

**Akfen Gayrimenkul Yatırım Ortaklığı AŞ**

Convenience Translation to  
English of  
Consolidated Interim Financial Statements  
As at and for The Three-Month Period Ended  
31 March 2011  
With Independent Auditors' Report on  
Review of Consolidated Interim Financial Statements  
(Originally issued in Turkish)

Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik  
Anonim Şirketi

13 May 2011

*This report contains 2 page of independent  
auditors' report on review of consolidated  
interim financial statements and 69 pages of  
consolidated financial statements and notes*

## **Akfen Gayrimenkul Yatırım Ortaklığı AŞ**

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**CONVENIENCE TRANSLATION TO ENGLISH OF  
INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
(ORIGINALLY ISSUED IN TURKISH)**

To the Board of Directors of  
Akfen Gayrimenkul Yatırım Ortaklığı Anonim Şirketi,

*Introduction*

We have reviewed the accompanying consolidated interim financial statements of Akfen Gayrimenkul Yatırım Ortaklığı AŞ, its subsidiaries and jointly controlled entities ( "the Group"), which comprise the consolidated interim statement of financial position as at 31 March 2011, and the consolidated interim statements of comprehensive income, changes in equity and cash flows for the three month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with the Financial Reporting Standards promulgated by Capital Markets Board of Turkey. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Our review is conducted in accordance with the Independent Auditing Standards promulgated by Capital Markets Board of Turkey. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Independent Auditing Standards promulgated by Capital Markets Board of Turkey and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion based on our review.

*Opinion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of the Group as at 31 March 2011, and of its consolidated financial performance and its consolidated cash flows for the three month period then ended in accordance with the Financial Reporting Standards promulgated by Capital Markets Board of Turkey (Note 2).



*Additional paragraph for convenience translation to English*

As discussed in Note 2.1, differences between the accounting principles promulgated by the Capital Markets Board of Turkey discussed in Note 2.1, and accounting principles generally accepted in countries in which the accompanying consolidated interim financial statements are to be distributed and the International Financial Reporting Standards (“IFRS”) have influence on the accompanying consolidated interim financial statements. Accordingly, the accompanying consolidated interim financial statements are not intended to present the consolidated financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

İstanbul, 13 May 2011

Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik  
Anonim Şirketi

Hatice Nesrin Tuncer  
*Partner*

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**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011**

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

ASSETS	Notes	Reviewed	Audited
		31 March 2011	31 December 2010
<b>CURRENT ASSETS</b>		<b>8,561,252</b>	<b>8,365,971</b>
Cash and cash equivalents	5	128,099	1,304,927
Trade receivables	7	6,560,774	6,155,758
- Due from related parties	25	1,333,219	1,291,871
- Other trade receivables	7	5,227,555	4,863,887
Other receivables	8	11,883	--
- Due from related parties	25	--	--
- Other receivables		11,883	--
Other current assets	16	1,860,496	905,286
<b>NON-CURRENT ASSETS</b>		<b>738,980,751</b>	<b>678,636,026</b>
Other receivables	8	87,628	87,396
Investment property	9	703,162,819	644,063,152
Property and equipment	10	117,724	117,937
Intangible assets	11	16,051	7,622
Deferred tax assets	23	104,457	89,343
Other non-current assets	16	35,492,072	34,270,576
<b>TOTAL ASSETS</b>		<b>747,542,003</b>	<b>687,001,997</b>

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

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011**

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

<b>LIABILITIES</b>	<b>Notes</b>	<i>Reviewed</i>	<i>Audited</i>
		<b>31 March 2011</b>	<b>31 December 2010</b>
<b>CURRENT LIABILITIES</b>		<b>81,467,347</b>	<b>63,017,344</b>
Loans and borrowings	6	61,598,955	47,628,674
Trade payables	7	966,292	854,847
- Due to related parties	25	460,756	58,433
- Other trade payables	7	505,536	796,414
Other payables	8	15,689,835	12,291,507
- Due to related parties	25	15,649,114	12,247,437
- Other payables		40,721	44,070
Employee benefits	15	57,231	64,619
Other current liabilities	16	2,676,297	1,731,386
Current tax liability		478,737	446,311
<b>NON-CURRENT LIABILITIES</b>		<b>182,760,956</b>	<b>173,236,249</b>
Loans and borrowings	6	170,539,682	164,563,313
Employee benefits	15	6,391	6,486
Deferred tax liability	23	10,822,104	7,321,185
Other non-current liabilities	16	1,392,779	1,345,265
<b>EQUITY</b>	17	<b>483,313,700</b>	<b>450,748,404</b>
Paid in capital		138,000,000	138,000,000
Adjustment to share capital		317,344	317,344
Purchase of share of entity under common control		53,748,727	53,748,727
Foreign currency translation reserve		549,340	524,372
Legal reserves		4,147	4,147
Retained earnings		258,182,728	137,819,739
Profit for the period		32,541,375	120,362,989
Non-controlling interest		(29,961)	(28,914)
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>747,542,003</b>	<b>687,001,997</b>

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

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**  
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE  
MONTH PERIOD ENDED 31 MARCH 2011  
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated)

		<i>Reviewed</i>	
	Notes	31 March 2011	31 March 2010
Revenue	18	5,812,725	4,241,876
Cost of sales	18	(624,073)	(413,408)
<b>GROSS PROFIT</b>		<b>5,188,652</b>	<b>3,828,468</b>
Administrative expenses	19	(1,096,085)	(922,151)
Other operating income	20	46,429,128	56,367
Other operating expense	20	(868,816)	(165,692)
<b>OPERATING PROFIT</b>		<b>49,652,879</b>	<b>2,796,992</b>
Finance income	21	1,912,494	11,193,633
Finance costs	22	(15,716,418)	(5,247,992)
<b>PROFIT BEFORE TAXATION</b>		<b>35,848,955</b>	<b>8,742,633</b>
Tax (expense) / benefit	23	(3,308,627)	(935,305)
- Current tax expense		(32,576)	(90,757)
- Deferred tax (expense) / income		(3,276,051)	(844,548)
<b>PROFIT FOR THE PERIOD</b>		<b>32,540,328</b>	<b>7,807,328</b>
Other comprehensive income / (expense)			
Change in foreign currency translation differences		24,968	28,577
<b>OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD, NET OF TAX</b>		<b>332,306</b>	<b>24,968</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>32,565,296</b>	<b>7,835,905</b>
Profit attributable to:			
Non-controlling interest		(1,047)	--
Owners of the company		32,541,375	58,925,569
<b>Profit for the period</b>		<b>32,540,328</b>	<b>58,925,569</b>
Total comprehensive income attributable to:			
Non-controlling interest		(1,047)	--
Owners of the company		32,566,343	7,807,328
<b>Total comprehensive income for the period</b>		<b>32,565,296</b>	<b>7,807,328</b>
Basic and diluted earnings per share	24	0.2358	0.0662

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



Convenience Translation to English of Consolidated Financial Statements Originally Issued in Turkish

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2011**

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

	Paid in capital	Adjustment to share capital	Purchase of share of entity under common control	Foreign currency translation reserve	Legal reserves	Retained earnings	Profit / (loss) for the period	Total	Non controlling interest	Total equity
Balances as at 1 January 2010	72,147,000	380,186	53,748,727	217,708	4,147	139,726,591	18,206,539	284,430,898	--	284,430,898
Transfers	--	--	--	--	--	18,206,539	(18,206,539)	--	--	--
Capital increase	27,853,000							27,853,000	--	27,853,000
	100,000,000	380,186	53,748,727	217,708	4,147	157,933,130	--	312,283,898	--	312,283,898
Profit for the period	--	--	--	--	--	--	7,807,328	7,807,328	--	7,807,328
Foreign currency translation differences	--	--	--	28,577	--	--	--	28,577	--	28,577
<b>Total comprehensive income</b>	--	--	--	--	--	--	<b>7,807,328</b>	<b>7,835,905</b>	--	<b>7,835,905</b>
<b>Balances as at 31 March 2010</b>	<b>100,000,000</b>	<b>380,186</b>	<b>53,748,727</b>	<b>246,285</b>	<b>4,147</b>	<b>157,933,130</b>	<b>7,807,328</b>	<b>320,119,803</b>	<b>--</b>	<b>320,119,803</b>
Balances as at 1 January 2011	138,000,000	317,344	53,748,727	524,372	4,147	137,819,739	120,362,989	450,777,318	(28,914)	450,748,404
Transfers	--	--	--	--	--	120,362,989	(120,362,989)	--	--	--
	138,000,000	317,344	53,748,727	524,372	4,147	258,182,728	--	450,777,318	(28,914)	450,748,404
Profit / (loss) for the period	--	--	--	--	--	--	32,541,375	32,541,375	(1,047)	32,540,328
Foreign currency translation differences	--	--	--	24,968	--	--	--	24,968	--	24,968
<b>Total comprehensive income</b>	--	--	--	--	--	--	<b>32,541,375</b>	<b>32,566,343</b>	<b>(1,047)</b>	<b>32,565,296</b>
<b>Balances as at 31 March 2011</b>	<b>138,000,000</b>	<b>317,344</b>	<b>53,748,727</b>	<b>549,340</b>	<b>4,147</b>	<b>258,182,728</b>	<b>32,541,375</b>	<b>483,343,661</b>	<b>(29,961)</b>	<b>483,313,700</b>

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

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**  
**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2011**  
*(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)*

	<i>Notes</i>	<i>Reviewed</i>	
		<b>31 March 2011</b>	<b>31 March 2010</b>
<b>A. Cash flows from operating activities</b>			
<b>Profit for the period</b>		<b>32,540,328</b>	<b>7,807,328</b>
<i>Adjustments to:</i>			
Depreciation of property, plant and equipment	10	11,619	14,840
Amortization of intangibles	11	733	1,291
Reversal of provision for employee severance indemnity	15	(7,483)	(6,616)
Fair value adjustment on investment property		(46,405,641)	--
Interest expense	22	3,111,282	3,504,796
Unrealized foreign currency (gain) / (loss)		11,014,832	(6,908,868)
Rent expense accrual	16	(126,101)	96,999
Other accruals		1,544,421	1,661,984
Income tax expense	23	3,276,051	844,548
<b>Operating profit before changes in working capital</b>		<b>4,960,041</b>	<b>7,016,302</b>
Change in trade receivables		(405,016)	(689,505)
Change in other receivables		(12,115)	(1,635,147)
Change in other current and non-current assets		(2,175,659)	683,591
Change in trade payables		111,445	254,812
Payment of employee benefits		7,994	(9,985)
Changes in other payables and liabilities		3,213,566	(1,819,590)
<b>Net cash provided by operating activities</b>		<b>5,700,256</b>	<b>3,800,478</b>
<b>B. Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	10	(14,863)	(77)
Sale of property, plant and equipment	10	3,457	--
Acquisition of intangible assets	11	(9,162)	(2,813)
Acquisition of investment property	9	(12,694,026)	(9,053,372)
<b>Net cash used in investment activities</b>		<b>(12,714,594)</b>	<b>(9,056,262)</b>
<b>C. Cash flows from financing activities</b>			
Capital increase		--	15,696,300
Proceeds from issuance of loans and borrowings		10,500,000	3,072,900
Repayment of loans and borrowings		(1,568,182)	(8,200,290)
Interest payment of loans and borrowings		(3,111,282)	(3,504,796)
<b>Net cash from financing activities</b>		<b>5,820,536</b>	<b>7,064,114</b>
Foreign exchange differences on financial position items		24,968	28,577
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(1,176,828)</b>	<b>1,836,907</b>
Cash and cash equivalents at 1 January		1,304,927	499,009
<b>Cash and cash equivalents at 31 March</b>	5	<b>128,099</b>	<b>2,335,916</b>

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

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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

**1. REPORTING ENTITY**

Akfen Gayrimenkul Yatırım Ortaklığı AŞ ("the Company" or "Akfen GYO") was restructured as a real estate investment trust by transforming Aksel Turizm Yatırımları ve İşletmecilik AŞ ("Aksel"). Aksel was originally established on 25 June 1997 for the purpose of undertaking investments in domestic tourism sector. The restructuring was completed subsequent to the Board of Directors resolution dated 25 April 2006 and Capital Markets Board of Turkey's ("CMB") approval numbered 31/894 and dated 14 July 2006. The change of title and activities was published on Official Trade Gazette on 31 August 2006. The Company's main operations and activities are investing in real estates, real estate projects and other capital markets instruments, as described on CMB Communiqué Series: VI No: 11, Clause 23 and 25 regulating Real Estate Investment Trusts.

Akfen Holding AŞ, ("Akfen Holding") signed a Memorandum of Understanding ("MoU") with a 100% owned subsidiary of ACCOR S.A., one of the world's leading hotel groups. Based on the MoU the entities will join their efforts to establish a partnership to develop hotel projects in Turkey. The Company will develop primarily Novotel and Ibis Hotel branded hotels and lease them to ACCOR S.A. According to the "Development Program" stated in the "Amendment to MoU" signed on 12 April 2010 in the following five years period starting from 1 January 2011 to 31 December 2015, minimum 8 hotels shall be developed and leased to ACCOR S.A. by the Company in Turkey. Two of these hotels should be constructed in İstanbul, the other hotels should be constructed in Beylikdüzü, Ankara, İzmir, Adana and in two other cities which should be mutually determined by the parties. The lands have been provided for hotels to be developed in Esenyurt, İzmir and Adana. The parties may reduce the number of hotels to be developed under the Development Program by their mutual agreement writing during the first year of the relevant five year period, provided that the reduced number of hotels to be developed under the Development Program shall not be less than 6 hotels. The parties shall use their best efforts to agree on a new development program at the latest on 30 June 2015.

The Company acquired 100% of Akfen Gayrimenkul Ticareti ve İnşaat AŞ ("Akfen Ticaret") on 21 February 2007 which was 100% owned by Akfen Holding. Akfen Ticaret's main operations are also are investing in real estates, forming real estate portfolio and develop real estate projects.

The Company and Eastern European Property Investment Ltd. ("EEPI Ltd.") formed a joint venture in the Netherlands under the name of Russian Hotel Investment BV ("Russian Hotel" or "RHI") on 21 September 2007. EEPI Ltd assigned its 45% shares in RHI to Kasa Investments ("Kasa BV"), and 5% shares to Cüneyt Baltaoğlu in December 2010. The main objective of Russian Hotel is to develop hotels in Russia and Ukraine and lease them to ACCOR S.A. The capital structure of the joint venture is designated as 50% of participation for the Company, 45% of participation Kasa BV and 5% participation of Cüneyt Baltaoğlu as of 31 March 2011.

50% of the shares of Russian Property Investment BV ("Russian Property" or "RPI"), which was established in the Netherlands with the purpose of developing office and residence projects in Russia, was purchased by the Company from Akfen Gayrimenkul Geliştirme ve Ticaret AŞ ("Akfen Gayrimenkul Geliştirme"), a company of Akfen Group, on 5 June 2009. EEPI Ltd assigned its 45% shares in RPI to Kasa Investments ("Kasa BV"), and 5% shares to Cüneyt Baltaoğlu in December 2010. The capital structure of the joint venture is designated as 50% of participation for the Company, 45% of participation Kasa BV and 5% participation of Cüneyt Baltaoğlu as of 31 December 2010.

The Company has set up a subsidiary in the Netherlands, Hotel Development and Investment BV ("HDI"), to develop hotel projects in Russia on 18 March 2011.

