</b>		<b>115,000,000</b>		<b>115,000,000</b>

As of June 30, 2016, 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, 2015 - 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.

# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

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### **Note 18 - Equity (contd)**

#### **Premiums on shares:**

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. Furthermore, the Company decided at its General Meeting held on May 13, 2013 to offset prior year's losses with share premiums.

#### **Dividend Distribution**

Publicly-listed companies distribute their dividends according to the CMB's Communiqué on Dividends (II-19.1), effective from February 1, 2014. Companies distribute their profits by decisions of the general meeting of shareholders 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 laws and regulations. A minimum distribution rate has not been determined within the scope of the said Communiqué. Companies pay dividends in the manner specified in their articles of association or dividend distribution policies. Furthermore, companies may pay dividends in installments of equal or different amounts and distribute dividend advances in cash over their profits shown in their interim financial statements.

Unless and until both the reserve required to be set aside as per TCC (Turkish Commercial Code), and the dividend determined for payment to shareholders in the articles of association or in the dividend distribution policy 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, company's employees and other non-shareholders, nor can profit shares be distributed to the said persons unless and until the dividend determined for shareholders are fully paid in cash.

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.



# **Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**

## **Condensed Consolidated Notes to Financial Statements as of June 30, 2016**

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### **Note 18 Equity (contd)**

#### **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 are as follows:

	<b>June 30, 2016</b>	<b>December 31,</b>
Legal reserves on retained earnings	13,843,979	13,843,979
<b>Total</b>	<b>13,843,979</b>	<b>13,843,979</b>

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**Note 19 - Sales and Cost of Sales**

**a. Statement of Sales and Cost of Sales**

	<b>January 1- June 30, 2016</b>	<b>April 1- June 30, 2016</b>	<b>January 1- June 30, 2015</b>	<b>April 1- June 30, 2015</b>
Domestic sales	234,038,550	129,136,492	210,933,419	117,204,328
Foreign sales	5,535,251	2,481,531	5,710,291	3,064,162
Other sales	893,811	237,053	105,385	30,316
Sales Returns and Allowances	(1,663,720)	(1,663,720) -	(1,004,090)	(982,061)
<b>Total revenue, net</b>	<b>238,803,892</b>	<b>130,191,356</b>	<b>215,745,005</b>	<b>119,316,745</b>
Cost of sales	(176,093,197)	(98,432,515)	(170,764,604)	(95,085,785)
<b>Gross Profit</b>	<b>62,710,695</b>	<b>31,758,841</b>	<b>44,980,401</b>	<b>24,230,960</b>

**b. Distribution of Sales by Product Groups**

	<b>January 1- June 30, 2016</b>	<b>April 1- June 30, 2016</b>	<b>January 1- June 30, 2015</b>	<b>April 1- June 30, 2015</b>
Tractor sales	221,758,010	123,230,973	204,091,407	111,830,687
Spare part sales	8,551,241	3,810,174	5,836,924	4,094,470
Engine Sales	2,440,154	1,175,551	2,776,286	351,200
Other	6,054,488	1,974,659	3,040,388	3,040,388
<b>Total sales</b>	<b>238,803,892</b>	<b>130,191,356</b>	<b>215,745,005</b>	<b>119,316,745</b>

**Note 20 - Operating Expenses**

The details of operating expenses for the six-month and three-month interim periods ended June 30 are as follows.

	<b>January 1- June 30,</b>	<b>April 1- June 30, 2016</b>	<b>January 1- June 30, 2015</b>	<b>April 1- June 30, 2015</b>
Research and development expenses	(1,061,692)	(124,734)	(1,910,913)	(1,053,529)
Marketing, sales and distribution	(26,582,702)	(11,886,099)	(17,764,819)	(9,640,899)
General administrative expenses	(8,027,138)	(4,057,446)	(6,292,364)	(3,430,979)
<b>Total</b>	<b>(35,671,532)</b>	<b>(16,068,279)</b>	<b>(25,968,096)</b>	<b>(14,125,407)</b>

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**Note 21 - Expenses by Nature**

**Marketing, Sales and Distribution Expenses;**

The details of marketing, sales and distribution expenses during the six-month and three-month interim periods ended June 30 are as follows.

