AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT FOR THE PERIOD JANUARY 1, 2017 – DECEMBER 31, 2017
(ORIGINALLY ISSUED IN TURKISH)

EY
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(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Akfen Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Akfen Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (the Company) and its subsidiaries and its joint operation (the Group) which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Accounting Standards (TAS).

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Independent Auditors* (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matters

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

Key audit matter	***How our audit addressed the key audit matter***
Valuation of investment properties and significant information disclosed	
As explained in note 2 and 9, the Group recognizes investment properties at their fair values, after initial recognition. As of December 31, 2017, fair value amount of the investment properties disclosed in the consolidated financial statements has been valued at TL 1.564.721.144 by independent appraisal firms	We assessed the qualifications, competencies and independence of the professional appraisers engaged by the management. In our audit, we assessed whether the valuation methods as applied by appraisers are acceptable for valuation of the underlying investment property. We reconciled the

and details of the valuation have been disclosed in note 9. As further explained in note 9, the Group classifies its investment in real estate for investment purposes as investment property. The discounted values of rentals payable related to the related land are accounted in investment property and other liabilities accounts. Due to the fact that investment properties are a significant part of the Group's assets and applied valuation methods contain significant judgements and assumptions, we have considered the valuation of investment properties as a key audit matter.	appraised value for independent sections in the valuation report with disclosed amount in note 9. In addition, we reconciled standing data included in the valuation report such as rental income, duration of lease contracts, occupancy rates and administration expenses to source documents. Among the other audit procedures we performed, we verified the assumptions used by the external appraisers in their valuations (including the discount rate, the market rent and the expected occupancy rates) against external data. For this assessment we involved internal valuation experts of a firm which in our audit procedures. Due to the high level of judgment by the appraisers in the valuation of investment property and the existence of alternative assumptions and valuation methods, we assessed if the result of the external valuation is within an acceptable range. We also examined the suitability of the information in the consolidated financial statements and explanatory note, given the importance of this information for users of the financial statements.
Accounting of rental income and operational rent contracts	
As explained in note 2, rental income from investment properties is recognized by straight-line basis according to rental income received and to be received during lease term. As explained in note 14 and 19, rental income is acquired through the Group's operational rent contracts, and amounts to be paid by lessees to the Group comprise of fixed rent income with annual increase rate or performance dependent rent income. Due to the fact that a large portion of rental income is determined depending on performance and third-party data, revenue recognition has been considered as a key audit matter.	Within the scope of our audit procedures performed regarding the subject stated above, we has been focused on the following; - Review of operational rent contracts - Evaluation of processes followed by the Group regarding to performance-based rental income - Along with testing of calculations related to accrued rental income, controlling of inputs used and obtaining third-party confirmation

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

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

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

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

5) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with InAS and the standards on auditing as issued by the Capital Markets Board of Turkey will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with InAS and the standards on auditing as issued by the Capital Markets Board of Turkey, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

B) Report on Other Legal and Regulatory Requirements

1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on March 7, 2018.

2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2017 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.

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

The name of the engagement partner who supervised and concluded this audit is Seda Akkuş Tecer.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Seda Akkuş Tecer, SMMM
Partner

March 7, 2018
İstanbul, Türkiye

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AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(Amounts are expressed in Turkish Lira ("TRY") unless otherwise stated.)

		Audited	***Audited***
ASSETS	**Notes**	**December 31, 2017**	**December 31, 2016**
CURRENT ASSETS		**31,820,761**	**43,113,465**
Cash and cash equivalents	5	3,125,149	7,826,862
Financial investments	5	2,717,559	-
Trade receivables		15,579,335	26,677,217
- Trade receivables from related parties	*4,7*	*2,050,647*	*7,414,000*
- Trade receivables from third parties	*7*	*13,528,688*	*19,263,217*
Other receivables		32,900	139,311
- Other receivables from third parties	*8*	*32,900*	*139,311*
Prepaid expenses	16	1,118,578	1,964,941
Other current assets	17	9,247,240	6,505,134
NON CURRENT ASSETS		**1,731,374,525**	**1,454,904,927**
Financial investments	5	64,420,217	55,648,500
Other receivables		24,646,637	18,625,738
- Other receivables from third parties	*8*	*24,646,637*	*18,625,738*
Investment property	9	1,604,229,004	1,337,993,612
Property and equipment	10	125,389	144,110
Intangible assets		47,479	51,347
- Other intangible assets	*11*	*47,479*	*51,347*
Prepaid expenses	16	8,504,534	8,767,327
Deferred tax assets	24	3,890,901	3,755,023
Other non current assets	17	25,510,364	29,919,270
TOTAL ASSETS		**1,763,195,286**	**1,498,018,392**

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ORIGINALLY ISSUED IN TURKISH

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(Amounts are expressed in Turkish Lira ("TRY") unless otherwise stated.)