The number of employees of Akfen GYO with its subsidiary and joint ventures is 16 (31 December 2010:14) and 26 (31 December 2010:16) respectively as of 31 March 2011. The Company is currently registered at Levent Loft, Büyükdere Caddesi C Blok No: 201, Kat: 8, Daire: 151, Levent- İstanbul.

## **2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

### **2.1. Basis of preparation**

#### **a Statement of compliance**

The Company and its subsidiary, Akfen Ticaret head office maintains its legal books of account and prepares its statutory financial statements in accordance with accounting principles set out in the Turkish Commercial Code ("TTC"), tax legislation and uniform chart of account. Akfen Ticaret, is also operating in Turkish Republic of Northern Cyprus ("Northern Cyprus"), its branch has been registered by the decision of the Cabinet of Northern Cyprus as a foreign company under the limited liability companies Code Article 346, with the registry number YŞ00148, Chapter 113 of Northern Cyprus Corporate Registration Office. Akfen Ticaret's branch operating in Northern Cyprus maintains its legal books of account and prepares its statutory financial statements in accordance with accounting principles set out in the Commercial Code accepted in Northern Cyprus.

The Group's foreign entities Russian Hotel and Russian Property maintain their records and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements of the Group are prepared in accordance with accounting and reporting principles published by CMB, namely "CMB Financial Reporting Standards". The accompanying consolidated financial statements are prepared in accordance with the Communiqué XI No:29 announcement of Capital Markets Board ("CMB") dated 9 April 2008 related to "Capital Market Communiqué on Principles Regarding Financial Reporting" which is published in official gazette, no 26842 and effective since 1 January 2008. In accordance with Communiqué No: XI-29, the companies are required to prepare their financial statements in accordance with the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) as accepted by European Union. However, until Turkish Accounting Standards Board (TASB) publishes the differences between the European Union accepted IAS/IFRS and International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). Within the above mentioned scope, Turkish Financial Reporting Standards ("TFRS") issued by TASB will be applied if there is not inconsistency in the standards applied.

The accompanying consolidated statement of financial position as at 31 March 2011 and the consolidated statement of comprehensive income for the year then ended have been approved by the Board of Directors of the Company on 13 May 2011. The General Assembly and the related legal authorities have the authority to revise the statutory and the reported consolidated financial statements.

#### **b Form of preparation of financial statement**

The consolidated financial statements and notes as at 31 March 2011 are prepared according to the Communiqué XI No 29 of CMB which was announced by the decision numbered 11/467 at 17 April 2008 related to the Principles Regarding Financial Reporting on capital market.



2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis of preparation (continued)

c Functional and presentation currency

The presentation currency of the accompanying financial statements is TL. The table below shows the functional currency of each Company:

The Company	Functional Currency
Akfen GYO	TL
Akfen Ticaret	TL
Russian Hotel	Euro
Russian Property	Euro
HDI	Euro

All financial information presented in TL unless otherwise stated. All other currencies are stated full unless otherwise stated.

d Basis of consolidation

Subsidiaries

The consolidated financial statements of the Company include its subsidiary, which it controls directly or indirectly. This control is normally evidenced when the Company owns control power, either directly or indirectly, over company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. This control power is determined based on current and convertible voting rights. The financial statement of the subsidiary is consolidated from the beginning of the control power over the affiliate to end of that power.

Financial statements of the subsidiary are prepared in line with the financial statements of the Company in the same accounting period using uniform accounting policies.

The table below shows Akfen GYO's ownership ratio in subsidiaries as at 31 March 2011:

The Company	Direct or indirect shares of company (%)
Akfen Ticaret	100
HDI	100

Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has common or joint control, established by contractual agreement requiring unanimous consent for strategic financial and operating decision. The consolidated financial statements include the Group's share of the assets, liabilities, income and expenses of commonly or jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.1. Basis of preparation (continued)**

**d Basis of consolidation (continued)**

**Jointly controlled entities (continued)**

Jointly controlled entities which are constituted as Russian Hotel and Russian Property in the accompanying consolidated interim financial statements are consolidated for using the proportional method.

Financial statements of the jointly controlled entities are prepared in line with the financial statements of the Company in the same accounting period using uniform accounting policies.

The table below shows Akfen Gayrimenkul's ownership ratio in Russian Hotel and Russian Property as at 31 March 2011, and 31 December 2010, respectively:

Entity	31 March 2011	31 December 2010
RHI	50%	50%
RPI	50%	50%

**Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Foreign currency**

**Foreign currency transaction**

Transactions in foreign currencies are translated to the functional currencies of the Group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in the consolidated statement of comprehensive income.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued))

2.1. Basis of preparation (continued)

d Basis of consolidation (continued)

*Foreign currency transaction (continued)*

The Group entities use Euro or TL, as functional currency since these currencies are used to a significant extent in, or have a significant impact on, the operations of the related Group entities and reflect the economic substances of the underlying events and circumstances relevant to these entities. All currencies other than the currency selected for measuring items in the financial statements are treated as foreign currencies.

Accordingly, transactions and balances not already measured in the functional currency have been re-measured to the related functional currencies in accordance with the relevant provisions of IAS 21, *the effect of changes in foreign exchange rates*. The Group uses TL as the reporting currency.

Assets and liabilities of the Group entities with a different functional currency than the reporting currency of the Group are translated into the reporting currency of the Group at the rate of exchange ruling at the reporting date. The income and expenses of the Group entities are translated into the reporting currency at the average exchange rates for the period. Equity items are presented at their historical costs. The foreign currency differences are recognized directly in equity, under "Foreign Currency Translation Reserve" (FCTR). When the related Group entity is disposed of, in part of in full, the relevant amount in the FCTR is transferred to profit or loss.

The Euro/ TL and USD/ TL exchange rate as at the end of each period are as follows:

	<u>31 March 2011</u>	<u>31 December 2010</u>
Euro/ TL	2.1816	2.0491
USD / TL	1.5483	1.5460

The Euro/ TL and USD/ TL yearly average exchange rates are as follows:

	<u>31 March 2011</u>	<u>31 December 2010</u>
Euro/ TL	2.1469	2.0787
USD / TL	1.5704	1.5014

e Comparative information

The accompanying consolidated interim financial statements are presented comparatively in order to identify the tendency of the Group's financial position, performance and its cash flows. The accounting policies applied in the preparation of the accompanying interim consolidated financial statements have been consistently applied to all periods presented by the Group.

f Additional paragraph for convenience translation to English

Differences between the accounting principles promulgated by the Capital Markets Board of Turkey discussed in Note 2.1, and accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and the International Financial Reporting Standards ("IFRS") have influence on the accompanying consolidated interim financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated interim financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(continued)***

**2.2 Changes in accounting estimates and accounting errors**

The preparation of the financial statements in conformity with Communiqué No: XI-29 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates are used particularly in the following notes:

Note 2.4.4 – Useful lives of property, plant and equipment

Note 2.4.5 – Useful lives of intangible assets

Note 9 – Fair value measurement of investment property

Note 14 – Commitment and contingencies

Note 15 – Employee benefits

Note 23 – Deferred tax asset and liabilities

**2.3 New standards and interpretations not yet adopted as at 31 March 2011**

**2.3.1. *New standards and interpretations implemented as at 31 March 2011***

The Company has applied all the standards issued by IASB and all the interpretations issued by IASB's International Financial Reporting Interpretation Committee ("IFRIC") which are effective as at 31 March 2011.

**2.3.2. *New standards and interpretations not yet adopted as at 31 March 2011***

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or at fair value. The new standard is mandatory for annual periods beginning on or after 1 January 2013. The Group has not had an opportunity to consider the potential impact of the adoption of this standard.



**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4 Summary of significant accounting policies**

Significant accounting policies used in the preparation of the financial statements are summarised as follows.

**2.4.1 Revenue**

Revenue includes rental income.

**Rental income**

Rental income from investment property leased out under operating lease is recognised in profit or loss on a straight-line basis over the lease period.

Revenue is measured at the fair value of the consideration received or receivable.

**2.4.2 Inventories**

Trading properties are valued at lower of net realisable value or cost. Lands that are held by the Group for new project developments, raw material and supply expenses, labour and other expenses are the cost elements that are included in the inventory. Cost of the inventory is calculated by using moving weighted average method.

**2.4.3 Investment property**

**a Operating investment properties**

Investment properties are those which are held either to earn income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio each year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of the investment properties determined by discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease. Fair value models are designed by taking into consideration the type and the credibility of current or potential tenants, the allocation of maintenance and insurance expenses among lessor and lessee; and the remaining economic life of the property.

It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described in accounting policy in Note 2.5.1.

**2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4 Summary of significant accounting policies (continued)**

**2.4.3 Investment property (continued)**

**b Investment property under development**

Investment properties under development are those which are held either to earn income or for capital appreciation or for both. Investment properties under development are stated at fair value as operating investment property. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio each year.

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the assets are substantially ready for their intended use.

The fair value of the investment properties under development are determined by discounted cash flow projections based on reliable estimates of future cash flows, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows and also includes the expenditures required to complete the project.

**2.4.4. Property and equipment**

Tangible assets acquired before 1 January 2005 are carried at restated cost for the effects of inflation in TL units current at the 31 December 2004 less accumulated depreciation and impairment losses, and tangible assets acquired after 1 January 2005 are carried at acquisition cost less accumulated depreciation and impairment losses.

*Depreciation*

Depreciation on the tangible assets is provided on straight-line method according to their useful lives from the date of recognition or assembly of the related assets.

The estimated useful lives of the related assets are as follows:

Buildings	50 years
Equipment	6 years
Furniture and fixtures	3-10 years
Motor vehicles	5 years

*Subsequent expenditure*

Expenditures incurred to replace a component of tangible assets that is accounted for separately, including major inspection and overhaul costs, are capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are recognised in the income statement as expense as incurred.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS** (continued)

**2.4 Summary of significant accounting policies** (continued)

**2.4.5. Intangible assets**

Intangible assets include computer software. Intangible assets acquired before 1 January 2005 are carried at restated cost for the effects of inflation in TL units current at the 31 December 2004 less accumulated amortisation and impairment losses, and intangible assets acquired after 1 January 2005 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the related assets of 3 or 5 years.

**2.4.6. Impairment of assets**

At each balance sheet date, the carrying of Group's assets, other than investment property (see accounting policy 2.5.3) is reviewed to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4 Summary of significant accounting policies (continued)**

**2.4.7. Financial instruments**

**i) Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets recognised in profit/loss, financial assets held to maturity, loans and borrowings, receivables, financial assets available for sale.

**Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. The Group has no financial assets at fair value through profit or loss as of 31 March 2011.

**Held-to-maturity financial assets**

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction.

As at 31 March 2011, the Group has no held-to-maturity financial assets.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, including service concession receivables.



**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4 Summary of significant accounting policies (continued)**

**2.4.7. Financial instruments (continued)**

**i) Non-derivative financial assets (continued)**

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of cash flows.

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

**Other**

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**ii) Non-derivative financial liabilities**

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

**iii) Share capital**

**Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**2.4.8. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4 Summary of significant accounting policies (continued)**

**2.4.9. Acquisition from entities under common control**

50% of the shares of Russian Property, which was established in the Netherlands with the purpose of developing office and residence projects in Russia, is transferred to the Company from Akfen Gayrimenkul Geliştirme on 5 June 2009. No goodwill is recognised, since the acquisition of the entity is under common control.

**2.4.10. Foreign currency transactions**

The financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates.

The results and financial position of the Group are expressed in TL, which is the functional currency of the Group, and the presentation currency for the financial statements.

Income and expenses deriving from transactions in foreign currencies have been converted at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from settlement and conversion of foreign currency items have been included in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into TL at foreign exchange rates ruling at the dates the values were determined.

The assets and liabilities excluding equity items of jointly controlled entity, whose functional currencies are not currency of a hyperinflationary country and different from the Company's functional currency, are translated into TL at the exchange rates prevailing at the balance sheet dates. Equity items are translated into TL by taking into consideration the exchange rates prevailing at the transaction dates. The differences that arise from this transaction are shown in the "Foreign currency translation reserve" account in equity.

**2.4.11. Earnings per share**

Earnings per share, which is stated income statement, is calculated by dividing net profit by the weighted average number of ordinary shares outstanding during the period. The number of common share available during the period is the sum of number of common share at the beginning of the period and the product of number of common shares exported during the period and a time weighted factor (Note 25).

**2.4.12 Subsequent events**

Events after the balance sheet date are those events, favorable and unfavorable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed on the balance sheet date (adjusting events after the balance sheet date); and
- those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

If there is evidence of such events as of balance sheet date or if such events occur after balance sheet date and if adjustments are necessary, Group's financial statements are adjusted according to the new situation. The Group discloses the post-balance sheet events that are not adjusting events but material.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4 Summary of significant accounting policies (continued)**

**2.4.13 Provisions, contingent liabilities and contingent assets**

A provision is recognised when the Group has a present implicit or legal obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the specified criteria are not met, the Group discloses the related issues in the accompanying notes.

If the inflow of economic benefits is probable contingent assets have been disclosed in the notes to the financial statements. If the inflow of the economic benefit is more than likely to occur such asset and income statement effect has been recognized in the financial statements at the relevant period that income change effect occurs.

**2.4.14 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessor**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**The Group as lessee**

Rental payables under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**2.4.15 Related parties**

For the purpose of the accompanying consolidated financial statements, shareholders, key management and board members, in each case together with companies controlled by or affiliated with them, and associated companies are considered and referred to as related parties. Transactions with the related parties consist of the transfer of the assets and liabilities between related parties by a price or free of charge.

**2.4.16 Segment reporting**

The Group has three reporting segments, which are the Group's strategic business units. The Group management evaluates the performance and determines allocation of resources based on these business units. The Group management reviews the business units based on resource allocation and performance results regularly, since they are affected from different economic conditions and geographical locations each of the strategic business units, although the strategic business units offer same services.

The Group's operating segments are in Turkey, Northern Cyprus and Russia in which the Group is operating in real estate investments.



**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS ( continued)**

**2.4. Summary of significant accounting policies (continued)**

**2.4.17 Discontinued operations**

None.

**2.4.18 Government grants and incentives**

According to the Investment Incentive Law numbered 47/2000, the Group has a 100% of investment incentive on capital expenditures made until 31 December 2008 in Northern Cyprus for an indefinite time.

**2.4.19 Taxation**

According to Article 5/1(d) (4) of the New Corporate Tax Law 5520, the income of Real Estate Investment Trusts ("REIT") is exempt from Corporate Income Tax in Turkey. This exemption is also applicable to Quarterly Advance Corporate Tax.

According to Article 15/ (3) the income of REITs is subject to 15% withholding tax irrespective of its distribution. The Council of Ministers has the authority to increase the withholding tax rate on REIT income to corporate income tax rate or reduce it to 0% or change it within the limits defined through Article 15/(34) of New Corporate Tax Law. In accordance with New Corporate Tax Law Article 15 / (2), income subject to corporate tax is also exempt from withholding tax.

According to temporary Article (1) of the New Corporate Tax Law, resolutions of the Council of Ministers related with Income Tax Law numbered 193 and Tax Law No: 5422 are valid up to new Decrees published by the Council of Ministers. Determined rates cannot exceed statutory limits defined at New Corporate Tax Law.