	<b>January 1- June 30,</b>	<b>April 1- June 30, 2016</b>	<b>Januar June 30,</b>	<b>April June 30,</b>
Provision for warranty expenses	7,230,377	2,740,855	4,393,657	2,704,031
Sales transportation expenses	1,782,546	941,100	1,313,572	753,782
Personnel expenses	1,932,309	996,288	1,494,907	817,255
Promotion expenses	4,049,138	3,803,237	811,890	308,856
Advertising and announcement expenses	--	--	775,761	194,896
Fair and exhibition expenses	555,650	66,619	538,896	194,707
Accommodation expenses	429,322	191,097	275,793	148,848
Fuel expenses	138,436	84,830	102,062	57,968
Premium and commission expenses	9,459,521	2,247,203	7,794,931	4,311,595
Representation and entertainment expenses	127,911	5,163	67,670	51,864
Mobile service meal and accommodation	43,683	20,865	36,478	15,939
Depreciation and Amortisation Charge	529,612	389,773	--	--
Other	304,197	399,069	159,202	81,158
<b>Total</b>	<b>26,582,702</b>	<b>11,886,099</b>	<b>17,764,819</b>	<b>9,640,899</b>

**General Administrative Expenses:**

The details of general administrative expenses for the six-month and three-month interim periods ended June 30 are as follows:

	<b>January 1- June 30,</b>	<b>April 1- June 30, 2016</b>	<b>January 1- June 30,</b>	<b>April June 30,</b>
Personnel expenses	1,564,695	773,603	1,570,895	929,423
Financial and legal consulting expenses	775,478	346,845	1,080,312	773,562
Depreciation and amortization expenses	3,452,236	1,835,257	2,449,001	1,089,888
Rental Expenses	162,750	59,185	202,021	115,973
Litigation, enforcement and proceeding	12,164	9,031	29,553	7,850
Travel and accommodation expenses	155,944	90,253	186,116	117,581
Stationery expenses	225,531	159,002	171,809	120,410
Fuel expenses	42,455	(3,459)	45,373	30,019
Communication expenses	101,476	31,227	56,070	31,468
Electricity expenses	900,381	580,373	25,271	12,627
Other	634,028	176,129	475,943	202,178
<b>Total</b>	<b>8,027,138</b>	<b>4,057,446</b>	<b>6,292,364</b>	<b>3,430,979</b>

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**Note 22 - Tax Assets and Liabilities**

The details of tax income/(expenses) for the periods from January 1 to June 30, 2016 and 2015 are as follows:

	<b>January 1- June 30, 2016</b>	<b>April 1- June 30, 2016</b>	<b>January 1- June 30, 2015</b>	<b>April 1- June 30,</b>
Corporate income tax for the	(5,736,743)	(3,072,123)	(2,742,601)	(375,104)
Deferred tax (income)/expense	1,035,642	669,642	708,542	323,118
<b>Total</b>	<b>(4,701,101)</b>	<b>(2,402,481)</b>	<b>(2,034,059)</b>	<b>(51,986)</b>

In Turkey, the corporate income tax rate is 20%. Corporate income tax rate is applied to the net corporation profit calculated by adding non-deductible expenses to the corporation's commercial earnings and deducting exemptions and discounts in tax laws.

Transfer pricing is regulated by Article 13 entitled "Disguised Profit Distribution Through Transfer Pricing" of the Corporate Income Tax Law, and detailed explanations on the subject are given in "General Communiqué on Disguised Profit Distribution Through Transfer Pricing".

Pursuant to the said arrangements, if goods or services are purchased or sold with related parties at prices that do not comply with the arm's length principle, the related profit is considered to have been distributed in a disguised manner through transfer pricing, and such profit distributions are not accepted as tax deductible for corporate income tax purposes.