LIABILITIES	**Notes**	***Audited*** **December 31, 2017**	***Audited*** **December 31, 2016**
CURRENT LIABILITIES		**164,910,232**	**96,930,231**
Current borrowings	6	48,836,091	5,174,329
Current portion of non-current borrowings	6	93,878,598	79,065,215
Trade payables		4,314,390	3,233,249
- Trade payables to third parties	*7*	*4,314,390*	*3,233,249*
Other payables		13,228,335	7,640,731
- Other payables to related parties	*4,8*	*5,978,094*	-
- Other payables to third parties	*8*	*7,250,241*	*7,640,731*
Current provisions		2,966,119	259,691
- Current provisions for employee benefits	*15*	*230,728*	*259,691*
- Other current provisions	*13*	*2,735,391*	-
Other current liabilities	14,17	1,686,699	1,557,016
NON CURRENT LIABILITIES		**990,465,841**	**840,292,897**
Trade payables		240,345	3,233,249
- Trade payables to third parties	*7*	*240,345*	*3,233,249*
Non current borrowings	6	867,454,723	754,455,292
Other payables		34,049,695	29,771,524
- Other payables to third parties	*8*	*34,049,695*	*29,771,524*
Deferred revenue	16	346,500	-
Non current provisions		16,443,385	109,136
- Non current provisions for employee benefits	*15*	*175,407*	*109,136*
- Other non-current provisions	*13*	*16,267,978*	-
Deferred tax liabilities	24	68,180,721	52,453,383
Other non current liabilities	14,17	3,750,472	3,503,562
EQUITY		**607,819,213**	**560,795,264**
Equity attributable to owners of parent		**592,124,050**	**544,559,122**
Issued capital	18	184,000,000	184,000,000
Inflation adjustments on capital	18	317,344	317,344
Treasury shares (-)	18	(5,605,354)	(3,338,783)
Effects of business combinations under common control	18	53,748,727	53,748,727
Share premium	18	58,880,000	58,880,000
Other accumulated comprehensive income (loss) that will be reclassified in profit or loss		(30,234,763)	(40,656,244)
- Exchange differences on translation	*18*	*(30,234,763)*	*(40,656,244)*
Restricted reserves appropriated from profits		5,609,501	3,342,930
- Legal reserves	*18*	*4,147*	*4,147*
- Legal reserves for treasury shares	*18*	*5,605,354*	*3,338,783*
Prior years' profits		285,998,577	545,174,055
Net profit/(loss) for the year		39,410,018	(256,908,907)
Non controlling interests		**15,695,163**	**16,236,142**
TOTAL LIABILITIES		**1,763,195,286**	**1,498,018,392**

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

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts are expressed in Turkish Lira ("TRY") unless otherwise stated.)

		Audited	*Audited*
PROFIT OR LOSS	**Notes**	**January 1- December 31, 2017**	**January 1- December 31, 2016**
Revenue	19	63,539,265	54,180,018
Cost of sales (-)	19	(9,588,722)	(9,503,784)
GROSS PROFIT		**53,950,543**	**44,676,234**
General administrative expenses (-)	20	(5,690,269)	(7,581,012)
Selling and marketing expenses (-)	20	(2,430,192)	-
Other operating income from operating activities	21	212,048,622	143,255
Other operating expenses from operating activites (-)	21	(1,049,235)	(239,363,937)
PROFIT/(LOSS) FROM OPERATING ACTIVITES		**256,829,469**	**(202,125,460)**
Financial income	22	14,128,898	42,743,099
Financial expenses (-)	23	(198,809,355)	(123,600,099)
PROFIT/(LOSS) BEFORE TAX		**72,149,012**	**(282,982,460)**
Tax income		(33,494,059)	10,840,344
- Current period tax expense	24	(19,003,369)	(1,013,071)
- Deferred tax (expense)/income	24	(14,490,690)	11,853,415
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**38,654,953**	**(272,142,116)**
Profit/(loss), attributable to			
Non-controlling interests		(755,065)	(15,233,209)
Owners of parent		39,410,018	(256,908,907)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**38,654,953**	**(272,142,116)**
Earnings/(loss) per share [line items]	25	0.21	(1.40)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**38,654,953**	**(272,142,116)**
OTHER COMPREHENSIVE INCOME		**10,635,567**	**32,169,637**
Other comprehensive income that will be reclassified to profit or loss		**10,635,567**	**32,169,637**
Exchange differences on translation		10,635,567	32,169,637
TOTAL COMPREHENSIVE INCOME/(EXPENSE)		**49,290,520**	**(239,972,479)**
Total Comprehensive Income/(expense) Attributable to			
Non-controlling interests		(540,979)	(14,416,711)
Owners of parent		49,831,499	(225,555,768)

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ORIGINALLY ISSUED IN TURKISH

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

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

	Issued Capital	Inflation adjustment on capital	Treasury shares	Shares premium	Effect of business combinations under common control	Other comprehensive Income and items to be reclassified to profit or loss Exchange differences on translation	Restricted reserves appropriated from profits	Prior year's profits Prior year profit or loss	Prior year's profits Net (loss)/profit for the year	Equity attributable to owners of the parent	Non controlling interests	Total equity
Balance as at January 1, 2016	**184,000,000**	**317,344**	**-**	**58,880,000**	**53,748,727**	**(72,009,383)**	**4,147**	**595,495,917**	**(46,983,079)**	**773,453,673**	**30,652,853**	**804,106,526**
Transfers	-	-	-	-	-	-	-	(46,983,079)	46,983,079	-	-	-
(Decrease)/increase arising from treasury shares transactions (*)	-	-	(3.338.783)	-	-	-	3.338.783	(3.338.783)	-	(3.338.783)	-	(3.338.783)
Total comprehensive income/(espense)	-	-	-	-	-	31.353.139	-	-	(256.908.907)	(225.555.768)	(14.416.711)	(239.972.479)
Balance as at December 31, 2016	**184,000,000**	**317,344**	**(3,338,783)**	**58,880,000**	**53,748,727**	**(40,656,244)**	**3,342,930**	**545,174,055**	**(256,908,907)**	**544,559,122**	**16,236,142**	**560,795,264**
Balance as at January 1, 2017	**184,000,000**	**317,344**	**(3,338,783)**	**58,880,000**	**53,748,727**	**(40,656,244)**	**3,342,930**	**545,174,055**	**(256,908,907)**	**544,559,122**	**16,236,142**	**560,795,264**
Transfers	-	-	-	-	-	-	-	(256,908,907)	256,908,907	-	-	-
(Decrease)/increase arising from treasury shares transactions (*)	-	-	(2,266,571)	-	-	-	2,266,571	(2,266,571)	-	(2,266,571)	-	(2,266,571)
Total comprehensive income/(expense)	-	-	-	-	-	10,421,481	-	-	39,410,018	49,831,499	(540,979)	49,290,520
Balance as at December 31, 2017	**184,000,000**	**317,344**	**(5,605,354)**	**58,880,000**	**53,748,727**	**(30,234,763)**	**5,609,501**	**285,998,577**	**39,410,018**	**592,124,050**	**15,695,163**	**607,819,213**

(*) Disclosed in Note 18.