Based on the resolution of the Council of Ministers numbered 2009/14594 related to the withholding tax rates which were determined as 15% according to the New Corporate Tax Law Article 15/ (3) published in the Official Gazette dated 3 February 2009 numbered 27130, the withholding tax rate is determined as 0% and this resolution is effective on the same date. According to Article 5/1(d) (4) the income of REITs is subject to 0% withholding tax irrespective of its distribution.

Akfen Ticaret's head office operating in Turkey is subject to the 20% of taxation on its taxable income. Akfen Ticaret's branch operating in Northern Cyprus is subject to a corporate tax rate of 23.5%.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Deferred tax liability or asset is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.



**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)**

**2.4. Summary of significant accounting policies (continued)**

**2.4.19. Taxation (continued)**

Deferred tax liabilities and assets are recognized in the financial statements from the enacted or substantially enacted tax rates to the extent that the temporary differences in the subsequent periods will be reversed. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The current tax rates are used in the computation of deferred tax. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

**2.4.20. Employee benefits / reserve for employee severance indemnity**

In accordance with the existing labour code in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The Group calculated the severance pay liability for the retirement of its employees by discounting the future liabilities to their present values, by using actuarial method and reflected to the financials.

Reserve for severance payment is calculated according to the ceiling rate announced by the Government. At 31 March 2011 and 31 December 2010 the ceiling rates are TL 2,623 and TL 2,517, respectively.

**2.4.21 Pension plans**

None.

**2.4.22 Agriculture**

None.

**2.4.23. Statement of cash flows**

The Group presents statement of cash flows as an integral part of other financial statements to inform the users of financial statements about the changes in its net assets, its financial structure and its ability to manage the amount and timing of its cash flows under new conditions.

**2.4.24. Expenses**

Expenses are recognised in profit or loss on accrual basis.

**2.4.25. Finance income and costs**

Finance income and costs are recognised as it accrues, using the effective interest method or considering an appropriate variable interest rate. Finance income and costs comprise the difference between the value of interest bearing instrument at inception date and its value at the maturity date calculated using effective interest rate method or net present value of premium or discounts.

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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

**3. JOINTLY CONTROLLED ENTITIES**

%50 (2010: %50) equity shareholding with equal voting power, RPI, a joint venture established in the Netherlands. As of 31 March 2011 and 31 December 2010 total assets and liabilities and summary income statement for the three months ended 31 March 2011 and 31 December 2010 of RPI, are as follows:

Statement of Financial Position	31 March 2011	31 December 2010
Current assets	5,062,436	5,686,093
Non-current assets	19,855,093	19,152,208
Current liabilities	(16,038,479)	(15,985,347)
Non-current liabilities	--	(5,150)

Statement of comprehensive income	31 March 2011	31 March 2010
Total revenues and income	303,575	987,892
Total expenses and costs	(766,719)	(944,989)
Loss for the period	(463,144)	42,903

%50 (2010: %50) equity shareholding with equal voting power, RHI, a joint venture established in the Netherlands. As of 31 March 2011 and 31 December 2010 total assets and liabilities and summary income statement for the year ended 31 March 2011 and 31 December 2010 of RHI, are as follows:

Statement of Financial Position	31 March 2011	31 December 2010
Current assets	499,909	1,277,968
Non-current assets	97,674,314	80,109,574
Current liabilities	(36,297,718)	(33,627,525)
Non-current liabilities	(25,460,706)	(18,419,777)

Statement of comprehensive income	31 March 2011	31 March 2010
Total revenues and income	294,817	1,331,430
Total expenses and costs	(1,641,914)	(646,233)
Profit / (Loss) for the period	(1,347,097)	685,197

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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

**4. SEGMENT REPORTING**

The Group has three reporting segments, which are the Group's strategic business units. The Group management evaluates the performance and determines allocation of resources based on these business units. The Group management reviews the business units based on resource allocation and performance results regularly, since they are affected from different economic conditions and geographical locations each of the strategic business units, although the strategic business units offer same services. Since the Group operates only in real estate investments in Turkey, Northern Cyprus and Russia, operating segments are provided in geographical segment.

**31 March 2011:**

	Turkey	Northern Cyprus	Russia	Elimination	Total
Sales revenue	3,244,382	2,568,345	--	--	5,812,727
Cost of sales	(617,652)	(6,421)	--	--	(624,073)
<b>GROSS PROFIT</b>	<b>2,626,730</b>	<b>2,561,924</b>	<b>--</b>	<b>--</b>	<b>5,188,654</b>
Administrative expenses	(793,526)	(37,924)	(264,635)	--	(1,096,085)
Other operating income	32,121,641	14,284,000	23,487	--	46,429,128
Other operating expenses	--	(630)	(868,185)	--	(868,815)
<b>OPERATING PROFIT/(LOSS)</b>	<b>33,954,845</b>	<b>16,807,370</b>	<b>(1,109,333)</b>	<b>--</b>	<b>49,652,882</b>
Finance income	1,429,830	336,022	212,362	(65,720)	1,912,494
Finance costs	(12,489,985)	(3,287,819)	(3,287)	65,720	(15,715,371)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>22,894,690</b>	<b>13,855,573</b>	<b>(900,258)</b>	<b>--</b>	<b>35,850,005</b>
Taxation	14	(3,267,328)	(41,313)	--	(3,308,627)
-Current tax expense	--	--	(32,576)	--	(32,576)
-Deferred tax benefit / (expense)	14	(3,267,328)	(8,737)	--	(3,276,051)
<b>PROFIT/ (LOSS) FOR THE PERIOD</b>	<b>22,894,704</b>	<b>10,588,245</b>	<b>(941,571)</b>	<b>--</b>	<b>32,541,378</b>

**31 March 2011:**

Reportable segment assets	656,857,758	182,476,715	61,545,879	(153,338,349)	747,542,003
Reportable segment liabilities	217,930,978	79,635,069	38,898,454	(72,236,198)	264,228,303
Capital expenditures	2,991,071	--	9,726,980	--	12,718,051
Depreciation and amortization expenses	6,363	2,811	3,178	--	12,352

**AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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

**4. SEGMENT REPORTING (continued)**

**31 March 2010:**

	Turkey	Northern Cyprus	Russia	Elimination	Total
Sales revenue	1,959,986	2,281,890	--	--	4,241,876
Cost of sales	(406,913)	(6,495)	--	--	(413,408)
<b>GROSS PROFIT</b>	<b>1,553,073</b>	<b>2,275,395</b>	<b>--</b>	<b>--</b>	<b>3,828,468</b>
Administrative expenses	(549,008)	(21,545)	(351,598)	--	(922,151)
Other operating income	55,858	3	506	--	56,367
Other operating expenses	(467)	(4,380)	(160,845)	--	(165,692)
<b>OPERATING PROFIT / (LOSS)</b>	<b>1,059,456</b>	<b>2,249,473</b>	<b>(511,937)</b>	<b>--</b>	<b>2,796,992</b>
Finance income	7,844,521	2,189,957	1,159,155	--	11,193,633
Finance costs	(3,804,946)	(1,372,885)	(70,161)	--	(5,247,992)
<b>PROFIT/ (LOSS) BEFORE TAX</b>	<b>5,099,031</b>	<b>3,066,545</b>	<b>577,057</b>	<b>--</b>	<b>8,742,633</b>
Taxation	8,200	(725,392)	(218,113)	--	(935,305)
-Current tax expense	--	--	(90,757)	--	(90,757)
-Deferred tax expenses	8,200	(725,392)	(127,356)	--	(844,548)
<b>PROFIT/ (LOSS) FOR THE PERIOD</b>	<b>5,107,231</b>	<b>2,341,153</b>	<b>358,944</b>	<b>--</b>	<b>7,807,328</b>

**31 December 2010:**

Reportable segment assets	612,584,911	168,510,846	49,193,658	(143,287,418)	<b>687,001,997</b>
Reportable segment liabilities	201,513,758	76,257,350	30,451,807	(71,969,322)	<b>236,253,593</b>
Capital expenditures	21,995,063	45,235	21,958,859	--	<b>43,999,157</b>
Depreciation and amortization expenses	31,651	22,389	990	--	<b>55,030</b>

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**5. CASH AND CASH EQUIVALENTS**

	<b>31 March 2011</b>	<b>31 December 2010</b>
Cash on hand	2,393	2,132,
Cash at banks	125,706	1,302,795
- Demand deposits	125,706	1,302,795
<b>Cash and cash equivalents</b>	<b>128,099</b>	<b>1,304,927</b>

As at 31 March 2011, there is no blockage on cash and cash equivalents (31 December 2010: None).

**Demand deposits**

As at 31 March 2011 and 31 December 2010 demand deposits comprised the following currencies:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Russian Ruble	107,867	214,460
Euro	11,557	422,538
TL	6,128	665,642
USD	154	155
	<b>125,706</b>	<b>1,302,795</b>

**Time deposit**

As at 31 March 2011, the Group no time deposit (31 December 2010: None).

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**6. LOANS AND BORROWINGS**

As at 31 March 2011 and 31 December 2010 the details of loans and borrowings are as follows:

	<b>31 March 2011</b>	<b>31 December 2010</b>
<b><u>Current:</u></b>		
Short-term bank borrowings	10,012,786	--
Current portion of long-term bank borrowings	51,586,169	47,628,674
<b>Total</b>	<b>61,598,955</b>	<b>47,628,674</b>
<b><u>Non-current:</u></b>		
Long-term bank borrowings	170,539,682	146,563,313
<b>Total bank borrowings</b>	<b>232,138,637</b>	<b>212,191,987</b>

The repayment schedule of bank borrowings is as follows:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Less than one year	61,598,955	47,628,674
Between one and two years	41,042,244	35,881,967
Between two and three years	25,836,799	24,802,337
Between three and four years	25,280,273	23,716,745
Between four and five years	21,549,116	23,381,352
In five years and longer	56,831,250	56,780,912
	<b>232,138,637</b>	<b>212,191,987</b>



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**6. LOANS AND BORROWINGS (continued)**

**31 March 2011:**

Currency	Interest rate (%)	Original currency	Current	Non-current
Euro <sup>(1)</sup>	Euribor+3.75	66,181,468	18,589,557	125,791,933
TL <sup>(3)</sup>	10.00	16,433,815	4,275,698	10,434,212
Euro <sup>(2)</sup>	Euribor+3.75	13,542,923	6,638,440	22,906,800
Euro <sup>(4)</sup>	Euribor+7.5	6,702,682	14,622,570	--
Euro <sup>(4)</sup>	Euribor+7.5	5,228,611	--	11,406,737
Euro <sup>(5)</sup>	Euribor+7.5	3,419,464	7,459,903	--
TL	9.75	5,512,787	5,512,787	--
TL	11.95	3,000,000	3,000,000	--
TL	10	1,000,000	1,000,000	--
TL	10.15	500,000	500,000	--
			<b>61,598,955</b>	<b>170,539,682</b>

<sup>(1)</sup> The Company signed a loan agreement of Euro 100 million on 30 July 2008 with Türkiye İş Bankası AŞ ("Türkiye İş Bankası") and Türkiye Sınai Kalkınma Bankası AŞ ("TSKB") to finance the ongoing hotel projects based on the Memorandum of Understanding ("MoU") signed between the Company and ACCOR S.A. to develop hotel projects in Turkey. Based on the loan agreement, the Company pays commitment commission which is calculated as an annual rate of 1.25% on the unused portion of the loan at each quarter from the agreement date till the maturity date. The Company also pays 0.50% of the amount used in the portion as arrangement commission at each disbursement from TSKB and 1.00% of the related amount as commission. As at 31 March 2011, the Company used the portion of the loan amounting to Euro 68.86 million. The Company recognises loan commission accrual amounting to TL 114,799 for the unused portion of Euro 31.14 million in other current liabilities (Note 16). Bank borrowings obtained with this agreement is secured by the followings:

- Right of tenancy of the hotels in Gaziantep, Kayseri, Trabzon, Bursa and Zeytinburnu and the land on which hotels are going to be built in Esenyurt and Adana are pledged in favor of the creditors,
- Rental revenue of these hotels is pledged to the creditors,
- Demand deposits in banks and financial institutions related with these projects are pledged in favour of the creditors,
- Sureties of Akfen Holding and Akfen İnşaat, the shareholders' of the Company, is given for the completion guarantee of the related projects,
- 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> independent divisions recognised in the inventories (Note 9) and 50% owned by the Akfen Gayrimenkul Yatırımları ve Ticaret AŞ are pledged on behalf of the Company in favour of banks.

<sup>(2)</sup> Letter of quarantine obtained from ING European Financial Services Plc for refinancing of the bank borrowings obtained from various banks for financing the construction of Mercure Hotel in Northern Cyprus.

Letter of quarantine obtained from ING European Financial Services Plc is secured by the followings:

- According to the share pledge agreement between Akfen GYO and ING Bank A.Ş. dated 8 September 2008, the Company pledged 279,996 number of shares of Akfen Ticaret amounting TL 6,999,900 to ING Bank A.Ş. Kızılay branch as a surety,

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

**6. LOANS AND BORROWINGS (continued)**

- Rental revenue of the casino in Mercure Hotel in Northern Cyprus is transferred to the creditors,
  - Rental revenue of Mercure Hotel in Northern Cyprus is transferred to the creditors,
  - Sureties of Akfen GYO is given for the total outstanding loan amount,
  - Right of tenancy of Mercure Hotel in Northern Cyprus is pledged in favour of ING Bank AŞ.
- (3) Bank borrowings obtained from Türkiye Kalkınma Bankası AŞ for financing construction of Mercure Hotel in Northern Cyprus is secured by the followings:
- Letter of guarantees from various banks are obtained for the total outstanding loan amount,
  - Sureties Akfen İnşaat, the shareholders' of the Company, is given for the total outstanding loan amount.
- (4) Russian Hotel has obtained the loan from Credit Europe Bank. The land in Samara City which project to be developed and shares of YaroslavlOtelInvest and SamstroyKom is pledged. Sureties of Akfen GYO and Akfen Ticaret are given for the total outstanding loan amount.
- (5) Russian Property has obtained the loan from Credit Europe Bank. The land in Samara City which project to be developed and shares of Volgostroykom are pledged. Sureties of Akfen GYO and Akfen Ticaret are given for the total outstanding loan amount.