According to the Corporate Income Tax Law, financial losses shown on the statement may be deducted from the corporate tax base for a period not exceeding 5 years. Statements and related accounting records can be reviewed by the tax office within five years, including transfer pricing from transactions with related parties, and tax calculations can be revised.

The Company calculates deferred tax assets and liabilities taking into account the effects of temporary differences arising as a result of different assessments of the balance sheet items between the financial statements prepared in accordance with the CMB Financial Reporting Standards and the statutory financial statements. Such temporary differences usually result from the recognition of income and expenses in different reporting periods according to CMB Financial Reporting Standards and Tax Laws.

30 As of June 30, 2016 and December 31, 2015, the breakdown of the deferred tax liability calculated over temporary differences subject to deferred tax by using the prevailing tax rates is summarised below:

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**Note 22 - Tax Assets and Liabilities (continued)**

The items attributable to deferred tax assets and liabilities as of June 30, 2016 and December 31, 2015 consist of the following:

	Assets		Liabilities		June 30, 2016	December 31, 2015
	June 30, 2016	December 31,	June 30, 2016	December 31,	Net Amount	Net Amount
Tangible and intangible fixed assets	(9,725,166)	(12,448,017)			(9,725,166)	(12,448,017)
Provision for severance payments			3,962,698	3,343,450	3,962,698	3,343,450
Provision for vacation			920,936	826,860	920,936	826,860
Inventories			4,425,666	2,055,745	4,425,666	2,055,745
Effect of inventory valuation adjustments				1,071,556	--	1,071,556
Provision for doubtful receivables			5,181,327	3,076,289	5,181,327	3,076,289
Effect of rediscount adjustments			395,810	2,807,609	395,810	2,807,609
Provision for warranty expenses			6,483,452	6,043,373	6,483,452	6,043,373
Tangible fixed assets valuation fund	(41,443,305)	(41,443,305)			(41,443,305)	(41,443,305)
Provision for lawsuits			406,837	406,837	406,837	406,837
Other			376,085		376,085	--
<b>Total Deferred Tax Asset/Liability</b>	<b>(51,168,471)</b>	<b>(53,891,322)</b>	<b>22,152,811</b>	<b>19,631,719</b>	<b>(29,015,660)</b>	<b>(34,259,603)</b>

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**Note 22 - Tax Assets and Liabilities (continued)**

	Assets		Liabilities		June 30, 2016	December 31, 2015
	June 30, 2016	December 31,	June 30, 2016	December 31,	Net Amount	Net Amount
Tangible and intangible fixed assets	(1,945,033)	(2,489,603)	--	--	(1,945,033)	(2,489,603)
Provision for severance payments	--	--	792,540	668,690	792,540	668,690
Provision for vacation	--	--	184,187	165,372	184,187	165,372
Inventories	--	--	885,133	411,149	885,133	411,149
Effect of inventory valuation adjustments	--	--	--	214,311	--	214,311
Provision for doubtful receivables	--	--	1,036,265	615,258	1,036,265	615,258
Effect of rediscount adjustments	--	--	79,162	561,522	79,162	561,522
Provision for warranty expenses	--	--	1,296,690	1,208,675	1,296,690	1,208,675
Tangible fixed assets valuation fund	(2,072,165)	(2,072,165)	--	--	(2,072,165)	(2,072,165)
Provision for lawsuits	--	--	81,367	81,367	81,367	81,367
Other	--	--	75,217	--	75,217	--
<b>Total Net Deferred Tax Asset/Liability</b>	<b>(4,017,198)</b>	<b>(4,561,769)</b>	<b>4,430,562</b>	<b>3,926,344</b>	<b>413,364</b>	<b>(635,425)</b>

# Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

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### Note 23 - Earnings per Share

Earnings per share is calculated by dividing the net income for the current 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 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.