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts are expressed in Turkish Lira ("TRY") unless otherwise stated.)

	Notes	*Audited* December 31, 2017	*Audited* December 31, 2016
A. Cash flows from operating activities			
profit/(loss) from continuing operations		**38,654,953**	**(272,142,116)**
Adjustments to reconcile profit/(loss):			
Adjustments for depreciation and amortisation expense	10,11	51,274	26,381
Adjustments for provisions related with employee benefits	15	139,515	54,746
Adjustments for fair value (gains)/losses	21	(210,880,641)	237,390,375
Adjustments for interest income and expense	22-23	51,168,687	38,301,255
Adjustments for unrealised foreign exchange losses		131,900,098	37,570,674
Adjustments for tax expense	24	*33,494,059*	(10,840,344)
Other adjustments to reconcile profit		376,593	183,318
		44,904,538	**30,544,289**
Changes in working capital:			
Adjustments for decrease/(increase) in trade accounts receivable		11,097,882	(2,456,751)
Adjustments for increase in other receivables related with operations		(4,435,594)	(420,351)
Adjustments for increase/(decrease) in trade accounts payable		1,321,486	(2,690,308)
Adjustments for increase in other operating payables		8,565,103	1,793,831
Other adjustments for other increase in working capital		2,775,956	6,103,391
Cash flows from operations		**64,229,371**	**32,874,101**
Employee benefits paid	15	(102,207)	(217,669)
Taxes paid		(2,259,650)	-
Cash flows from operating activities		**61,867,514**	**32,656,432**
B. Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	10,11	(28,685)	(36,022)
Proceeds from sales of property, plant, equipment and intangible assets	10,11	-	1,881
Cash inflows from sale of investment property		-	3,017,242
Cash outflows from acquisition of investment property	9	(10,058,176)	(22,834,301)
Cash flows used in investing activities		**(10,086,861)**	**(19,851,200)**
C. Cash flows used in financing activities			
Proceeds from loans	6	74,113,180	26,545,500
Loan repayments	6	(74,309,533)	(5,000,000)
Interest received		89,106	221,600
Interest paid	6	(54,108,548)	(38,722,169)
Other outflows of cash		-	(923,155)
Payments to acquire Entity's shares or other equity instruments	18	(2,266,571)	(3,338,783)
Cash flows used in financing activities		**(56,482,366)**	**(21,217,007)**
Net decrease in cash and cash equivalents		**(4,701,713)**	**(8,411,775)**
Cash and cash equivalents at the beginning of the year	5	7,826,862	16,238,637
Cash and cash equivalents at the end of the year	5	**3,125,149**	**7,826,862**

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Akfen Gayrimenkul Yatırım Ortaklığı AŞ ("the Group" 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 June 25, 1997 for the purpose of undertaking investments in domestic tourism sector under the partnership of Hamdi Akın and Yüksel İnşaat A.Ş. Subsequently, Akfen Holding AŞ, ("Akfen Holding") purchased shares of Yüksel İnşaat A.Ş. in 2006 and the Group became a subsidiary of Akfen Holding. All of the shares of the Akfen GYO which are in the assets of the main shareholders Akfen Holding, are transferred to Akfen Mühendislik A.Ş. (Akfen Mühendislik) with partial division and relevant division was completed on 16 February 2017.

The restructuring was completed subsequent to the Board of Directors resolution dated April 25, 2006 and Capital Markets Board of Turkey's ("CMB") approval numbered 31/894 and dated July 14, 2006 with the result of the Group's conversion to "Real Estate Investment Trust" registered in August 25, 2006. The change of title and activities was published on Official Trade Gazette on August 31, 2006.

The Group's main operations and activities are investing in real estates, real estate projects and other capital markets instruments, as described on CMB Communiqué Series: III No: 48.1, Clause 23 and 25 regulating Real Estate Investment Trusts. 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. The Group is mainly developing hotels with Ibis Hotel and Novotel trademarks and leasing the hotels to Tamaris Turizm A.Ş. which is a 100% owned subsidiary of ACCOR S.A. operating in Turkey.

The Group was enlisted on Istanbul Stock Exchange (ISE) on May 11, 2011.

The Group" phrase will be used for Akfen GYO and its subsidiaries in this report.

The Group acquired 100% of Akfen Gayrimenkul Ticareti ve İnşaat AŞ ("Akfen GT") on February 21, 2007 which was 100% owned by Akfen Holding. Akfen GT's main operations are also are investing in real estates, forming real estate portfolio and develop real estate projects. Akfen GT which is 100% owned subsidiary of Akfen GYO has 286 rooms Merit Park Hotel operating in the Turkish Republic of Northern Cyprus (TRNC).

The main objective of Russian Hotel – subsidiary of Akfen GT - is to develop hotels in Russia and Ukraine and lease them to ACCOR S.A while the main objective of Russian Property – subsidiary of Akfen GT - is to develop office projects in Russia. The capital structures of RHI and RPI are designated as 97.72% and 95% of participation for the Group, 2.28% and 5% participation of Cüneyt Baltaoğlu as at December 31, 2017, respectively.