**31 December 2010:**

Currency	Interest rate (%)	Original currency	Current	Non-current
Euro <sup>(1)</sup>	Euribor + 4.75	67,530,791	17,767,264	120,610,080
Euro <sup>(2)</sup>	Euribor + 3.70	15,236,867	6,632,664	24,589,200
TL <sup>(3)</sup>	10.00	15,562,548	4,181,760	11,380,788
Euro <sup>(4)</sup>	Euribor+7.5	9,776,468	12,049,714	7,983,245
Euro <sup>(5)</sup>	Euribor+7.5	3,414,803	6,997,272	--
			<b>47,628,674</b>	<b>164,563,313</b>

- (1) The Company signed a loan agreement of Euro 100 million on 30 July 2008 with Türkiye İş Bankası and TSKB to finance the ongoing hotel projects based on the MoU signed between the Company and ACCOR S.A. to develop hotel projects in Turkey. Based on the loan agreement, the Company pays commitment commission which is calculated as an annual rate of 1.25% on the unused portion of the loan at each quarter from the agreement date till the maturity date. The Company also pays 0.50% of the amount used in the portion as arrangement commission at each disbursement from TSKB and 1.00% of the related amount as commission. As at 31 December 2010, the Company used the portion of the loan amounting to Euro 68.36 million. The Company recognises loan commission accrual amounting to TL 181,850 for the unused portion of Euro 31.64 million in other current liabilities (Note 16). Bank borrowings obtained with this agreement is secured by the followings:

- Right of tenancy of the hotels in Gaziantep, Kayseri, Trabzon and Zeytinburnu and the land on which a hotel is going to be built in Esenyurt are pledged in favour of the creditors,
- Rental revenue of these hotels is pledged to the creditors,
- Demand deposits in banks and financial institutions related with these projects are pledged in favour of the creditors,



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

**6. LOANS AND BORROWINGS (continued)**

- Sureties of the shareholders' of the Company is given for the completion guarantee of the related projects,
  - 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> independent divisions recognised in the inventories and 50% owned by the Company are pledged in favour of the creditor.
- (2) Letter of guarantee obtained from ING European Financial Services Plc for refinancing of the bank borrowings obtained from various banks for financing the construction of Mercure Hotel in Northern Cyprus.
- According to the Board of Directors resolution numbered 2008/16 and dated 3 July 2008, the Company pledged 279,000 number of shares of Akfen Ticaret amounting TL 6,999,900 as a surety,
  - Rental revenue of the casino in Mercure Hotel in Northern Cyprus is transferred to the creditors,
  - Rental revenue of Mercure Hotel in Northern Cyprus is transferred to the creditors,
  - Sureties of Akfen GYO is given for the total outstanding loan amount,
  - Letter of guarantee is obtained from ING Bank AŞ for the total outstanding loan amount. Right of tenancy of Mercure Hotel in Northern Cyprus is pledged in favour of ING Bank AŞ as a guarantee for the letter of guarantee.
- (3) Bank borrowings obtained from Türkiye Kalkınma Bankası AŞ for financing construction of Mercure Hotel in Northern Cyprus is secured by the followings:
- Letter of guarantees from various banks are obtained for the 105% of total outstanding loan amount,
  - Surety of one of the shareholders' of the Company, is given for the total outstanding loan amount.
- (4) Russian Hotel has obtained the loan from Credit Europe Bank. The land in Samara City which project to be developed and shares of YaroslavlOtelInvest and SamstroyKom is pledged. Sureties of Akfen GYO and Akfen Ticaret are given for the total outstanding loan amount.
- (5) Russian Property has obtained the loan from Credit Europe Bank. The land in Samara City which project to be developed and shares of Volgostroykom are pledged. Sureties of Akfen GYO and Akfen Ticaret are given for the total outstanding loan amount.

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**7. TRADE RECEIVABLES AND PAYABLES**

**a) Short-term trade receivables**

As at 31 March 2011 and 31 December 2010, short-term trade receivables comprised the followings:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Trade receivables	5,227,555	4,863,887
Notes receivable	--	--
Due from related parties (Note 25)	1,333,219	1,291,871
Doubtful receivables	48,054	48,054
Less: Allowance for doubtful receivables	(48,054)	(48,054)
	<b>6,560,774</b>	<b>6,155,758</b>

There is no movement in the allowance for doubtful receivables for the periods ended 31 March 2011 and 31 December 2010.

**b) Short-term trade payables**

As at 31 March 2011 and 31 December 2010, short-term trade payables comprised the followings:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Due to related parties (Note 26)	460,756	58,433
Other trade payables	505,536	796,414
	<b>966,292</b>	<b>854,847</b>

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**8. OTHER RECEIVABLES AND PAYABLES**

**a) Other current receivables**

As at 31 March 2011 and 31 December 2010 other current receivables comprised the followings:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Other receivables	11,883	--
	<b>11,883</b>	<b>--</b>

**b) Other non-current receivables**

As at 31 March 2011 and 31 December 2010 other non-current receivables comprised the followings:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Deposits and guarantees given	87,628	87,396
	<b>87,628</b>	<b>87,396</b>

**c) Other current payables**

As at 31 March 2011 and 31 December 2010 other current payables comprised the followings:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Due to related parties (Note 25)	15,649,114	12,247,437
Other payables	40,721	44,070
	<b>15,689,835</b>	<b>12,291,507</b>

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**9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT**

As at 31 March 2011 and 31 December 2010 details of investment property and investment property under development are as follows:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Operating investment properties	586,347,000	541,327,000
Investment properties under development	116,815,819	102,736,152
<b>Total</b>	<b>703,162,819</b>	<b>644,063,152</b>

***Operating investment properties:***

As at 31 March 2011 and 31 December 2010 details of operating investment property is as follows:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Opening balance	541,327,000	439,448,500
Additions	183,724	946,430
Transfer from development projects	--	44,358,000
Fair value adjustment (Note 20)	44,836,276	56,574,070
<b>Carrying amount</b>	<b>586,347,000</b>	<b>541,327,000</b>

As at 31 December 2010, the transfer from development projects composed of Bursa Ibis Hotel which was completed during the period.

As at 31 March and 31 December 2010, the fair value adjustment on investment property was recognised based on the fair values of the investment property. The fair values of the investment properties in Turkey and Northern Cyprus are calculated on the basis of a valuation carried out by a certified company that included in the approved list of CMB for "Property Appraisal Companies". These property appraisal companies determined the fair value of the investment properties as the present value of aggregate of the estimated cash flows expected to be received from renting out the property. In the valuation process, a projection period which covers the lease term for right of tenancy of each hotel is taken into consideration. The fair value is calculated by discounting the estimated cash flows at a rate which is appropriate for the risk level of the economy, market and the business to determine its present value.

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**9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)**

Name of the investment property	31 March 2011		31 December 2010	
	Date of appraisal report	Fair value	Date of appraisal report	Fair value
Mercure Hotel – Girne	28 February 2011	177,757,000	31 December 2010	163,473,000
Zeytinburnu Novotel ve Ibis Hotel	28 February 2011	167,000,000	31 December 2010	157,045,000
Kayseri Novotel ve Ibis Hotel	28 February 2011	59,205,000	31 December 2010	54,445,000
Trabzon Novotel Hotel	28 February 2011	57,790,000	31 December 2010	53,102,000
Gaziantep Novotel ve Ibis Hotel	28 February 2011	57,835,000	31 December 2010	51,383,000
Bursa Ibis Hotel	28 February 2011	47,900,000	31 December 2010	44,358,000
Eskişehir Ibis Hotel ve Fitness Center	28 February 2011	18,856,000	31 December 2010	17,521,000
<b>Total</b>		<b>586,343,000</b>		<b>541,327,000</b>

As of 31 March 2011, total insurance amount on investment properties is TL 338,425,059 (31 December 2010: TL 320,685,097).

**Investment properties under development:**

As at 31 March 2011 and 31 December 2010 details of investment property under development are as follows:

	31 March 2011	31 December 2010
Opening balance	102,736,152	33,709,802
Acquisitions	12,510,302	43,003,132
Fair value adjustment (Note 20)	1,569,365	71,725,733
Transfer to operating investment properties	--	(44,358,000)
Impairment (-) (Note 20)	--	--
Write off of investment property under development <sup>(1)</sup>	--	(1,344,515)
<b>Carrying amount</b>	<b>116,815,819</b>	<b>102,736,152</b>

(1) As of 31 December 2010, the Group management have cancelled the Krasnoyarsk project in Russia and written off the carrying amount.

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**9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)**

As at 31 March 2011 and 31 December 2010, the fair value comparison of investment property under development is as follows:

	31 March 2011		31 December 2010	
Investment property	Date of appraisal report	Fair Value-	Date of appraisal report	Fair value
İzmir Ibis Hotel Project	28 February 2011	23,328,000	31 December 2010	22,292,000
Esenyurt Ibis Hotel Project	28 February 2011	21,583,000	31 December 2010	20,297,000
Adana Ibis Hotel Project	28 February 2011	15,190,000	31 December 2010	14,308,000
<b>Total</b>		<b>60,101,000</b>		<b>56,897,000</b>

Investment properties under development of RHI and RPI of which Akfen GYO has 50% of shares are calculated on the basis of their fair values. As at 31 March 2011 the group portion of fair values of Samara Hotel project, Yaroslavl Hotel project and Kaliningrad Hotel project of RHI are TL 22,750,711 (31 December 2010: TL 19,036,803), TL 20,742,904 (31 December 2010: TL 15,946,546) and TL 3,023,875 (31 December 2010: TL 2,610,921), respectively. The group portion of fair value of Samara office project of RPI is TL 9,515,972 (31 December 2010: TL 8,244,882).

As of 31 March 2011, total insurance amount on investment properties under development is TL 32,455,782 (31 December 2010: TL 66,759,457).

The pledge amount on investment property under development is amounting to TL 483,769,800 (31 December 2010: TL 454,387,925).



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**10. PROPERTY AND EQUIPMENT**

As at 31 March 2011 and 31 December 2010, the movement of property, plant and equipment is as follows:

	Equipment	Furniture and fixtures	Vehicles	Total
Balance at 1 January 2010	845	167,586	150,002	318,433
Acquisitions	3,843	37,475	4,529	45,847
Disposals	--	--	(93,000)	(93,000)
<b>Balance at 31 December 2010</b>	<b>4,688</b>	<b>205,061</b>	<b>61,531</b>	<b>271,280</b>
Balance at 1 January 2011	4,688	205,061	61,531	271,280
Acquisitions	--	14,863	--	14,863
Disposals	--	(3,457)	--	(3,457)
<b>Balance at 31 March 2011</b>	<b>4,688</b>	<b>216,467</b>	<b>61,531</b>	<b>282,686</b>
<b>Accumulated depreciation</b>				
Balance at 1 January 2010	(840)	(69,821)	(79,891)	(150,552)
Depreciation charge for the period	(154)	(37,864)	(11,399)	(49,417)
Disposals	--	--	46,626	46,626
<b>Balance at 31 December 2010</b>	<b>(994)</b>	<b>(107,685)</b>	<b>(44,664)</b>	<b>(153,343)</b>
Balance at 1 January 2010	(994)	(107,685)	(44,664)	(153,343)
Depreciation charge for the period	(95)	(6,932)	(4,592)	(11,619)
Disposals	--	--	--	--
<b>Balance at 31 March 2011</b>	<b>(1,089)</b>	<b>(114,617)</b>	<b>(49,256)</b>	<b>(164,962)</b>
<b>Carrying amount</b>				
1 January 2010	5	97,765	70,111	167,881
31 December 2010	3,694	97,376	16,867	117,937
1 January 2011	3,694	97,376	16,867	117,937
31 March 2011	3,599	101,850	12,275	117,724

As at 31 March 2011 there is no pledge on property and equipment. At 31 March 2011, depreciation expenses amounting to TL 11,619 is recognised in administrative expenses (31 December 2010: TL 49,717).

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**11. INTANGIBLE ASSETS**

As at 31 March 2011 and 31 December 2010, the movement of intangible assets is as follows:

	<b>Softwares</b>
<b>Cost</b>	
Balance at 1 January 2010	35,500
Transfers	--
Acquisitions	2,636
<b>Balance at 31 December 2010</b>	<b>38,136</b>
Balance at 1 January 2011	38,136
Transfers	--
Acquisitions	9,162
<b>Balance at 31 March 2011</b>	<b>47,298</b>
<b>Accumulated amortisation</b>	
Balance at 1 January 2010	(24,901)
Charge for the period	(5,613)
<b>Balance at 31 December 2010</b>	<b>(30,514)</b>
Balance at 1 January 2011	(30,514)
Charge for the period	(733)
<b>Balance at 31 March 2011</b>	<b>(31,247)</b>
<b>Carrying amounts</b>	
1 January 2010	10,599
31 December 2010	7,622
1 January 2011	7,622
31 March 2011	16,051

At 31 March 2011, amortisation expenses amounting to TL 733 is recognised in administrative expenses (31 December 2010: TL 5,613).

**12. GOVERNMENT GRANTS AND INCENTIVES**

According to the Investment Incentive Law numbered 47/2000, the Group has a 100% of investment allowance on capital expenditures made until 31 December 2008 in Northern Cyprus.



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**13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

There are no ongoing or finalized significant lawsuits against the Group as at 31 March 2011 and 31 December 2010.

**14. COMMITMENT AND CONTINGENCIES**

As at 31 March 2011 and 31 December 2010, Group's position related to letter of guarantees given, pledges and mortgages were as follows:

Commitments, Pledges, Mortgages ("CPM") are given by the Group	31 March 2011	31 December 2010
A. Total amount of CPM is given on behalf of own legal personality	533,917,235	502,985,847
B. Total amount of CPM is given in favour of subsidiaries which are fully consolidated	13,999,800	13,999,800
C. Total amount of CPM is given for assurance of third party's debts in order to conduct of usual business activities	--	--
D. Total Amount of other CPM	66,376,650	53,987,090
i. Total amount of CPM is given in favour of parent company	--	--
ii. Total amount of CPM is given in favour of other group companies, which B and C doesn't include	66,376,650	53,987,090
iii. The amount of CPM is given in favour of third party which C doesn't include	--	--
	<b>614,293,685</b>	<b>570,972,737</b>

Total original amount of foreign currency denominated CPM given on behalf of the Group's own legal personality are Euro 236,750,000 and USD 800,000 as of 31 March 2011 ( 31 December 2010: Euro 236,750,000 and USD 800,000). Total original amount of foreign currency denominated other CPM is Euro 30,100,000 as of 31 March 2011 (31 December 2010: Euro 26,000,000). As at 31 March 2011, total amount of CPM given by the group is 127% of the Group's equity (31 December 2010: 126%).

The Company pledged 279,000 units of shares of Akfen Ticaret amounting TL 6,999,900 as a surety for the letter of guarantees issued by Türkiye Vakıflar Bankası T.A.O. amounting to TL 9,031,173. Other sureties given by the shareholders and the transfer of rental revenue which will be generated from the hotels are presented at Note 6.

The Group is the joint guarantor of all commitments and liabilities arising from the loan obtained by Russian Hotel from Credit Europe Bank Russia to finance Samara Hotel Project. As at 31 March 2011, Euro 13,335,000 of the total borrowing amounting to Euro 15,000,000 has been obtained (31 December 2010: Euro 11,710,000). The Group is the joint guarantor of all commitments and liabilities arising from the loan obtained by Russian Hotel from Credit Europe Bank Russia to finance Yaroslav Hotel Project. As at 31 March 2011, Euro 9,965,000 of the total borrowing amounting to Euro 12,400,000 has been utilized (31 December 2010: Euro 7,490,000).

The Group is the joint guarantor of all commitments and liabilities arising from the loan obtained by Russian Property from Credit Europe Bank Russia to finance Samara Office Project. As at 31 March 2011, Euro 6,800,000 of the total borrowing amounting to Euro 6,800,000 has been utilized (31 December 2010: Euro 6,800,000).