	January 1- June 30, 2016	April 1- June 30, 2016	January 1- June 30, 2015	April 1- June 30, 2015
The weighted average number of shares outstanding during the period	115,000,000	115,000,000	115,000,000	115,000,000
(1 TL each) Net income for the period	26,698,099	16,500,989	19,065,300	10,282,317
Earning per share (TL)	<b>0.2322</b>	<b>0.1434</b>	<b>0.1658</b>	<b>0.0894</b>

# Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

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### Not 24 - 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 from Related Parties:

June 30, 2016	Receivables		Payables	
	Short Term		Short Term	
Balances with related parties	Trade	Trade non-	Trade	Trade non-
<b>Shareholders</b>				
Ereğli Textile Tourism Industry Trade Inc.	18,202,334	--	--	-
<b>Companies Managed by the Main Shareholder</b>				
Albayrak Holding Inc.			40,704	
Albayrak Tourism Travel Construction Trade Inc.	2,365,623		9,784	
Albil Central Services Inc.			518,559	
Albayrak Company Somali Mogadishuport Operation - Albayrak Tourism Travel Construction Trade Inc. Branch	422,911		-	-
Kademe Waste Technologies Industry Inc.	1,188,650		492,791	-
Nakil Logistics Inc.			22,486	
Yeşil Adamlar Waste Management and Transport Inc.	11,216			
Kazzaz Paper Trading Inc.	51,700			
Birlikte Distribution Inc.			4,878	
Platform Tourism Trade Inc.			85,138	
Reklam Piri Media Communication Inc.			24,250	
Birun Hotel Management Inc.	53,100			
	22,295,534		1,198,590	-

December 31, 2015	Receivables		Payables	
	Short Term		Short Term	
Balances with related parties	Trade	non-trade	Trade	non-trade
<b>Shareholders</b>				
Ereğli Textile Tourism Industry Trade Inc.		11,723,187		-
<b>Companies Managed by the Main Shareholders</b>				
-				
Albayrak Company Somali Mogadishuport Operation - Albayrak Tourism Travel Construction Trade Inc. Branch	424,957	-	-	-
Albil Central Services Inc.			719,322	-
Albayrak Tourism Travel Construction Trade Inc.			6,203	-
Birlikte Distribution Inc.			29,543	
Kademe Waste Technologies Industry Inc.		-	65,014	28,176
Other		257		-
Yeşil Adamlar Waste Management Transport Inc.	10,921			-
Platform Tourism Trade Inc.			59,477	
Birun Hotel Management	51,703			-
Reklam Piri Media Communication Inc.			12,289	-
	487,581	11,723,444	891,848	28,176



**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
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**Note 24 - Related Party Disclosures (continued)**

As of June 30, 2016 and December 31, 2015, there is no guarantee obtained from and/or given to related parties.

**b. Transactions made with Related Parties During the Year:**

*Services and Other Purchases*

	Jan. 1-Dec. 31, 2016	January 1- December 31
Albil Central Services and Trade Inc.	2,154,078	1,102,160
Kademe Waste Technologies Industry Inc.	866,133	286,911
Platform Tourism Transport Food Construction Cleaning	22,200	22,200
Reklam Piri Media Communication Inc.	10,000	5,000
Albayrak Holding Inc.	34,495	--
Birlikte Distribution Inc.	2,968	1,080
<b>Total</b>	<b>3,089,874.68</b>	<b>1,417,351.00</b>

*Sales and Other Income*

	January 1 - June 30,2016				January 1 - June 30,2015		
	Interest	Rent	Finished Goods and Trade Goods Sale	Other	Interest	Rent	Other
Albayrak Tourism Travel Construction Trade Inc.					67,374	240,372	-
Albayrak Company Somali Mogadishuport Operation - Albayrak Tourism Travel Construction Trade Inc. Branch							214,404
Nakil Logistics Inc.					-	960	7,464,641
Kazzaz Paper Trading Inc.			47,870				
Varaka Paper Industry Inc.			150,646				
Ereğli Textile Tourism Industry and Trade Inc.	1,421,501	6,000		5,742	504,864	2,542	66,738
Yeşil Adamlar Waste Management and Transport Inc.					-	-	9,505
Platform Tourism Transport Food Construction Cleaning Trade Inc.		-		1,112	-	-	-
Birun Hotel Management					-	-	49,167
Kademe Waste Technologies Industry Inc.		61,695	538,289	677,986	2,281	62,542	184,849
	<b>1,421,501</b>	<b>67,695</b>	<b>739,806</b>	<b>684,840</b>	<b>574,519</b>	<b>306,416</b>	<b>7,989,304</b>