The Group has set up a subsidiary in the Netherlands, Hotel Development and Investment BV ("HDI"), to develop hotel projects in Russia on 18 March 2011. In portfolio of HDI - %100 subsidiary of the Group –, there is an Ibis Hotel with 317 rooms completed in Moscow Russia. The hotel has started its operations as of July 16, 2015. All of the HDI shares owned by the Group were sold to Akfen GT which was wholly owned by the Group on 27 March 2017 amounting to EUR 16,936,630 (TRY 62,624,644).

The Group has established a subsidiary, Akfen Karaköy Otel Yatırımları A.Ş. ("Akfen Karaköy"), to develop a hotel project in Istanbul Karaköy on May 31, 2011. The capital structure of Akfen Karaköy is designated as 70% of participation for the Group.

The Group is registered in Levent Loft, Büyükdere Caddesi, C Blok No: 201, Kat: 8, Daire: 150, Levent - İstanbul address.

As at December 31, 2017, the number of employees of the group is 22 (December 31, 2016: 21).

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Basis of preparation

a Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with the Communiqué serial II, No: 14.1 announcement of Capital Markets Board ("CMB") dated June 13, 2013 related to "Capital Market Communiqué on Principles Regarding Financial Reporting" ("Communiqué ") which is published in official gazette, no 28676. In accordance with article 5th of the CMB Accounting Standards ("TAS/TFRS") and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority ("POA").

The Group and its subsidiaries, Akfen GT and Akfen Karaköy head offices maintain its legal books of account and prepare 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 GT, 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 GT'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 RHI, RPI and HDI 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.

b. Compliance with TAS

According to the Communique of CMB, the accompanying consolidated financials are prepared in accordance with Turkish Accounting Standards ("TAS") issued by Public Oversight Accounting and Auditing standards Authority of Turkey("POA"). TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations.

The accompanying consolidated financial statements as of December 31, 2017 have been approved by the Group's Board of Directors on March 7, 2018. General assembly and related legal institutions have right to correct related financial tables and financial tables according to legal statue.

c. Functional and presentation currency

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

The Group	**Functional currency**
Akfen GYO	TRY
Akfen GT	TRY
Akfen Karaköy	TRY
RHI	RUB
RPI	RUB
HDI	RUB
Joint Venture	TRY

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

d Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group include its subsidiaries, which it controls directly or indirectly. This control is normally evidenced when the Group owns control power, either directly or indirectly, over group'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 statements of the subsidiaries are consolidated from the beginning of the control power over the affiliate to end of that power.

Financial statements of the subsidiaries are prepared in line with the financial statements of the Group in the same accounting period using uniform accounting policies. Financial statements of the subsidiaries are consolidated based on full consolidation method.

The table below shows Akfen GYO's ownership ratio in subsidiaries as at December 31, 2017 and 2016:

The Group	**Direct or indirect shares of Group (%)**
Akfen GT	100
HDI	100
RHI	97.72
RPI	95,15
Akfen Karaköy	70

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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.

The Group entities use TRY or RUB, 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.

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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

Joint ventures

Jointly controlled entities arise where the parties to the arrangement have joint control over the assets and liabilities related to the agreement. A joint activity participant is assessed according to the asset, liability, revenue and cost of ownership. Income, liabilities, equity items, income and expense accounts and cash flow statements of joint activities are included in the financial statements by proportionate consolidation method and these intercompany transactions, balances and unrealized gains / losses realized by these joint activities are eliminated from the financial statements.

The details of the Company's direct joint ventures as of December 31, 2017 and 2016 are as follows:

Joint Venture	Main Operations	Entrepreneur Partner
Akfen İnşaat Turizm ve Akfen Gayrimenkul Yatırım Ortaklığı A.Ş Joint Venture ("Joint Venture")	Real estate investment	Akfen İnşaat Turizm ve Ticaret A.Ş.

	December 31, 2017		December 31, 2016	
	Direct or indirect shares of group (%)	Effective shares of group (%)	Direct or indirect shares of group (%)	Effective shares of group (%)
Joint venture	99.00	99.00	-	-

Akfen İnşaat Turizm ve Akfen Gayrimenkul Yatırım Ortaklığı A.Ş joint venture

The transfer of Bulvar Loft agreement signed with İller Bankası A.Ş. ("İller Bankası") and Akfen Construction related to the Land Sales Counterpart Revenue Sharing Work of the 120573 Island 1 Parcel in the size of 36,947 m^2 at the Kızılcaşar Quarter of the Ankara Province Gölbaşı District, to the joint venture (Akfen GYO 99% - Akfen İnşaat 1%) established by Akfen GYO and Akfen İnşaat has been approved by İller Bankası. Within this scope, incorporation of Akfen İnşaat Turizm ve Akfen Gayrimenkul Yatırım Ortaklığı A.Ş. joint venture ("Joint Venture") was completed on November 9, 2017 and all rights and liabilitites regarding to Bulvar Loft project has been transferred to the Joint Venture.

e. Comparative information and restatement of prior periods' financial statements

The accompanying consolidated 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 consolidated financial statements have been consistently applied to all periods presented by the Group. Financial statements as at 31 December 2017 are presented comparatively to the financial statements as at December 31, 2016.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

Adjustments in financial statements for the prior period

The Group realized amounting to TRY 3,338,783 treasury shares are disclosed in restricted reserves appropriated from profits and retained earnings the Group's consolidated statement of financial position and consolidated statement of change in equity as of December 31, 2016.

"Interest income" amounting to TRY 1,112,469 under "Cash flows from financing activities" in the cash flow statement of the Company as of December 31, 2016 is classified to "Cash flows from operating activities".