**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.1. The Group as lessee**

*Operating lease arrangements*

As at 31 March 2011, the Group has undergone 12 operating lease arrangements as lessee;

- The Group signed a rent agreement with Finance Ministry of Turkish Republic of Northern Cyprus to lease a land for constructing a hotel in Kyrenia and establishing right of tenancy in 15 July 2003. The lease payments started in 2003 and the payments are made annually. The lease term is 49 years.
- The Group signed a rent agreement with the Ministry of Treasury and Finance, on 4 December 2003 to lease a land and for constructing a hotel in Zeytinburnu, Istanbul. The term of the servitude right obtained with this agreement is 49 years. The lease payment composed of yearly fixed lease payments determined by Ministry of Treasury and Finance and 1% of the total yearly revenue generated by the hotel constructed on the land.
- The Group signed a rent agreement with Municipality of Eskişehir on 8 August 2005 to lease an incomplete hotel construction site located at Eskişehir for 22 years. Related lease agreement is expounded in land registry office. The hotel started to be operated in 2007 after the construction was completed. The lease payment is the yearly fixed lease amount determined by the agreement and 5% of the total yearly revenue generated by the hotel constructed on the land.
- The Group signed a rent agreement with Trabzon Dünya Ticaret Merkezi AS on 30 October 2006 to lease a land and to construct a hotel in Trabzon. The term of the servitude right obtained with this agreement is 49 years. The lease payments will start after a five year rent free period subsequent to acquisition of the operational permissions from the Ministry of Culture and Tourism. The Group has priority over the companies which submit equivalent proposals for the extension of the lease term.
- The Group signed a rent agreement with Kayseri Chamber of Industry on 4 November 2006 to lease a land and to construct a hotel in Kayseri. The term of the servitude right obtained with this agreement is 49 years. Lease payments will start after a five year rent free period. The Group has priority over the companies which submit equivalent proposals for the extension of the lease term.
- The Group signed a rent agreement with Municipality of Gaziantep on 31 May 2007 to lease a land and to construct a hotel in Gaziantep. The term of the servitude right obtained with this agreement is 30 years. The lease payment for the first 5 years is paid in advance after obtaining building permit.
- The Group signed a rent agreement with Bursa International Textile Trading Centre Business Cooperative ("BUTİM") on 9 May 2008 to lease a land and to construct and operate an Ibis Hotel. The term of the servitude right obtained with this agreement is 30 years. Lease payments will start after a five year rent free period.
- The Group signed a rent agreement with Municipality of Georgia Batumi on 30 July 2009 to lease a land and to construct a hotel in Georgia Batumi. The term of the servitude right obtained with this agreement is 49 years. The lease payments are made as two installments in June and December for each year; the yearly payments are Georgian Lari 15,000.
- The Group signed a rent agreement with Prime Ministry General Directorate of Foundations on 16 September 2010 to lease a land and to construct a hotel in İzmir for 49 years. The lease payments made for the first three years are TL 2,340 per month and TL 25,155 for the fourth year per month. After the fourth year, the previous year rent increases at the beginning of the period as the average of annual Producer Price Index ("PPI").

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**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.1. The Group as lessee (continued)**

*Operating lease arrangements (continued)*

- The Group signed lease agreements for land of Yaroslavl and Kaliningrad projects amounting to TL 85,340 and TL 24,556 per year.
- The Group took over the 167,830 m2, tourism zoning land in Bafra, KKTC which is owned by KKTC Ministry of Agriculture and Natural Resources and assigned to Akfen İnşaat for 49 years KKTC with the approval of KKTC Cabinet.

All operating lease contracts contain clauses on review of market conditions in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

*Payments recognised as an expense*

	31 March 2011	31 March 2010
Lease payments	545,892	359,355
	<b>545,892</b>	<b>359,355</b>

*Non-cancellable operating lease commitments*

	31 March 2011	31 December 2010
Less than one year	948,430	832,367
Between one and five years	3,917,401	4,055,098
More than five years	70,190,387	70,352,420
	<b>75,056,218</b>	<b>75,239,885</b>

In respect of non-cancellable operating leases the following liabilities have been recognized:

	31 March 2011	31 December 2010
Accrued rent expense		
Current (Note 16)	164,414	338,029
Non-current (Note 16)	1,392,779	1,345,265
	<b>1,557,193</b>	<b>1,683,294</b>

**14.2. The Group as lessor**

*Operating lease arrangements*

As at 31 March 2011, the Group has undergone 16 operating lease arrangements as;

- The Group has signed a rent agreement with ACCOR S.A. on 18 November 2005 to lease a hotel which was completed in 2007 and started operations in Eskişehir.
- The Group has signed a rent agreement with ACCOR S.A. on 12 December 2005 to lease two hotels which were completed in 2007 and started operations in Istanbul.
- The Group has signed a rent agreement with ACCOR S.A. on 26 July 2006 to lease a hotel which was completed in 2008 and started operations Trabzon.



**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.2. The Group as lessor (continued)**

- The Group has signed a rent agreement with ACCOR S.A. on 24 March 2008 to lease a hotel which was completed in 2009 and started operations in 2010 in Kayseri.
- The Group has signed a rent agreement with ACCOR S.A. on 24 March 2008 to lease a hotel which was completed in 2009 and started operations in 2010 in Gaziantep.
- The Group has signed a rent agreement with ACCOR S.A. on 31 July 2009 to lease a hotel which is completed in 2010 and started operations in November 2010 in Bursa.
- The Group has signed a rent agreement with ACCOR S.A. on 16 August 2010 to lease a hotel which is planned to complete and start its operations in 2012 in Esenyurt.
- The Group has signed a rent agreement with ACCOR S.A. on 7 September 2010 to lease a hotel which is planned to complete and start its operations in 2012 in Adana.
- The Group has signed a rent agreement with ACCOR S.A. on 2 February 2011 to lease a hotel which is planned to complete and starts its operations in 2012 in Izmir.

All of the nine agreements have similar clauses described below;

The agreements are signed with Tamaris Turizm operating in Turkey and owned 100% by ACCOR S.A and ACCOR S.A. has 100% guarantee over these agreements.

The lease term is sum of the period between the opening date and the end of that calendar year plus, twenty five full calendar years with an optional extension of ten years. ACCOR S.A. has the right to terminate the agreement at the end of the fifteenth full fiscal year upon by their mutual agreement. ACCOR S.A. has the right to terminate the agreement, if the Company fails to meet the defined completion date (after 6 months additional period over the completion date). In this case, the parties shall be freed of all mutual obligations, and ACCOR S.A. will receive immediate payment of any due amounts upon the date of termination and liquidated damages up to EUR 750,000.

According to the "Amendment to MoU" signed on 12 April 2010, annual lease payment:

As of 1 January 2010;

- Kayseri Ibis, Gaziantep Ibiş, Bursa Ibiş and for the new Ibis and Novotel hotels to be opened after 1 January 2010 25% of gross revenue or the higher of 70% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.
- Kayseri Novotel ve Gaziantep Novotel and any Novotels for the new Ibis and Novotel hotels to be opened after 1 January 2010 22% of gross revenue or the higher of 70% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.

As of 1 January 2011;

- In Zeytinburnu Ibis and Eskişehir Ibiş 25% of gross revenue or the higher of 65% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.
- In Zeytinburnu Novotel and Trabzon Novotel 22% of gross revenue or the higher of 65% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.

AGOP is calculated as deduction of 4% of the Gross Operating Profit ("GOP") corresponding to operational costs borne by ACCOR S.A. and 4% of GOP corresponding to furniture, fixture and equipment (FF&E) reserve fund from GOP.

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**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.2. The Group as lessor (continued)**

If the Group will not develop at least four hotels, of which one in İstanbul at the latest on 31 December 2013, the annual lease payment of the hotels Novotel/Ibis Gaziantep, Novotel/Ibis Kayseri ve Ibis Bursa will be reduced to 65% of AGOP as at 1 January 2014. If the Group would not have developed one hotel in Moscow to be leased to ACCOR S.A. at the latest on 31 December 2011, the annual lease payment of Novotel/Ibis İstanbul, Ibis Eskişehir and Novotel Trabzon will be reduced to 60% of the AGOP as at 1 January 2012. Completion date is the date on which a hotel is completed, furnished and equipped and all necessary authorizations such as certificate of occupancy and operating licence, for its operations have been obtained. For each fiscal year ACCOR S.A. shall pay the annual lease payment on the basis of AGOP in compliance with the rates determined for each hotel by "Amendment to MoU" in four payments (January, April, July and October). The Group has undergone six operating lease arrangements as lessor other than operating lease agreements signed with ACCOR S.A. in Turkey:

- The Group has signed a rent agreement with Voyager Kıbrıs Limited ("Voyager") on 15 March 2007 to lease a casino. Lease period has started on 1 July 2007 with the opening of casino. The lease term is 5 years. According to the additional rent agreement signed on 1 May 2010, the annual lease payment is Euro 3,059,840 which is effective for the period between 1 July 2009 and 30 June 2010. The annual rent is paid quarterly (March, June, September and December). At 1 July 2010 annual lease payment amounting to Euro 3,209,840 will be effective, after discount of Euro 150,000 determined by the amendment is cancelled. The parties mutually agree that rent increase at the beginning of the period depending on annual Euribor rate is ceased and any rent increase will not be applied during the period when the main rent agreement is effective.

- The Group has signed a rent agreement with Serenas Turizm Kongre ve Organizasyon Hizmetleri Limited Şirketi ("Serenas Turizm") to lease Mercure Hotel for five full calendar years started from 1 January 2008 with an optional extension of 5 years. Annual rent amount is Euro 1,500,000 for 2011 and Euro 2,000,000 for 2011. Letter of guarantees amounting Euro 3,000,000 is provided by Serenas Turizm. An annual rent will be paid quarterly (February, May, August and November).

- The Group has signed rent agreement with Sportif Makine AŞ for Eskişehir İbis Hotel Fitness Center on 1 September 2006. The rent payments begin after two months from 1 January 2007 which the fitness centre is delivered. The monthly rent is Euro 6,500 and the length of rent the agreement is 7 years. The rent increases at the beginning of the period depending on Euribor rate. The Group has signed an additional agreement with Sportif Makine AŞ for the rent payments of 2011 at December 2010. Based on the agreement, the monthly VAT excluded rent amount is decreased to Euro 4,000 for June, July and August and Euro 5,500 for the remaining.

- The Group has signed rent agreement with Seven Turizm İnşaat ve Reklam Sanayi Ticaret Limited Şirketi for the bar/café in Eskişehir İbis Hotel on at 11 May 2007. The rent payments begin after two months after the bar/café is delivered. The monthly rent is TL 3,000 and the rent term is 10 years. The rent increases at the beginning of the period as the average of annual PPI and CPI

- Russian Hotel through Samstroykom signed a lease agreement for IBIS Hotel building located in Samara, Russia, with Russian Management Hotel Company, a company which ACCOR S.A. operates in Russia. It was signed on 11 July 2008 in Moscow. The building shall be delivered to ACCOR S.A. in the second quarter 2011. The main lease agreement shall be signed and registered in the in the 2<sup>nd</sup> quarter 2011. The lease shall be for the period of 25 years with right of 10 years' of prolongation of ACCOR S.A. The rent shall be equal to 70% of the Adjusted Gross Operating Revenue. The Parties agreed that the Minimum Annual Guaranteed Rent for first year is Euro 5,000 per a room, for second year Euro 6,000 per a room, from third year to fifteenth year Euro 7,000 per a room. According to the Minimum Annual Guaranteed Rent the highest price is Euro 14,000 per a room. ACCOR S.A. has the right to cancel the lease agreement at the end of fifteenth year of the lease agreement



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**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.2. The Group as lessor (continued)**

*Operating lease arrangements (continued)*

- The Group has signed a rent agreement with Voyager Kıbrıs Limited ("Voyager") on 15 March 2007 to lease a casino. Lease period has started on 1 July 2007 with the opening of casino. The lease term is 5 years. According to the additional rent agreement signed on 1 May 2010, the annual lease payment is Euro 3,059,840 which is effective for the period between 1 July 2009 and 30 June 2010. The annual rent is paid quarterly (March, June, September and December). At 1 July 2010 annual lease payment amounting to Euro 3,209,840 will be effective, after discount of Euro 150,000 determined by the amendment is cancelled. The parties mutually agree that rent increase at the beginning of the period depending on annual Euribor rate is ceased and any rent increase will not be applied during the period when the main rent agreement is effective.
- The Group has signed a rent agreement with Serenas Turizm Kongre ve Organizasyon Hizmetleri Limited Şirketi ("Serenas Turizm") to lease Mercure Hotel for five full calendar years started from 1 January 2008 with an optional extension of 5 years. Annual rent amount is Euro 1,500,000 for 2011 and Euro 2,000,000 for 2011. Letter of guarantees amounting Euro 3,000,000 is provided by Serenas Turizm. An annual rent will be paid quarterly (February, May, August and November).
- The Group has signed rent agreement with Sportif Makine AŞ for Eskişehir İbis Hotel Fitness Center on 1 September 2006. The rent payments begin after two months from 1 January 2007 which the fitness centre is delivered. The monthly rent is Euro 6,500 and the length of rent the agreement is 7 years. The rent increases at the beginning of the period depending on Euribor rate. The Group has signed an additional agreement with Sportif Makine AŞ for the rent payments of 2011 at December 2010. Based on the agreement, the monthly VAT excluded rent amount is decreased to Euro 4,000 for June, July and August and Euro 5,500 for the remaining.
- The Group has signed rent agreement with Seven Turizm İnşaat ve Reklam Sanayi Ticaret Limited Şirketi for the bar/café in Eskişehir İbis Hotel on at 11 May 2007. The rent payments begin after two months after the bar/café is delivered. The monthly rent is TL 3,000 and the rent term is 10 years. The rent increases at the beginning of the period as the average of annual PPI and CPI
- Russian Hotel through Samstroykom signed a lease agreement for IBIS Hotel building located in Samara, Russia, with Russian Management Hotel Company, a company which ACCOR S.A. operates in Russia. It was signed on 11 July 2008 in Moscow. The building shall be delivered to ACCOR S.A. in the second quarter 2011. The main lease agreement shall be signed and registered in the in the 2<sup>nd</sup> quarter 2011. The lease shall be for the period of 25 years with right of 10 years' prolongation of ACCOR S.A. The rent shall be equal to 70% of the Adjusted Gross Operating Revenue. The Parties agreed that the Minimum Annual Guaranteed Rent for the whole first fifteen calendar years of the Term of the present agreement is capped to Euro 1,449,000 (Group portion: Euro 724,500). ACCOR S.A. has the right to cancel the lease agreement at the end of fifteenth year of the lease agreement

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**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.2. The Group as lessor (continued)**

- Russian Hotel through LLC YaroslavlOtelInvest signed a lease agreement for IBIS Hotel building located in Yaroslavl, Russia, with Russian Management Hotel Company, a company which ACCOR S.A. operates in Russia. It was signed on 15 October 2009 in Moscow. The building shall be delivered to ACCOR S.A. in the second quarter of 2011. The main lease agreement shall be signed and registered in the in the 2<sup>nd</sup> quarter 2011. The lease shall be for the period of 25 years with right of 10 years' of prolongtion of ACCOR S.A. The rent shall be equal to 70% of the Adjusted Gross Operating Revenue. The Parties agreed that the Minimum Annual Guaranteed Rent for first year is Euro 5,000 per a room, for second year Euro 6,000 per a room, from third year to fifteenth year Euro 7,000 per a room. According to the Minimum Annual Guaranteed Rent the highest price is Eruo 14,000 per a room. ACCOR S.A. has the right to cancel the lease agreement at the end of fifteenth year of the lease agreement
- Russian Hotel through LLC KaliningradInvest signed a lease agreement for IBIS Hotel building located in Kaliningrad, Russia Russian Management Hotel Company, a company which ACCOR S.A. operates in Russia. It was signed on 8 September 2010 in Moscow. The building shall be delivered to ACCOR S.A. in the second quarter of 2012. The main lease agreement shall be signed and registered in the 2<sup>nd</sup> quarter 2012. The lease shall be for the period of 25 years with right of 10 years' of prolongtion of ACCOR S.A. The rent shall be equal to 70% of the Adjusted Gross Operating Revenue. The Parties agreed that the Minimum Annual Guaranteed Rent for first year is Euro 4,000 per a room, for second year Euro 5,000 per a room, from third year to fifteenth year Euro 6,000 per a room. According to the Minimum Annual Guaranteed Rent the highest price is Eruo 12,000 per a room. ACCOR S.A. has the right to cancel the lease agreement at the end of fifteenth year of the lease agreement.