**Benefits Provided to the Top Management**

As of June 30, 2016, the total amount of benefits and advantages provided to the top management is TL 437,592 (June 30, 2015 - TL 489,859).

# Tümosan Engine and Tractor Industry Inc. and its Subsidiaries

## Condensed Consolidated Notes to Financial Statements as of June 30, 2016

(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

### Note 25 - Nature and Extent of Risks Arising From Financial Instruments

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 19. 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).

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Total debt	120,626,165	90,839,539
Less: Cash and cash equivalents	(1,974,712)	(239,778)
<b>Net Debt</b>	<b>118,651,453</b>	<b>90,599,761</b>
Total equity	289,642,946	262,539,299
<b>Net Financial Liability/Equity Ratio</b>	<b>41%</b>	<b>34%</b>

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
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**Note 25 - Nature and Extent of Risks Arising From Financial Instruments (continued)**

**Financial instruments and financial risk**

**management (continued) Interest Rate Risk**

As of June 30, 2016 and December 31, 2015, the Group does not bear any interest rate risk since it has no variable interest rate loans.

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**Foreign Currency Risk**

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

As of June 30, 2016 and December 31, 2015, the details of the Group's foreign-currency position are as follows:

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<b>STATEMENT OF FOREIGN-</b>				
	<b>June 30,</b>			
	<b>TL Equivalent</b>	<b>US dollar</b>	<b>Euro</b>	<b>GBP</b>
1. Trade receivables	3,484,374	160,823	942,147	--
2a. Monetary financial assets (including cash and bank accounts)	1,134,272	171,041	199,522	--
3. Other	10,919	973	1,786	615
<b>4. Current assets (1+2+3)</b>	<b>4,629,566</b>	<b>332,838</b>	<b>1,143,455</b>	<b>615</b>
6a. Monetary financial assets	42,970	14,850	--	--
<b>8. Fixed assets (5+6+7)</b>	<b>42,970</b>	<b>14,850</b>	<b>--</b>	<b>--</b>
<b>9. Total assets (4+8)</b>	<b>4,672,536</b>	<b>347,688</b>	<b>1,143,455</b>	<b>615</b>
10. Trade payables	12,949,001	1,111,658	3,098,991	51,202
13. Short-term liabilities (10+11+12)	12,949,001	1,111,658	3,098,991	51,202
17. Long-term liabilities (14+15+16)	--	--	--	--
18. Total liabilities (13+17)	12,949,001	1,111,658	3,098,991	51,202
19. Net asset/(liability) position of the off-balance sheet foreign-currency derivative instruments (19a-19b)	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with active character	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with passive character	--	--	--	--
<b>20. Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(8,672,663)</b>	<b>(763,970)</b>	<b>(1,955,536)</b>	<b>(50,587)</b>
<b>21. Net foreign currency asset/(liability) position of monetary items (TFRS 7.B23) (=1+2a+5+6a-10-11-12a-14-</b>	<b>(8,683,582)</b>	<b>(764,944)</b>	<b>(1,957,322)</b>	<b>(51,202)</b>
22. Total fair value of financial instruments used to hedge foreign currency	--	--	--	--
23. The amount of hedged portion of foreign-currency assets	--	--	--	--
24. The amount of hedged portion of foreign-currency liabilities	--	--	--	--