2.2. Accounting estimates

The preparation of consolidated financial statement requires the use of assumptions and estimates that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of financial statements and reported amounts of revenues, expenses which are reported throughout the period. Even though, these assumptions and estimates rely on the best estimates of the Group management, the actual may differ from them. The estimates are used particularly in the following notes:

Note 9 - Fair value measurement of investment property

The fair value of the investment real estate of the Group as of the balance sheet date has been obtained according to the valuation carried out by a real estate valuation Group which is not related with the Group. The evaluation made according to the International Valuation Standards has been identified with the revenue reduction methods and various estimations and assumptions (discount rates, occupancy rates, etc.) are being used in these calculations. Any possible future changes in these estimations and assumptions may lead to significant impact on the Group financial statements.

Note 17 Long Term VAT receivables

The Group classifies its VAT receivables which will be recovered more than one year based on its current operations, to non-current asset (Note 17).

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.3 Changes in accounting policies

Accounting policies taken as basis for the preparation of consolidated financial statements for the accounting period of January December 1 - 31, 2017 are applied in consistence with the financial statements prepared as of December 31, 2017 except for the new and amended TAS/TFRS standards stated below which are valid as of January 1, 2017 and the interpretations of the Turkish Financial Reporting Interpretation Committee ("TFRYK").

New standards, amendments and interpretations effective from January 1, 2017:

- TFRS 11 - Acquisition of Shares in Joint Activities (Amendments)
- TAS 16 and TAS 38 - Recognition of Acceptable Depreciation and Amortization Methods (Amendments on TAS 16 and TAS 38)
- TAS 16 – Tangible Assets ve TAS 41 - Agricultural Activities: Carrier Plants (Amendements)
- TAS 27 - Equity Method in Individual Financial Tables (Amendment on TAS 27)
- TFRS 10 and TAS 28 - Sales or Contributions of an Investor to an Affiliate or a Business - Amendments
- TFRS 10, TFRS 12 and TAS 28 - Investment Establishments: Application of Consolidation Exception (Amendment on TFRS 10 and TAS 28)
- TAS 1 – Disclosure Initiative (Amendment on TAS 1)
- TFRS Annual Improvements - 2012 - 2014 Period

These changes have not had any impact on the Group's financial position and performance.

Standards, amendments and improvements that have been published but not yet implemented and not put into effect early:

- TFRS 15 - Revenue from Contracts Made with Customers
- TFRS 9 - Financial Instruments
- TAS 7 - Statement of Cash Flow Amendments
- TAS 12 - Income Taxes Amendments
- TFRS 2 - Share-based Payment Amendments
- TFRS 16 - Leases Amendments
- TFRS 4 - Insurance Contract Amendments
- TAS 40 - Investment Property Amendments
- TFRS Committee 22 - Foreign Currency Transaction and Advance Consideration
- TFRS Annual Improvements - 2014-2016 Period
- TFRS 17 - New Insurance Contracts Standards
- IFRIC - Uncertainty over Income Tax Treatments

These standards, changes and improvements are assessed on the financial position of the Group and its possible impact on performance.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies

Significant accounting policies used in the preparation of the financial statements are summarized as follows:

2.4.1 Revenue

Revenue includes rental income.

Rental income

Rental income from investment property is recognized on accrual basis. Revenue is measured at the fair value of the consideration received or receivable. Income is realized when the economic benefits obtained by the Group and amount of the related income is measured confidingly.

2.4.2 Statement of cash flows

The cash flow statements for the period are classified and reported in the cash flow statement on the basis of investment and financing activities. The cash flows arising from the operating activities represent the cash flows arising from the Group activities. The cash flows related to investment activities represent the cash flows the Group uses and obtains in its investment activities (fixed investments and financial investments).The cash flows regarding the financing activities represent the resources used by the Group in its financing activities and repayments of those resources.

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. 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. Fair values of the Group's investment properties are calculated by a real estate appraisal Group included in the list of authorized companies to offer appraisal services within the framework of the CMB legislation once in a year. It has been assumed that 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 recognized in profit or loss. Rental income from investment property is accounted for as described in accounting policy in Note 2.4.1.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4.3. Investment properties (cont'd)

The Group classifies its investment in real estate for investment purposes as investment property. In such a case, the right of the related land is recognized as if it were a financial lease and in addition, the fair value method is used for the related land that is recognized. Since the fair value of the investment properties developed on the leases of the Group is made by deducting the estimated cash flows of the rentals to be paid for these lands, the discounted values of rentals payable related to the related land are accounted in investment property and other liabilities accounts

b **Investment property under development**

Interest costs among the borrowing costs directly related to investment property under construction is included to the cost of the relevant asset. Exchange gains/losses recognize under income statement.

Investment properties under constrcution are those which are held either to earn income or for capital appreciation or for both. Investment properties under construction are stated at fair value as operating investment property. The fair value of the investment properties under construction 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 January 1, 2005 are carried at restated cost for the effects of inflation in TRY units current at the December 31, 2004 less accumulated depreciation and impairment losses, and tangible assets acquired after January 1, 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:

Equipment	6 years
Furniture and fixture	3-10 years
Motor vehicles	5 years

Subsequent expenditures

Expenditures incurred to replace a component of tangible assets that is accounted for separately, including major inspection and overhaul costs, are capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are recognized 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 recognized in profit or loss.

2.4.5 Intangible assets

Intangible assets consists the software programmes. 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. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies (cont'd)

2.4.6. Impairment of assets

At each balance sheet date, the carrying of Group's assets, other than investment property (see note 2.4.3) 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 recognized 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.4.7. Financial instruments

Classification

The Group's financial assets are consisted of trade receivables besides cash and cash equivalents. The Management makes classification of the financial assets as of their acquisition date.

i) Loans and receivables

Loans and receivables are financial assets having a fixed or certain amount of payment, which are not traded on an active market and not being derivate instruments. If their due date is shorter than 12 months as of the balance sheet date, they are classified as current assets, but if their due date is longer than 12 months, then they are classified as fixed assets.