*Non-cancellable operating lease receivables*

	31 March 2011	31 December 2010
Less than one year	10,409,155	11,381,701
Between one and five years	21,462,271	20,276,781
More than five years	44,743,525	43,229,257
	<b>76,614,951</b>	<b>74,887,739</b>

**Memorandum of understanding signed between Akfen Holding and ACCOR S.A.**

Akfen Holding signed a Memorandum of Understanding ("MoU") with a 100% owned subsidiary of ACCOR S.A., one of the world's leading hotel groups. Based on the MoU, the entities will join their efforts to establish a partnership to develop hotel projects in Turkey. The Company will build and lease number of hotels. According to the "Development Program" stated in the "Amendment to MoU" signed on 12 April 2010 in the following five years period starting from 1 January 2011 to 31 December 2015, minimum 8 hotels shall be developed and leased to ACCOR S.A. by the Company in Turkey. Two of these hotels should be constructed in İstanbul, the other hotels should be constructed in Esenyurt, Ankara, İzmir, Adana and in two other cities which should be mutually determined by the parties. The parties may reduce the number of hotels to be developed under the Development Program by their mutual agreement writing during the first year of the relevant five year period, provided that the reduced number of hotels to be developed under the Development Program shall not be less than 6 hotels. If the parties would not agree on a new development plan for the following 5 years at the latest on 30 June 2015, each party entitles to terminate agreement or terminate the provisions of the agreement regarding the right of first refusal or continue with the other terms and conditions of the agreement. All of the operating lease arrangements that the Company is lessor are based on MoU. According to MoU:

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**14. COMMITMENT AND CONTINGENCIES (continued)**

**14.2. The Group as lessor (continued)**

**Memorandum of understanding signed between Akfen Holding and ACCOR S.A. (continued)**

- Any sale of a controlling shareholding of the Company by Akfen Holding to a third party, not a member of its shareholder's and/or family group shall be submitted to a first refusal right agreement of ACCOR S.A. under the same terms and conditions proposed by the third party offer or, except in case that the Company becomes a publicly listed entity.
- For securitisation of further investments, Akfen Holding and ACCOR S.A. agree that the share capital of the Company be increased by the entry of new shareholders but at all times while ACCOR S.A. and Akfen Holding are partners, Akfen Holding should directly or indirectly keep control of the shareholding and the outside investor permitted by the above mention terms will not be another national or international hotel operator.
- ACCOR S.A. can terminate the agreement if ACCOR S.A. does not use its refusal right or this right is not the case and does not want to continue with the new shareholder under the same terms and conditions. If the agreement is terminated by ACCOR S.A., the ongoing lease agreements will continue until their maturity terms.
- If the above stated development program is not realised until 31 December 2015 or new development program for the following five years would not be effective at the latest on 30 June 2015, either party will be free to terminate their partnership.

**Memorandum of understanding signed between Kayı Insa Insaat AŞ & Akfen Ticaret and ACCOR S.A.**

Akfen Ticaret and Kayı Insaat AŞ ("Kayı") signed a Memorandum of Understanding ("MoU") with ACCOR S.A. The parties agreed to develop hotels in Russia, located particularly within the city walls of the cities listed in the agreement. Such hotels will be constructed by the Akfen Ticaret and Kayı on plots of lands approved by ACCOR S.A. in order to be leased and operated by ACCOR S.A. under the Ibis brand. The parties envisage the extension of the terms set in the present Memorandum of understanding, on a case by case basis, to the brand Novotel for Selected Cities of Russia.

**14.3. Real estate investment trust investment portfolio constraints**

According to the Part b of the Article 27 of the CMB Communiqué Serial VI, No 11 governing the real estate investment trusts, the Company has a limitation to invest a maximum of 10% of its portfolio value in demand and time deposits denominated on domestic and foreign currencies. The Article 35 of the same communiqué restricts the Company's use of bank loans with 3 times of its net asset value declared in the latest 6 month consolidated portfolio report.

As at 31 March 2011 and 31 December 2010 the Company is within the defined limits.

In accordance with Part B of the Article 27 of the same Communiqué, the participation into Akfen Ticaret does not exceed 49% of the portfolio value of the Company as at 31 March 2011 and 31 December 2010.

As amended by the Part C of the Article 27 of the same Communiqué, fair value of Akfen Ticaret, 100% owned subsidiary does not exceed 49% of the portfolio value of the Company for three month period as at 31 March 2011 and 31 December 2010.



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**15. EMPLOYEE BENEFITS**

	31 March 2011	31 December 2010
Provision for vacation pay liability-short term	57,231	64,619
Provision for employee termination indemnity-long term	6,391	6,486
	<b>63,622</b>	<b>71,105</b>

In accordance with the existing laws, the Group is required to make a lump-sum payment for employee termination to each employee whose employment is terminated for reasons other than resignation or misconduct as stipulated in the Labour Law. This requirement is calculated using the sum of gross salary and other rights, up to a ceiling amount of TL 2,623 (31 December 2010: TL 2,517) per each year of employment. The ceiling amount is adjusted every six months in parallel with inflation.

The liability is not funded, as there is no funding requirement.

In accordance with IAS 19 "Employee Benefits", it is required to use actuarial valuation methods in estimating the liability related with current retirement plans of the Group. The Group has calculated the provision for employee termination indemnity using the "Projected Unit Cost Method" based on its experience in the personnel service period completion and obtaining the termination indemnity right and reflected in the financial statements. Provision for employee termination indemnity is calculated by taking into account the net present value of the total amount of the liability arising due to retirement of all employees.

As at 31 March 2011 and 31 December 2010 the liability is calculated using the following assumptions:

	31 March 2011	31 December 2010
Discount rate	%4,66	%4,66
Anticipated retirement turnover rate	%81,00	%75,00

Reserve for employee termination indemnity is calculated according to the net present value of liability to occur in the future due to retirement of all employees and it is reflected in accompanying consolidated financial statements.

Movement of provision for employee termination benefits is as follows:

	31 March 2011	31 December 2010
Opening balance	6,486	37,099
Payment during the period	--	(9,985)
Additions/ (deductions) during the period	(95)	(20,628)
<b>Closing balance</b>	<b>6,391</b>	<b>6,486</b>

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**15. EMPLOYEE BENEFITS (continued)**

Movement of vacation pay liability is as follows:

	31 March 2011	31 December 2010
Opening balance	64,619	24,573
Payment during the period	--	--
Additions/ (deductions) during the period	(7,388)	40,046
<b>Closing balance</b>	<b>57,231</b>	<b>64,619</b>

**16. OTHER CURRENT / NON-CURRENT ASSETS AND LIABILITIES**

**a) Other current assets**

	31 March 2011	31 December 2010
Advances given to suppliers	995,975	207,950
Prepaid expenses	747,677	553,314
Prepaid taxes and funds	103,112	19,358
Job advances	9,899	1,809
Other	3,833	--
VAT carried forward	--	122,855
	<b>1,860,496</b>	<b>905,286</b>

**b) Other non-current asset**

	31 March 2011	31 December 2010
VAT carried forward	27,784,850	29,431,638
Advances given to subcontractors <sup>(1)</sup>	5,537,670	4,765,658
VAT deductible	2,076,191	--
Prepaid expenses	52,868	73,280
Other	40,493	--
	<b>35,492,072</b>	<b>34,270,576</b>

<sup>(1)</sup> As at 31 March 2011 and 31 December 2010, advances given to subcontractors comprised of advances given to Akfen İnşaat for the construction of hotel projects.



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**16. OTHER CURRENT / NON-CURRENT ASSETS AND LIABILITIES (continued)**

**c) Other current liabilities**

	<b>31 March 2011</b>	<b>31 December 2010</b>
Provision for construction costs <sup>(2)</sup>	1,591,989	731,406
Other expense accruals	636,688	289,626
Rent expense accrual (Note 14)	164,414	338,029
Loan commission accrual <sup>(1)</sup>	114,799	181,850
Taxes and funds payable	38,980	175,090
Social security premiums payable	18,729	11,085
Due to employees	110,698	4,300
	<b>2,676,297</b>	<b>1,731,386</b>

<sup>(1)</sup> Loan commission accrual is arising from the loan agreement which was signed between TSKB and Türkiye İş Bankası and the Company. The Company pays commitment commission which is calculated as an annual rate of 1.25% on the unused portion of the loan at each quarter from the agreement date till the maturity date (Note 6).

<sup>(2)</sup> As at 31 March 2011 and 31 December 2010 provision for construction costs comprised of the progress invoices related with the continuing projects of Esenyurt, Adana and RHI's projects in Russia.

**d) Other non-current liabilities**

	<b>31 March 2011</b>	<b>31 December 2010</b>
Rent expense accrual (Note 15)	1,392,779	1,345,265
	<b>1,392,779</b>	<b>1,345,265</b>

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

**17. EQUITY**

**17.1. Paid in capital**

The capital structure as at 31 March 2011 and 31 December 2010 is as follows:

Shareholders	(%)	31 March 2011	(%)	31 December 2010
Akfen Holding	74.84	103,273,884	74.84	103,273,884
Hamdi Akın	24.63	33,991,838	24.63	33,991,838
Mustafa Ceyhan	0.25	345,380	0.25	345,380
İbrahim Süha Güçsav	0.25	345,380	0.25	345,380
Akınısı Makina Sanayi ve Tic. AŞ	0.03	43,513	0.03	43,513
Akfen İnşaat	0.00	2	0.00	2
Mehmet Semih Çiçek	0.00	1	0.00	1
Mustafa Dursun Akın	0.00	1	0.00	1
Ahmet Seyfi Usluoğlu	0.00	1	0.00	1
<b>Total</b>	<b>100.00</b>	<b>138,000,000</b>	<b>100.00</b>	<b>138,000,000</b>
Restatement effect		317,344		317,344
<b>Restated capital</b>		<b>138,317,344</b>		<b>138,317,344</b>

As at 31 March 2011, the issued capital of the Company is TL 138,000,000 (31 December 2010: TL 138,000,000). As at 31 March 2011, the issued capital of the Company comprises of 138,000,000 registered units with a nominal value of TL 1 each (31 December 2010: TL 1, units, 138,000,000 units). The share group of A, C, D has the privilege to select nominees for the board of directors member selection.

According to the Extraordinary General Assembly resolution dated 22 March 2010, share capital is increased from TL 72,147,000 to TL 100,000,000. The resolution is registered on 30 June 2010. THO B.V. did not participate in capital increase and exercise right of preference as a shareholder. The exercise right of preference of THO BV is used by Akfen Holding and share capital increase amounting to TL 27,853,000 is paid in cash by the other shareholders of the Company.

A share transfer agreement related to purchase of 32,466,150 units of D group shares corresponding to 32.47% of Akfen GYO from THO B.V. by Akfen Holding was signed on 19 July 2010. Share transfer was realized subsequent to approval by legal authorities.

According to the Board of Directors resolution numbered 14 and dated 9 August 2010, the Company has decided to increase share capital from TL 100,000,000 to TL 138,000,000. TL 20,113,391 of the share capital increase is provided from retained earnings, TL 62,842 is provided from inflation adjustment on equity, TL 17,823,767 is paid in cash by the shareholders of the Company according to their partnership rates.

According to the Board of Directors resolution numbered 3 and dated 24 January 2011, the Company has decided to increase share capital from TL 138,000,000 to TL 184,000,000.

The Company applies for initial public offering ("IPO") of 46,000,000 units of shares with a nominal value of TL 46,000,000 and 8,117,500 units of shares with a nominal value of TL 8,117,500 on the increased amount to CMB. If sufficient demand is requested from the investors, Akfen GYO will additionally offer 8,117,625 units of shares with a nominal value of TL 8,117,625. After the IPO, the share capital of the Company will increase to TL 175,000,000. 54,117,500 units of shares public offering were held on 11 May 2011.

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**17. EQUITY (continued)**

**17.2. Business combination under common control**

100% of Akfen Ticaret and 50% of RPI were acquired with the nominal value from parents of the Company in 2007 and 2009, respectively. The acquired subsidiary, Akfen Ticaret could be treated as an integrated operation of Akfen GYO by nature or by transfer of knowledge, were under common control with Akfen GYO since the beginning of their operations. The acquisition of this entity being under common control is accounted for using book values, where in its consolidated financial statements the acquirer, is permitted, but not required, to restate its comparatives as if the combination had been in existence throughout the reporting periods presented. Management decided not to restate its comparative information. The acquisition of this entity being under common control is recognised with cost method, since this treatment is the best way to present the economic substance of the transaction since the transaction is moving the shares of one party from one part of the group to another, there is no independent third party involvement and in particular the purchase price is not determined on an arm's length basis. Excess of net assets over cash paid at the acquisition date is recognised in "Business combination under common control" directly in equity.

**17.3. Translation reserve**

The translation reserve comprise of foreign exchange difference arising from the translation of the financial statements of Russian Hotel and Russian Property from their functional currency to the presentation currency TL which is recognised in equity.

**17.4. Legal reserves**

Profit reserves comprised of the legal reserves as of 31 March 2011 and 31 December 2010.

	31 March 2011	31 December 2010
Legal reserves	4,147	4,147
<b>Closing balance</b>	<b>4,147</b>	<b>4,147</b>

The legal reserves consist of first and second legal reserves, according to the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's historical paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the historical paid-in share capital. Under TCC, the legal reserves are not available for distribution unless they exceed 50% of the historical paid-in share capital but may be used to offset losses in the event that historical general reserve is exhausted.

In accordance with the Communiqué No: XI-29 issued on 9 April 2008 in the Official Gazette; equity items of paid-in capital, share premiums, and legal reserves and special reserves under restricted reserves should be presented at their nominal amounts. Accordingly the inflation adjustments provided for within the framework of IAS/IFRS, for paid-in capital has been presented under inflation adjustment on capital, where as for share premium and legal reserves and special reserves under restricted reserves inflation effects has been presented under retained earnings. Other equity items have been presented with their IAS/IFRS values.