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<b>- STATEMENT OF FOREIGN-</b>				
	<b>December</b>			
	<b>TL Equivalent</b>	<b>US dollar</b>	<b>Euro</b>	<b>GBP</b>
1. Trade receivables	3,308,322	145,655	907,860	--
2a. Monetary financial assets (including cash and bank	500,843		1,109	--
3. Other	736,205	66,893	168,019	1,816
<b>4. Current assets (1+2+3)</b>	<b>4,545,371</b>	<b>212,548</b>	<b>1,076,988</b>	<b>1,816</b>
6a. Monetary financial assets	43,178		--	--
<b>8. Fixed assets (5+6+7)</b>	<b>43,178</b>		--	--
<b>9. Total assets (4+8)</b>	<b>4,588,549</b>	<b>212,548</b>	<b>1,076,988</b>	<b>1,816</b>
10. Trade payables	(10,466,318)	(2,840,917)	(694,256)	
11. Short-term Financial Payables	111,216		35,000	
13. Short-term liabilities (10+11+12)	(10,355,102)	(2,840,917)	(659,256)	--
17. Long-term liabilities (14+15+16)	--	--	--	--
18. Total liabilities (13+17)	(10,355,102)	(2,840,917)	(659,256)	--
19a. Sum of the off-balance sheet foreign-currency derivative products with active character	--	--	--	--
19a. Sum of the off-balance sheet foreign-currency derivative products with passive character	--	--	--	--
<b>20. Net foreign currency asset/(liability) position (9-18+19)</b>	<b>(6,307,052)</b>	<b>(2,628,369)</b>	<b>417,732</b>	<b>1,816</b>
<b>21. Net foreign currency asset/(liability) position of monetary items (IFRS 7.B23) (= 1+2a+5+6a-10- 11-12a-14-15-16a)</b>	<b>(7,034,533)</b>	<b>(2,692,262)</b>	<b>249,713</b>	--
23. The amount of hedged portion of foreign-currency assets	--	--	--	--
24. The amount of hedged portion of foreign-currency	--	--	--	--

**Tümosan Engine and Tractor Industry Inc. and its Subsidiaries**  
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(Amounts are expressed in Turkish lira ("TL") unless stated otherwise)

**Note 25 - Financial Risk Management and Policies (continued)**

**Financial instruments and financial risk management**

(continued) **Foreign Currency Risk** (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, 2016 and December 31, 2015. 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, 2016 and December 31, 2015 is as follows:

	June 30, 2016	
	Appreciation of the foreign currency	Depreciation of the foreign
<i>If the US dollar appreciates/depreciates 10% against the Turkish lira</i>		
1- Income/(loss) arising from US dollar-denominated net asset/(liability)	(221,062)	221,062
2- Hedged amount from US dollar risk (-)	-	-
<b>Net effect of the US dollar</b>	<b>(221,062)</b>	<b>221,062</b>
<i>If the euro appreciates/depreciates 10% against the Turkish lira</i>		
3- Income/(loss) arising from euro net asset/(liability)	(627,204)	627,204
4- Hedged amount from euro risk (-)	-	-
<b>Net effect of the euro</b>	<b>(627,204)</b>	<b>627,204</b>
<i>If other foreign currencies appreciate/depreciate 10% against the Turkish lira</i>		
5- Income/(loss) arising from net asset/(liability) denominated in	(19,572)	19,572
6- Hedged amount from other foreign-currency risk (-)	-	-
<b>Net effect of other foreign currencies</b>	<b>(19,572)</b>	<b>19,572</b>
<b>TOTAL NET EFFECT</b>	<b>(867,839)</b>	<b>867,839</b>

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**Note 25 - Financial Risk Management and Policies (continued)**

**Financial instruments and financial risk management**

(continued) **Foreign Currency Risk** (continued)