Trade receivables mainly consisted of receivables arisen from lease transactions based on lease contracts of real estates.

Recognition and Measurement

Financial assets are recorded on the date of sales/purchase. The date of sales/purchase is the day that the management has promised to realize such sales/purchase. Except for financial assets of which fair value differences related to the income statement, other investments are initially recorded to the book from their fair value plus transaction cost. The financial assets, measured at their fair value and related to the income statement, are appraised from fair value and transaction costs are recognized as expense in the comprehensive income statement. Once the cash flow rights arisen from financial assets are expired or transferred and the Group has transferred all risks and returns, financial assets are removed from books. The financial assets, measured at their fair value and related to the income statement, are recognized at their fair value in successive periods. Loans and receivables are recognized at a value discounted using effective interest rate.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies (cont'd)

Trade receivables and liabilities

Trade receivables arisen from supply of a product or service to a customer by the Group are reflected by netting against unrealized financing income. Trade receivables after unrealized financing income is calculated by discounting future amounts to be obtained in successive periods from the receivables recorded at their original invoice value by use of effective interest rate method. Short-term receivables not having a determined interest rate are reflected from their cost value if the original effective interest rate has no substantial effect.

The Group sets aside provision for doubtful trade receivables in case of objective evidence that there is no possibility for collection. The amount of such provision is the recorded value of the receivable less the collectible amount. The collectible amount is the discounted amount of the trade receivable arisen, all cash flows including amounts likely to be collected guarantees and collaterals, based on the original effective interest rate.

Subsequent to setting aside provision for doubtful trade receivables, if whole or a part of the doubtful trade receivables are paid, the amount paid is deducted from the provision for doubtful trade receivables and recorded under the other income account.

Trade liabilities are liabilities arisen from direct purchase of product and service from suppliers. Trade liabilities and other liabilities are reflected by netting against unrealized financing expenses. Trade liabilities and other liabilities after unrealized financing expenses is calculated by discounting future amounts to be paid in successive periods from the liabilities recorded at their original invoice value by use of effective interest rate method. Short-term liabilities not having a determined interest rate are reflected from their cost value if the original effective interest rate has no substantial effect.

Financial liabilities and borrowing cost

Financial liabilities are initially recognized at the value received by deducting transaction costs from the amount of financial liability on the borrowing date. Financial liabilities are measured in the consolidated financial statements from their amortised cost using effective interest rate on subsequent dates.

Cash and cash equivalents

Cash and cash equivalents are consisted of cash on hand, demand deposits and time deposits having a maturity date less than 3 months.

ii) Share capital

Ordinary shares

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

2.4.8 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. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies (cont'd)

2.4.9 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 authorized for issue. Two types of events can be identified:

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

2.4.10 Provisions, contingent liabilities and contingent assets

A provision is recognized 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.

2.4.11 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 recognized on a straight-line basis over the term of the relevant lease.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies (cont'd)

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 recognized on a straight-line basis over the lease term.

2.4.12 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.

2.4.13 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.

2.4.14 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 December 31, 2008 in Northern Cyprus for an indefinite time.

2.4.15 Taxation

The Group is exempt from corporate income taxes in accordance with paragraph d-4 of Article 5 of the Corporate Income Tax Law. In accordance with paragraph 6-a of Article 94 of the Income Tax Law, the earnings of the real estate investment trusts are subject to withholding taxes, with Council of Ministers decision No, 93/5148, the withholding rate is determined as "0", Therefore, the Group has no tax obligation over its earnings for the related period .

Deferred income taxes are provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies (cont'd)

2.4.15 Taxation (cont'd)

Akfen GT's head office operating in Turkey and Akfen Karaköy are subject to the 20% (22% for taxation periods of 2018, 2019 and 2019) of taxation on its taxable income. Akfen GT's branch operating in Northern Cyprus is subject to a corporate tax rate of 23.5%.

RHI, RPI and HDI are subject to 20% corporate tax income and are not subject to income tax for dividend yield according to regulations of the Netherlands.

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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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 recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. 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 tax levied by the same taxation authority.

2.4.16 Employee termination benefits

Retirement pay provision

In accordance with the existing labor 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.

Defined contribution plans:

The Group pays contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

Vacation pay provision:

The vacation pay provision accrued on the financial statements represent the estimated total liability for future probable obligation of the employees.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2.4 Summary of significant accounting policies (cont'd)

2.4.17 Offsetting

Every item that has importance due to its nature an amount is reflected in the financial statements separately even if they are similar. Unimportant amounts are reflected by adding to each other based on their principles and functions. As a result of a requirement for offsetting due to nature of the transactions and events, reflection of such transactions and events from their net values or following up from their amount after deducting impaired value shall not be considered as violation of the rule of no offset.

2.5. Investment portfolio limitations on real estate investment trust

Presented information as of December 31, 2016, in accordance with Capital Markets Board's Communiqué Serial: II, No: 14.1 "Financial Reporting in Capital Markets" Amendment No: 16 comprised condensed information and prepared in accordance with Capital Markets Board's Communiqué Serial: III, No: 48.1"Real Estate Investment Company" published in the Official Gazette dated May 28, 2013 numbered 28660.

In addition since the information given "Restrictions on the Investment Portfolio of Real Estate Investment" comprise unconsolidated data; such information may not match with the information disclosed in the consolidated financial statements.

2.6. Determination of fair values

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. Fair value, according to valuation techniques used is classified into the following levels:

Level 1: For identical assets or liabilities in active markets (unadjusted) prices;
Level 2: 1st place other than quoted prices and asset or liability, either directly (as prices) or indirectly (i.e. derived from prices) observable data;
Level 3: Asset or liability is not based on observable market data in relation to the data (non- observable data).