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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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**18. SALES AND COST OF SALES**

For the periods ended 31 March, sales and cost of sales are as follows:

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Rent income	5,812,725	4,241,876
<b>Sales revenue</b>	<b>5,812,725</b>	<b>4,241,876</b>
Operating lease expenses	(411,426)	(300,922)
Outsourced service expenses	(98,405)	--
Insurance expenses	(92,256)	(101,303)
Taxes and duties expenses	(18,142)	(10,443)
Others	(3,844)	(740)
	<b>(624,073)</b>	<b>(413,408)</b>

**19. ADMINISTRATIVE EXPENSES**

For the periods ended 31 March 2011 and 2010, administrative expenses are as follows:

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Personnel expenses	494,675	283,532
Outsourced service expenses	231,023	11,821
Operating lease expenses	134,466	59,800
Consultancy expenses	77,860	365,520
Tax and duties expenses	49,653	37,236
Travel and hosting expenses	47,406	12,834
Depreciation expense	11,619	14,840
Advertising expenses	5,268	110,377
Amortisation expense	733	1,291
Other	43,382	24,900
<b>Total</b>	<b>1,096,085</b>	<b>922,151</b>

**19.1. Personnel expenses**

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Wages and salaries	437,648	261,362
Social security premiums	38,018	15,571
Change in employee severance indemnity	--	--
Change in vacation pay liability	7,388	--
Other	11,621	6,599
<b>Total</b>	<b>494,675</b>	<b>283,532</b>

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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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**20. OTHER OPERATING INCOME / EXPENSES**

**a) Other operating income**

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Fair value gain on operating investment property, net <sup>(1)</sup>	44,836,276	--
Fair value gain on investment property under development	2,569,365	--
Other income	23,487	56,367
<b>Total</b>	<b>46,429,128</b>	<b>56,367</b>

**b) Other operating expenses**

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Non-deductible VAT	715,356	--
Other expense	153,460	165,692
	<b>868,816</b>	<b>165,692</b>

As of 31 March 2011, non deductible VAT stems from provision provided for the VAT carry forward resulting from projects in Russia and may not be deducted from VAT payable that will occur in the future. The Group plans to revise the agreement signed with land owner of the Samara project in order to deduct VAT.

**21. FINANCE INCOME**

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Foreign exchange gain	1,856,771	11,189,308
Interest income	35,040	3,976
Other	20,683	349
<b>Total</b>	<b>1,912,494</b>	<b>11,193,633</b>



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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 31 MARCH 2011**

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**22. FINANCE COSTS**

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Foreign exchange loss	12,605,136	1,489,007
Interest expenses	3,107,992	3,418,153
Commission expenses	1,004	279,750
Expenses for letter of guarantees	2,286	34,737
Other	--	26,345
<b>Total</b>	<b>15,716,418</b>	<b>5,247,992</b>

For the period ended 31 March 2011, the Group capitalises interest expenses amounting to TL 135,697 on investment properties under development (31 December 2010: TL 1,608,815).

**23. DEFERRED TAX ASSETS AND LIABILITIES**

According to Article 5/1(d) (4) of the New Corporate Tax Law 5520, the income of Real Estate Investment Trusts ("REIT") is exempt from Corporate Income Tax in Turkey. This exemption is also applicable to Quarterly Advance Corporate Tax. However, the Tax Inspectors' Board challenges this exemption for the Real Estate Investment Trusts ("REIT") which are not publicly listed and imposes tax penalties to these REITs. On the other hand, the Capital Markets Board's opinion is that REIT status is obtained by companies instantaneously founded or transformed to the REIT after the Board's approval of the amendments in the Articles of Association in case of transformation, and approval of establishment in case of immediate establishment. Based on these facts, the Company is subject to any liability, having settled with Tax Office the corporate tax and late payment interest amounting to TL 658,576 was paid in 20 October 2010 by the Company. The related tax expense recognized as current tax expense for the period ended 31 December 2010 in the statement of comprehensive income.

Akfen GYO used to recognise deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported in compliance with CMB Standards and its statutory financial statements. Due to the change in the status of being a REIT in 2006, the Company is exempted from Corporate Tax

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
Current tax expense	(32,576)	(90,757)
Deferred tax expense	(3,276,051)	(844,548)
<b>Total taxation</b>	<b>(3,308,627)</b>	<b>(935,305)</b>

Deferred tax has been recognised for the temporary differences of Akfen Ticaret and its branch operating in Northern Cyprus arising between its financial statements as reported in compliance with CMB standards and its statutory financial statements. The corporate tax rate is 23.5% in Northern Cyprus.

As at 31 March 2011 RHI and RPI has current tax liability amounting to TL 323,589 and TL 155,148, respectively.

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**23. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

**Movements of deferred tax assets and liabilities during the period**

The reported taxation charge for the periods ended 31 December are different than the amounts computed by applying the statutory tax rate to income before tax as shown in the following:

		1 January - 31 March 2011		1 January - 31 March 2010
	%		%	
<b>Profit for the period</b>		31,745,617		7,807,328
Tax expense		(3,308,627)		(935,305)
<b>Profit excluding income tax</b>		<b>35,054,244</b>		<b>8,742,633</b>
Income tax using the domestic tax rate i	(20.00)	(7,010,849)	(20.00)	(1,748,527)
Tax-exempt income <sup>(1)</sup>	12.68	4,444,645	11.21	979,672
Non-deductible expenses	0.00	(1,471)	(0.10)	(9,102)
Unrecognised tax losses	(0.13)	(47,208)	--	--
Effect of different tax rates in foreign jurisdictions	(1.89)	(662,374)	(1.26)	(110,176)
Other	(0.09)	(31,370)	(0.54)	(47,172)
<b>Taxation charge</b>	<b>(9.43)</b>	<b>(3,308,627)</b>	<b>(10.69)</b>	<b>(935,305)</b>

<sup>(1)</sup> Tax-exempt income is related with Akfen GYO since the Company is exempt from Corporate Tax.

**Unrecognised deferred tax assets and liabilities**

As at 31 March 2011, Akfen Ticaret has accumulated statutory tax losses that can be netted from future fiscal profits amounting to TL 13,363,507 (31 December 2010: TL 2,333,304). Since there is not any possible and reliable taxable profit projection regarding the utilization of accumulated losses, the deferred tax asset amounting to TL 2,206,041 (31 December 2010: TL 446,661) has not been recognised. The expiry dates of the unrecognised accumulated losses are as follows:

	31 March 2011	31 December 2010	Year of expiry
2006	190,358	190,358	31 December 2011
2007	432,457	432,457	31 December 2012
2008	--	--	31 December 2013
2009	1,607,522	1,607,522	31 December 2014
2010	102,967	102,967	31 December 2015
2011	11,030,203	--	31 December 2016
	<b>13,363,507</b>	<b>2,333,304</b>	

**23. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and deferred tax liabilities as at 31 March 2011 and 31 December 2010 were attributable to the items detailed in the table below:

	Deferred tax assets		Deferred tax liabilities		Net deferred tax assets / (liabilities)	
	31 March 2011	31 December 2010	31 March 2011	31 December 2010	31 March 2011	31 December 2010
Investment incentive <sup>(1)</sup>	16,317,317	16,011,562	--	--	16,317,317	16,011,562
Fair value gain on investment property	--	--	(29,658,319)	(23,922,308)	(29,658,319)	(23,922,308)
Bank borrowings	89,250	--	--	(656)	89,250	(656)
Tax losses carried forward	--	679,560	--	--	--	679,560
Intangible assets	2,519,553	--	--	--	2,519,553	--
Other	104,457	--	(89,905)	--	14,552	--
<b>Deferred tax asset/(liability)</b>	<b>19,030,577</b>	<b>16,691,122</b>	<b>(29,748,224)</b>	<b>(23,922,964)</b>	<b>(10,717,647)</b>	<b>(7,231,842)</b>
Net off tax	(18,926,120)	(16,601,779)	18,926,120	16,601,779	--	--
<b>Net deferred tax asset / (liability)</b>	<b>104,457</b>	<b>89,343</b>	<b>(10,822,104)</b>	<b>(7,321,185)</b>	<b>(10,717,647)</b>	<b>(7,231,842)</b>

<sup>(1)</sup> The Group has recognised deferred tax assets on the capital expenditures subject to 100% of investment allowance completed until 31 December 2008 in Northern Cyprus.

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**24. EARNINGS PER SHARE**

Earnings per share are calculated by dividing net income for the period by the weighted average number of shares of the Company during the period. For the period ended 31 March, the earnings per share computation are as follows:

	2011	2010
<b>Number of shares in circulation</b>		
Issued shares at 1 January	138,000,000	92,323,233
Increase in share capital, in cash	--	45,676,767
<b>Total shares at 31 March</b>	<b>138,000,000</b>	<b>138,000,000</b>
Weighted average number of shares	138,000,000	117,800,936
Net profit for the period	32,541,375	7,807,328
Earnings per share	0.2358	0.0662

**25. RELATED PARTY DISCLOSURES**

**25.1. Related party balances**

*Due from related parties (trade):*

As of 31 March 2011 and 31 December 2010, due from related parties (trade) comprised the following:

	31 March 2011	31 December 2010
Akfen Gayrimenkul Yatırımları ve Ticaret AŞ <sup>(1)</sup>	1,333,219	1,291,871
	<b>1,333,219</b>	<b>1,291,871</b>

<sup>(1)</sup> As of 31 March and 31 December 2010, receivable from Akfen Gayrimenkul Yatırımları ve Ticaret AŞ is resulted from inventory sales.

*Due to related parties (trade):*

	31 March 2011	31 December 2010
IBS Sigorta Brokerlık Hizmetleri A.Ş.	204,244	--
Razveev	168,278	--
Akfen Turizm Yatırımları ve İşletmeleri AŞ	88,234	57,453
Diğer	--	980
	<b>460,756</b>	<b>58,433</b>

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**25. RELATED PARTY DISCLOSURES (continued)**

**25.1. Related party balances (continued)**

*Due to related parties (other):*

	<b>31 March 2011</b>	<b>31 December 2010</b>
Akfen Holding <sup>(1)</sup>	15,037,593	11,608,602
Akfen İnşaat Turizm ve Ticaret A.Ş.	395,227	--
Razveev <sup>(2)</sup>	184,744	617,180
Other	31,550	21,655
	<b>15,649,114</b>	<b>12,247,437</b>

<sup>(1)</sup> As at 31 March 2011, payable to Akfen Holding amounting to TL 9,539,088 is due from the transfer of the payable to Akfen İnşaat and to finance operations of the Group, TL 4,548,525 is the capital advances to Russian Hotel attributed on behalf of the Company by Akfen Holding during the period. Additionally payable amounting to TL 949,980 has arisen from the interest invoices issued by Akfen Holding during the period, respectively.

As at 31 December 2010, payable to Akfen Holding amounting to TL 6,644,934 is due from the transfer of the payable to Akfen İnşaat, TL 2,022,532 is to finance operations of the Group and TL 4,272,269 is the capital advances to Russian Hotel and Russian Property, respectively attributed on behalf of the Company by Akfen Holding during the period. Additionally, payable amounting to TL 616,975 and TL 74,424 have arisen from the interest and rent invoices issued by Akfen Holding during the period, respectively.

<sup>(2)</sup> As at 31 March 2011, this amount shows the payable to land owner of Samara project in Russia. Guarantees given to and provided from related parties is explained in Note 6.



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**25. RELATED PARTY DISCLOSURES (continued)**

**25.2. Related party transactions**

**a) Operating investment purchases (Investment properties under development)**

	<b>31 March 2011</b>	<b>31 March 2010</b>
Akfen Insaat	960,515	3,784,709
	<b>960,515</b>	<b>3,784,709</b>

**b) Rent expenses**

	<b>31 March 2011</b>	<b>31 March 2010</b>
Hamdi Akın	70,785	32,603
	<b>70,785</b>	<b>32,603</b>

**c) Interest income**

	<b>31 March 2011</b>	<b>31 March 2010</b>
Akfen Holding	35,040	--
	<b>35,040</b>	<b>--</b>

**d) Interest expenses**

	<b>31 March 2011</b>	<b>31 March 2010</b>
Akfen Holding	249,335	470,940
Akfen Gayrimenkul Geliştirme	--	74,985
	<b>249,335</b>	<b>545,925</b>

**e) Remuneration of top management**

For the period ended 31 March 2011, the total amount of salaries and similar benefits provided to the members of the Board of Directors, general coordinator, general manager and assistant general managers of the Company is TL 201,862 (31 March 2010: TL 116,783)

## 26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS

### (i) General

The Group exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks and explains the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management vision is defined as, identifying variables and uncertainties that will impact the Group's objectives, conducting proactively and managing through the most appropriate steps, supervising the implementation of steps in line with the shareholders' risk preference.

Corporate Risk Management activities are executed within the Group as a whole in the following fields:

- Determining risk management standards and policies,
- Developing a uniform risk management oriented work culture and capabilities,
- Conducting risk analysis of existing and potential investments,
- Creating a senior administration vehicle reporting on the risks of new investments of a company, sector or group
- Determining risk limitations and action plans,
- Supporting the implementation of these action plans ,
- Supporting strategic processes with a risk management approach.

The Board of Directors ("BOD") has overall responsibility for the establishment and oversight of Akfen GYO's risk management framework. The latter determines shareholder risk preference, ensuring that appropriate risk management applications are in place. Akfen GYO's BOD has the ultimate responsibility for Corporate Risk Management.

### (ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate has an influence on credit risk. Since the Group operates in real estate businesses geographically the concentration of credit risk for the Group's entities operating in the mentioned businesses are mainly in Turkey.

The companies operating under these segments have set a credit policy under which each new customer is analysed individually for the creditworthiness before each company's standard payment and delivery terms and conditions are offered.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable. The allowance is provided for receivables that are legally insolvent.

**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates, will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Currency risk*

The Group is exposed to currency risk on various foreign currency denominated income and expenses and resulting receivables, payables and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

To minimize risk arising from foreign currency denominated balance sheet items, the Group keeps part of its idle cash in foreign currencies.

As at 31 March 2011, the companies in the Group have foreign currency balances other than their functional currencies such as Euro, as mentioned in the related notes of the consolidated financial statements.

The Group keeps cash in USD, Euro, GBP and TL to manage the foreign currency risk.

The Group realises the medium and long term bank borrowings in the currency of project revenues. Additionally, the Group realises short term bank borrowings in TL, Euro and USD in balance by pooling/ portfolio model.

*Interest rate risk*

As at 31 March 2011, the Group's operations are subject to the risk of interest rate fluctuations to the extent that 93% of the Group's bank borrowings are obtained by floating interest rates.

The Group is also exposed to basis risk for its floating rate borrowings, which is the difference in repricing characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Group's business strategies.

**(iv) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group's entities ensure that they have sufficient cash on demand to meet expected operational expenses in terms of the relevant characteristics of the businesses they operate, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

For the Group entities, risk of funding current and potential requirements is mitigated by ensuring the availability of adequate number of creditworthy lending parties. The Group entities, in order to minimize liquidity risk, hold adequate cash and available line of credit.

**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**(v) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**26.1. Credit risk**

The ownership of the financial assets brings the risk of not meeting the obligations of the agreement of the counter party.