	<b>December 31,</b>	
	<b>Profit/(loss)</b>	
	<b>Appreciation of the foreign currency</b>	<b>Depreciation of the foreign currency</b>
<i>If the US dollar appreciates/depreciates 10% against the Turkish lira</i>		
1- Income/(loss) arising from US dollar-denominated net asset/(liability)	(764,225)	764,225
2- Hedged amount from US dollar risk (-)	-	-
<b>Net effect of the US dollar</b>	<b>(764,225)</b>	<b>764,225</b>
<i>If the euro appreciates/depreciates 10% against the Turkish lira</i>		
3- Income/(loss) arising from euro-denominated net asset/(liability)	110,495	(110,495)
4- Hedged amount from euro risk (-)	-	-
<b>Net effect of the euro</b>	<b>110,495</b>	<b>(110,495)</b>
<i>If the British pound sterling appreciates/depreciates 10% against the Turkish lira</i>		
5- Income/(loss) arising from pound sterling net asset/(liability)	781	(781)
6- Hedged amount from pound sterling risk (-)	-	-
<b>Net effect of the British pound sterling</b>	<b>781</b>	<b>(781)</b>
<b>TOTAL NET EFFECT</b>	<b>(652,949)</b>	<b>652,949</b>

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**Note 25 - Financial Risk Management and Policies (continued)**

**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.

June 30, 2016	Receivabl				Cash and Cash Equivalents
	Trade Receivables		Other Receivables		Deposits in Banks
	Related Party	Third Party	Related Party	Third Party	
The maximum exposure to credit risk at the reporting date (A+B+C+D) (1)	22,295,534	103,509,790			1,972,956
The portion of maximum risk secured by guarantee, etc.					
A. Net book value of financial assets that are neither past due nor impaired (2)	22,295,534	103,509,790			1,972,956
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)	3,541,059				
- Impairment (-)	(3,541,059)				
- The portion of the net value secured by guarantee etc.					
- Not past due (gross book value)					
- Impairment (-)					
- The portion of the net value secured by guarantee etc.					
E. Off-balance sheet items with credit risk					



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**Note 25 - Financial Risk Management and Policies (continued)**

**Credit risk (continued)**

December 31, 2015	Receivabl				Other Current Assets	Deposits in Banks
	Trade Receivables		Other Receivables			
	Relate d	Third Party	Relate d	Third Party		
The maximum exposure to credit risk at the reporting date (A+B+C+D) (1)	<b>487,581</b>	<b>185,311,341</b>	<b>11,723,444</b>	<b>191,176</b>	<b>1,545</b>	<b>238,233</b>
The portion of maximum risk secured by guarantee, etc.	-	74,341,500	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired (2)	487,581	96,760,340	11,723,444	191,176	1,545	238,233
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	-	13,387,461	-	-	-	-
- The portion secured by guarantee, etc.	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	3,898,329	-	-	-	-
- Impairment (-)	-	(3,076,289)	-	-	-	-
- The portion of the net value secured by guarantee etc.	-	-	-	-	-	-
- Not past due (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- The portion of the net value secured by guarantee etc.	-	-	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

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### **Note 25 - Financial Risk Management and Policies (continued)**

#### **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.

The following statement presents the position of the Group's financial liabilities as of June 30, 2016 and December 31, 2015 according to the maturities of undiscounted contractual payments.

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**Note 25 - Financial Risk Management and Policies (continued)**

**Liquidity risk (continued)**

June 30, 2016

<b>Contractual Maturities</b>	<b>Book Value</b>	<b>Total Contractual Cash Outflows</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>
Non-derivative Financial Liabilities					-
Bank Loans	56,663,397	56,708,977	1,699,265	52,681,631	2,328,081
Trade Payables	45,232,899	45,232,899	44,052,002	1,180,897	-
Other Payables and Liabilities	21,745	21,745	21,745		-

December 31, 2015

<b>Contractual Maturities</b>	<b>Book Value</b>	<b>Total Contractual Cash Outflows</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>
<b>Non-derivative Financial Liabilities</b>					
Bank Loans	32,735,374	33,465,536	27,142,705	6,322,831	-
Trade Payables	1,373,290	1,405,325	872,400	532,925	-
Other Payables and Liabilities	1,350,392	1,350,392	1,350,392	-	-

**Note 26 - Events After the Balance Sheet Date**

None.