The fair value of the investment real estates is at Level 3 according to the revenue reduction method that is one of the valuation techniques. The movement table for amendment in the fair values is given in the Note 9.

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

3. 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.

December 31, 2017:

	Turkey	**TRNC**	**Russia**	**Elimination**	**Total**
Revenue	27,048,303	18,588,013	17,902,949	-	63,539,265
Cost of sales (-)	(6,485,219)	(63,377)	(3,040,126)	-	(9,588,722)
GROSS PROFIT	**20,563,084**	**18,524,636**	**14,862,823**	**-**	**53,950,543**
General administrative expenses (-)	(3,488,451)	(177,014)	(2,024,804)	-	(5,690,269)
Selling and marketing expenses (-)	(2,430,192)	-	-	-	(2,430,192)
Fair value gain on investment property	104,056,373	61,939,000	44,885,268	-	210,880,641
Other operating income from operating activities	120,596	-	1,047,385	-	1,167,981
Other operating expenses from operating activities (-)	(1,032,601)	(1,500)	(15,134)	-	(1,049,235)
PROFIT FROM OPERATING ACTIVITES	**117,788,809**	**80,285,122**	**58,755,538**	**-**	**256,829,469**
Financial income	3,793,255	-	10,335,643	-	14,128,898
Financial expenses (-)	(152,402,096)	(4,563,193)	(41,844,066)	-	(198,809,355)
(LOSS)/PROFIT BEFORE TAX	**(30,820,032)**	**75,721,929**	**27,247,115**	**-**	**72,149,012**
Tax expense	(2,265,394)	(25,471,249)	(5,757,416)	-	(33,494,059)
- Current period tax expense	-	*(19,003,369)*	-	-	*(19,003,369)*
- Deferred tax expense	*(2,265,394)*	*(6,467,880)*	*(5,757,416)*	-	*(14,490,690)*
(LOSS)/PROFIT FOR THE YEAR	**(33,085,426)**	**50,250,680**	**21,489,699**	**-**	**38,654,953**

December 31, 2017:

Reportable segment assets	1,493,083,657	308,186,957	409,222,558	(447,297,886)	1,763,195,286
Reportable segment liabilities	964,838,436	63,457,205	289,899,242	(162,818,810)	1,155,376,073
Capital expenditures, net	9,869,812	-	217,049	-	10,086,861
Depreciation and amortization expenses	23,687	1,405	26,182	-	51,274

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

3. SEGMENT REPORTING (cont'd)

December 31, 2016:

	Turkey	TRNC	Russia	Elimination	Total
Revenue	21,494,190	15,908,223	16,777,605	-	54,180,018
Cost of sales	(6,620,238)	(222,518)	(2,661,028)	-	(9,503,784)
GROSS PROFIT	**14,873,952**	**15,685,705**	**14,116,577**	**-**	**44,676,234**
General administrative expenses	(5,648,469)	(151,246)	(1,781,297)	-	(7,581,012)
Fair value (loss)/gain on investment property	(180,742,966)	10,581,000	(60,281,620)	-	(230,443,586)
Fair value loss on investment property under construction, net	(6,946,789)	-	-	-	(6,946,789)
Other operating income	67,707	-	75,548	-	143,255
Other operating expenses	(104,009)	(706,874)	(1,162,679)	-	(1,973,562)
OPERATING (LOSS) /PROFIT	**(178,500,574)**	**25,408,585**	**(49,033,471)**	**-**	**(202,125,460)**
Financial income	6,513,754	164,441	36,064,904	-	42,743,099
Financial expenses	(106,550,743)	(3,767,354)	(13,282,002)	-	(123,600,099)
(LOSS)/PROFIT BEFORE TAX	**(278,537,563)**	**21,805,672**	**(26,250,569)**	**-**	**(282,982,460)**
Tax income/(expense)	11,694,677	(5,124,834)	4,270,501	-	10,840,344
- Current tax expense	*(1,013,071)*	-	-	-	*(1,013,071)*
- Deferred tax income/(expense)	*11,694,677*	*(5,124,834)*	*4,270,501*	-	*11,853,415*
(LOSS)/PROFIT FOR THE YEAR	**(266,842,886)**	**16,680,838**	**(21,980,068)**	**-**	**(272,142,116)**

December 31, 2016:

Reportable segment assets	1,262,640,806	251,550,435	323,522,195	(339,695,044)	**1,498,018,392**
Reportable segment liabilities	738,557,228	57,071,362	236,447,410	(94,852,872)	**937,223,128**
Capital expenditures, net	22,787,777	66,335	16,211	-	**22,870,323**
Depreciation and amortization expenses	19,588	1,409	5,384	-	**26,381**

As of December 31, 2017, revenue of the Group is obtained from ACCOR S.A. which is operator of the hotels under Ibis and Novotel trademarks and from Voyager Kıbrıs Limited which is operator of Merit Park Hotel in T.R.N.C. in portions of 66% and 29%, respectively (As of December 31, 2016: ACCOR S.A. : 65%, Voyager Kıbrıs Limited: 29%).

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

4. RELATED PARTY DISCLOSURES

4.1. Related party balances

Due from related parties (trade):

	December 31, 2017	December 31, 2016
Akfen İnşaat Turizm ve Ticaret A.Ş. ("Akfen İnşaat")	2,050,647	7,414,000
	2,050,647	**7,414,000**

The whole trade receivables balance from the Akfen İnşaat as at December 31, 2017 and 2016 are the remaining receivable balance regarding transfer of the land that the Group is entitled to use for hotel project in TRNC Bafra.