The maximum exposure to credit risk as at 31 March 2011 and 31 December 2010 is as follows:

	31 March 2011	Receivables				
		Trade receivables		Other receivables		
		Related party	Third party	Related party	Third party	Deposits on banks Other
<b>Exposure to maximum credit risk as of reporting date (A+B+C+D+E)</b>		<b>1,333,219</b>	<b>5,227,555</b>	--	<b>99,511</b>	<b>125,706</b>
- The portion of maximum risk covered by guarantee		--	--	--	--	--
A. Net carrying value of financial assets which are neither impaired nor overdue		1,333,219	5,227,555	--	99,511	125,706
B. Net carrying value of financial assets that are restricted, otherwise which will be regarded as overdue or impaired						
C. Net carrying value of financial assets which are overdue but not impaired		--	--	--	--	--
- The portion covered by any guarantee						
D. Net carrying value of impaired assets						
- Overdue (gross book value)		--	--	--	--	--
- Impairment (-)						
- Covered portion of net book value (with letter of guarantee etc)		--	--	--	--	--
- Undue (gross book value)		--	48,054	--	--	--
- Impairment (-)		--	(48,054)	--	--	--
- Covered portion of net book value (with letter of guarantee etc)		--	--	--	--	--
E. Off balance sheet items with credit risks		--	--	--	--	--



**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**26.1. Credit risk (continued)**

	31 December 2010	Receivables						Deposits on banks	Other
		Trade receivables		Other receivables					
		Related party	Third party	Related party	Third party	Third party	Other		
	Exposure to maximum credit risk as of reporting date (A+B+C+D+E)	1,291,871	4,863,887	--	87,396	1,302,795	--	--	
	- The portion of maximum risk covered by guarantee	--	--	--	--	--	--	--	
A.	Net carrying value of financial assets which are neither impaired nor overdue	1,291,871	4,863,887	--	87,396	1,302,795	--	--	
B.	Net carrying value of financial assets that are restricted, otherwise which will be regarded as overdue or impaired	--	--	--	--	--	--	--	
C.	Net carrying value of financial assets which are overdue but not impaired	--	--	--	--	--	--	--	
	- The portion covered by any guarantee	--	--	--	--	--	--	--	
D.	Net carrying value of impaired assets	--	--	--	--	--	--	--	
	- Overdue (gross book value)	--	48,054	--	--	--	--	--	
	- Impairment (-)	--	(48,054)	--	--	--	--	--	
	- Covered portion of net book value (with letter of guarantee etc)	--	--	--	--	--	--	--	
	- Undue (gross book value)	--	--	--	--	--	--	--	
	- Impairment (-)	--	--	--	--	--	--	--	
	- Covered portion of net book value (with letter of guarantee etc)	--	--	--	--	--	--	--	
E.	Off balance sheet items with credit risks	--	--	--	--	--	--	--	

As at 31 March 2011 and 31 December 2010, the Group does not have any financial assets which are overdue but not impaired

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26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

26.2. Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. The table analyses the financial liabilities of the Group by grouping the terms. The contractual cash flow is not discounted:

31 March 2011:

Contractual maturities	Carrying amount	Contractual cash flows (I)+(II)+(III)+(IV)	3 months or less (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
<b>Non-derivative financial liabilities</b>						
Bank borrowings	232,138,637	257,208,970	26,593,190	43,678,056	115,964,187	70,973,537
Trade payables	966,292	966,291	966,291	--	--	--
Other payables (other liabilities included)	15,343,343	15,343,343	13,950,564	--	1,392,779	--

31 December 2010:

Contractual maturities	Carrying amount	Contractual cash flows (I)+(II)+(III)+(IV)	3 months or less (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
<b>Non-derivative financial liabilities</b>						
Bank borrowings	212,191,987	262,099,260	9,675,551	44,380,179	144,493,973	63,549,557
Trade payables	854,847	854,847	854,847	--	--	--
Other payables (other liabilities included)	15,181,983	15,181,983	13,836,718	--	1,345,265	--

The Group does not have any derivative financial liabilities as at 31 March 2011 and 31 December 2010. Since taxes and funds payable and social security premiums payable are non-financial liabilities, they are not included in other payables.

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**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**26.3. Market risk**

**a) Foreign currency position table and sensitivity analysis**

31 March 2011	TL Equivalent (Functional currency)	USD	EURO	GBP	Other
<b>Foreign currency position</b>					
1 Trade receivables	5,154,955	--	2,362,924	--	--
2a Monetary financial assets (cash and bank accounts included)	287	156	21	--	--
2b Non-monetary financial assets	--	--	--	--	--
3 Other	1,212	218	401	--	--
<b>4 Current assets (1+2+3)</b>	<b>5,156,454</b>	<b>374</b>	<b>2,363,346</b>	--	--
5 Trade receivables	--	--	--	--	--
6a Monetary financial assets	6,003	--	--	2,416	--
6b Non-monetary financial assets	--	--	--	--	--
7 Other	--	--	--	--	--
<b>8 Non-current assets (5+6+7)</b>	<b>6,003</b>	--	--	<b>2,416</b>	--
<b>9 Total assets (4+8)</b>	<b>5,162,457</b>	<b>374</b>	<b>2,363,346</b>	<b>2,416</b>	--
10 Trade payables	186,666	--	85,564	--	--
11 Financial liabilities	47,310,471	--	21,686,135	--	--
12a Other monetary financial liabilities	4,183,556	--	1,917,655	--	--
12b Other non-monetary financial liabilities	--	--	--	--	--
<b>13 Short-term liabilities (10+11+12)</b>	<b>51,680,693</b>	--	<b>23,689,354</b>	--	--
14 Trade payables	--	--	--	--	--
15 Financial liabilities	148,698,733	--	68,160,402	--	--
16a Other monetary financial liabilities	1,140,942	719,587	12,287	--	--
16b Other non-monetary financial liabilities	--	--	--	--	--
<b>17 Long-term liabilities (14+15+16)</b>	<b>149,839,675</b>	<b>719,587</b>	<b>68,172,689</b>	--	--
<b>18 Total liabilities (13+17)</b>	<b>201,520,368</b>	<b>719,587</b>	<b>91,862,043</b>	--	--
19 Net asset / (liability) position of off-balance sheet items (19a-19b)	--	--	--	--	--
19a Amount of derivative off-balance sheet items in foreign currency in asset characteristics	--	--	--	--	--
19b Amount of off derivative-balance sheet items in foreign currency in liability characteristics	--	--	--	--	--
20 Net foreign currency position (9-18+19)	(196,357,911)	(719,213)	(89,498,697)	2,416	--
21 Net foreign currency position of monetary assets / (liabilities) (1+2a+5+6a-10-11-12a-14-15-16a)	(196,359,123)	(719,431)	(89,499,098)	2,416	--
22 Fair value of the financial instruments used in foreign currency hedging	--	--	--	--	--
23 Amount of foreign currency assets hedged	--	--	--	--	--
24 Amount of foreign currency liabilities hedged	--	--	--	--	--

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**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**26.3. Market risk (continued)**

31 December 2010	TL Equivalent (Functional currency)	USD	EURO	GBP	Other
Foreign currency position					
1 Trade receivables	4,826,356	--	2,355,354	--	--
2a Monetary financial assets (cash and bank accounts included)	62,174	155	30,224	--	--
2b Non-monetary financial assets	--	--	--	--	--
3 Other	1,158	215	401	--	--
4 Current assets (1+2+3)	4,889,688	370	2,385,979	--	--
5 Trade receivables	--	--	--	--	--
6a Monetary financial assets	5,771	--	--	2,416	--
6b Non-monetary financial assets	--	--	--	--	--
7 Other	--	--	--	--	--
8 Non-current assets (5+6+7)	5,771	--	--	2,416	--
9 Total assets (4+8)	4,895,459	370	2,385,979	2,416	--
10 Trade payables	102,455	--	50,000	--	--
11 Financial liabilities	43,446,915	--	21,202,925	--	--
12a Other monetary financial liabilities	3,176,994	--	1,550,434	--	--
12b Other non-monetary financial liabilities	--	--	--	--	--
13 Short-term liabilities (10+11+12)	46,726,364	--	22,803,359	--	--
14 Trade payables	--	--	--	--	--
15 Financial liabilities	153,182,525	--	74,756,003	--	--
16a Other monetary financial liabilities	1,345,637	724,959	103,363	--	--
16b Other non-monetary financial liabilities	--	--	--	--	--
17 Long-term liabilities (14+15+16)	154,528,162	724,959	74,859,366	--	--
18 Total liabilities (13+17)	201,254,526	724,959	97,662,725	--	--
19 Net asset / (liability) position of off-balance sheet items (19a-19b)	--	--	--	--	--
19a Amount of derivative off-balance sheet items in foreign currency in asset characteristics	--	--	--	--	--
19b Amount of off derivative-balance sheet items in foreign currency in liability characteristics	--	--	--	--	--
20 Net foreign currency position (9-18+19)	(196,359,067)	(724,589)	(95,276,746)	2,416	--
21 Net foreign currency position of monetary assets / (liabilities) (1+2a+5+6a-10-11-12a-14-15-16a)	(196,360,225)	(724,804)	(95,277,147)	2,416	--
22 Fair value of the financial instruments used in foreign currency hedging	--	--	--	--	--
23 Amount of foreign currency assets hedged	--	--	--	--	--
24 Amount of foreign currency liabilities hedged	--	--	--	--	--

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**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS** (continued)

**26.3. Market risk** (continued)

**a) Foreign currency position table and sensitivity analysis** (continued)

**Foreign currency sensitivity analysis**

31 March 2011				
	Profit or loss		Equity <sup>(*)</sup>	
	Appreciation of foreign currency	Devaluation of foreign currency	Appreciation of foreign currency	Devaluation of foreign currency
10% change of the USD against TL				
1- Net USD denominated asset/liability	(111,356)	111,356	(111,356)	111,356
2- Hedged portion of TL against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+ 2)</b>	<b>(111,356)</b>	<b>111,356</b>	<b>(111,356)</b>	<b>111,356</b>
10% change of the Euro against TL				
4- Net Euro denominated asset/liability	(19,525,156)	19,525, 156	(19,525,156)	19,525,156
5- Hedged portion of TL against Euro risk (-)	--	--	--	--
<b>6- Net effect of Euro (4+5)</b>	<b>(19,525,156)</b>	<b>19,525, 156</b>	<b>(19,525,156)</b>	<b>19,525,156</b>
10% change of other foreign currencies against TL				
7- Net other foreign currencies denominated asset/liability	600	(600)	600	(600)
8- Hedged portion of TL against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other foreign currencies (7+8)</b>	<b>600</b>	<b>(600)</b>	<b>600</b>	<b>(600)</b>
<b>TOTAL(3+6+9)</b>	<b>(19,635,912)</b>	<b>19,635,912</b>	<b>(19,635,912)</b>	<b>19,635,912</b>

(\*) Profit / loss effect is included.

As at 31 March 2011, the Group has undiscounted non-cancellable lease receivables amounting TL 140,564,192 in equivalent of Euro 64,431,698 and non-cancellable undiscounted lease liabilities amounting TL 30,025,885 in equivalent of total of Euro 1,978,538 and USD 16,799,265 which are not included in the table above and to be recognised in the following periods (Note 14).



26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued))

26.3. Market risk (continued)

a) Foreign currency position table and sensitivity analysis (continued)

Foreign currency sensitivity analysis (continued)

31 December 2010				
	Profit or loss		Equity <sup>(*)</sup>	
	Appreciation of foreign currency	Devaluation of foreign currency	Appreciation of foreign currency	Devaluation of foreign currency
10% change of the USD against TL				
1- Net USD denominated asset/liability	(113,326)	113,326	(113,326)	113,326
2- Hedged portion of TL against USD risk (-)	--	--	--	--
<b>3- Net effect of USD (1+ 2)</b>	<b>(113,326)</b>	<b>113,326</b>	<b>(113,326)</b>	<b>113,326</b>
10% change of the Euro against TL				
4- Net Euro denominated asset/liability	(19,473,603)	19,473,603	(19,473,603)	19,473,603
5- Hedged portion of TL against Euro risk (-)	--	--	--	--
<b>6- Net effect of Euro (4+5)</b>	<b>(19,473,603)</b>	<b>19,473,603</b>	<b>(19,473,603)</b>	<b>19,473,603</b>
10% change of other foreign currencies against TL				
7- Net other foreign currencies denominated asset/liability	577	(577)	577	(577)
8- Hedged portion of TL against other currencies risk (-)	--	--	--	--
<b>9- Net effect of other foreign currencies (7+8)</b>	<b>577</b>	<b>(577)</b>	<b>577</b>	<b>(577)</b>
<b>TOTAL (3+6+9)</b>	<b>(19,586,352)</b>	<b>19,586,352</b>	<b>(19,586,352)</b>	<b>19,586,352</b>

<sup>(\*)</sup> Profit / loss effect is included.

As at 31 December 2010, the Group has undiscounted non-cancellable lease receivables amounting TL 74,887,739 in equivalent of Euro 36,546,649 and non-cancellable undiscounted lease liabilities amounting TL 30,025,885 in equivalent of total of Euro 1,978,538 and USD 16,799,265 which are not included in the table above and to be recognised in the following periods (Note 14).

26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

26.3. Market risk (continued)

a) Foreign currency position table and sensitivity analysis (continued)

The following significant exchange rates applied during the periods ended 31 March 2011 and 31 December 2010:

TL	Average		As at reporting date	
	31 March 2011	31 March 2010	31 March 2011	31 December 2010
USD	1.5703	1.5004	1.5483	1.5460
Euro	2.1469	1.9894	2.1816	2.0491

b) Interest rate risk table and sensitivity analysis

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 March 2011	31 December 2010
<b>Fixed rate instruments</b>		
Financial assets	--	--
Financial liabilities	24,722,696	15,562,548
<b>Variable rate instruments</b>		
Financial assets	--	--
Financial liabilities	207,415,942	196,629,439

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore; a change in interest rates at the reporting date would not affect profit or loss.

Additionally, the Group does not account for any fixed rate financial assets and liabilities as available-for-sale. Therefore; a change in interest rates at the reporting date would not directly affect equity.

**26. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**26.3. Market risk (continued)**

**Cash flow sensitivity analysis for variable rate instruments**

As at 31 March 2011, a change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2010.

	Profit or (loss)		Equity <sup>(*)</sup>	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>31 March 2011</b>				
Variable rate instruments	(940,354)	940,354	(940,354)	(940,354)
<b>31 December 2010</b>				
Variable rate instruments	(551,644)	551,644	(551,644)	(551,644)

(\*)Profit / loss effect is included.

**27. FINANCIAL INSTRUMENTS**

**27.1. Fair value risk**

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties.

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Following assumptions and methods are used to estimate fair value of financial instruments, if fair values are applicable.

**Financial assets**

The Company assumes that the carrying values of cash equivalents are close to their fair value because of their short-term nature and insignificant amount of impairment risk. Trade receivables after netting the allowance for doubtful receivables are close to their fair value due to short-term nature.

**Financial liabilities**

The Company assumes that the carrying values of the trade payables and other liabilities are close to their fair value because of their short-term nature. Bank borrowings are measured with their amortised cost value and transaction costs are added to their acquisition costs. It is assumed that the borrowings' fair values are equal to their carrying values since interest rates of variable rate instruments are updated with changing market conditions and the maturities of fixed rate instruments are short term.

**28. SUBSEQUENT EVENTS**

29.41% of company shares offered to the public and started to be traded at the Istanbul Stock Exchange on 10 May 2011. Company's capital is increased from TL 138,000,000 to TL 184,000,000. New shares with a nominal amount of TL 46,000,000 and existing shares with a nominal amount of TL 8,117,625 shares which totally amounting to TL 54,117,500 have been offered to the public. The subject shares are recorded according to Capital Market Board's Law article 4 dated 28 April 2011 and numbered GYO.80/430.

The new shareholder structure after the public offer is as follows:

Shareholder	Share Amount (TL)	Share Rate
Akfen Holding A.Ş.	95,156,384	51.72%
Hamdi Akın	33,991,838	18.47%
İbrahim Süha Güçsav	345,380	0.19%
Mustafa Ceyhan	345,380	0.19%
Akınısı Makina Sanayi Ve Ticaret A.Ş.	43,513	0.02%
Akfen İnşaat Turizm Ve Ticaret A.Ş.	2	0.00%
Mehmet Semih Çiçek	1	0.00%
Mustafa Dursun Akın	1	0.00%
Ahmet Seyfi Usluoğlu	1	0.00%
Publicly Traded	54,117,500	29.41%
<b>Total</b>	<b>184,000,000</b>	<b>100.00%</b>