Due to related parties (non trade):

	December 31, 2017	December 31, 2016
Akfen Mühendislik A.Ş.	5,978,094	-
	5,978,094	**-**

Guarantees given to and provided from related parties are explained in Note 6.

4.2. Related party transactions

a) Operating investment purchases (Investment properties under development)

	December 31, 2017	December 31, 2016
Akfen İnşaat	-	9,998,601
	-	**9,998,601**

b) Selling and marketing expenses

	December 31, 2017	December 31, 2016
Akfen İnşaat	2,417,599	-
	2,417,599	**-**

c) Rent expenses

	December 31, 2017	December 31, 2016
Hamdi Akın	300,144	423,611
	300,144	**423,611**

d) Interest income

	December 31, 2017	December 31, 2016
Akfen Holding	2,455	3,360
Akfen İnşaat	-	125
	2,455	**3,485**

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

4. RELATED PARTY DISCLOSURES (cont'd)

4.2. Related party transactions (cont'd)

e) Interest expenses

	December 31, 2017	December 31, 2016
Akfen Mühendislik	189,227	-
Akfen İnşaat	4,364	25,766
	193,591	**25,766**

f) Sale of investment property

	December 31, 2017	December 31, 2016
Akfen İnşaat	-	9,408,621
	-	**9,408,621**

g) Remuneration of top management

	December 31, 2017	December 31, 2016
Remuneration of top management	1,901,561	2,301,154
	1,901,561	**2,301,154**

5. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash on hand	25,936	20,485
Cash at banks	3,090,301	7,692,305
- Demand deposits	*715,564*	*2,640,425*
- Time deposits	*2,374,737*	*5,051,880*
Investment funds	-	114,072
Other cash and cash equivalents	8,912	-
Cash and cash equivalents in cash flow statement	**3,125,149**	**7,826,862**

Demand deposits

As at December 31, 2017 and 2016 demand deposits are comprised of the following currencies:

	December 31, 2017	December 31, 2016
Euro	564,886	2,016,405
Russian Ruble	81,916	72,776
US Dollar	40,052	9,672
TRY	28,710	541,572
Total demand deposits	**715,564**	**2,640,425**

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

5. CASH AND CASH EQUIVALENTS (cont'd)

Time deposits

As at December 31, 2017 and 2016 time deposits are comprised of the following currencies:

December 31, 2017

Currency	Maturity	Interest rate	December 31, 2017
Russian Ruble	January 2018	8.50%	1,139,106
TRY	January 2018	7.5%-12.75%	1,235,631
Total			**2,374,737**

December 31, 2016

Currency	Maturity	Interest rate	December 31, 2016
EUR	January 2017	2.50%	4,451,880
TRY	January 2017	7.50%	600,000
Total			**5,051,880**

Short and long term financial investments

As at December 31, 2017 and 2016 short and long term financial assets are comprised of the following currencies:

Short term financial investments:

Currency	Maturity	Interest rate	December 31, 2017	December 31, 2016
EUR	July 2025	7.20%	2,717,559	-
Total			**2,717,559**	**-**

Long term financial investments:

Currency	Maturity	Interest rate	December 31, 2017	December 31, 2016
EUR	July 2025	7.20%	64,420,217	55,648,500
Total			**64,420,217**	**55,648,500**

As at December 31, 2017 and 2016, time deposit on Credit Europe Bank is portion - in amount of EUR 15,000,000 in time blockage deposit- of EUR 30,000,000 loan obtained from Credit Europe Bank – details are disclosed in note 6- as guarantee of the loans used by HDI and RPI from the same bank. The time deposit has the same interest rate with the loans and as the principal payments are made by HDI and RPI, the guarantee amount in the blockage will be deducted in the same portion with the loans paid. The acquired interest income is net off with the interest expense.

6. FINANCIAL LIABILITIES

	December 31, 2017	December 31, 2016
Current financial liabilities:		
Short-term bank borrowings	48,836,091	5,174,329
Current portion of long-term bank borrowings	93,878,598	79,065,215
Non-current financial liabilities:		
Long-term bank borrowings	867,454,723	754,455,292
Total financial liabilities	**1,010,169,412**	**838,694,836**

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

6. FINANCIAL LIABILITIES (cont'd)

The repayment schedule of financial liabilities is as follows:

	December 31, 2017	December 31, 2016
Less than one year	142,714,689	84,239,544
1 - 2 years	96,393,396	71,913,883
2 - 3 years	89,280,858	74,670,044
3 - 4 years	81,783,292	69,367,684
4 - 5 years	91,982,997	63,939,206
5 years and longer	508,014,180	474,564,475
Total financial liabilities	**1,010,169,412**	**838,694,836**

Movement of financial libilities are as follows:

	2017
January 1	838,694,836
Proceeds from loans	*74,113,180*
Loan repayments	*(74,309,533)*
Interest paid	*(54,108,548)*
Accrual	*45,345,113*
Foreign exchange loss	*152,276,480*
Currency translation differences	*28,157,884*
December 31	**1,010,169,412**

December 31, 2017:

Currency	Nominal interest rate	Original amount	Short term	Long term	Total
EUR (1) (*)	6.80%	110,610,554	61,192,250	438,269,708	499,461,958
EUR (2) (*)	7.20%	29,467,660	14,668,279	118,392,939	133,061,218
EUR (3) (*)	7.20%	14,727,391	7,138,381	59,363,153	66,501,534
EUR (4) (*)	7.20%	58,090,712	10,879,688	251,428,923	262,308,611
EUR (5)	17.00%	23,562,083	23,562,083	-	23,562,083
TRY (6)	16.00%	5,007,328	5,007,328	-	5,007,328
TRY (7)	17.50%	18,000,000	18,000,000	-	18,000,000
TRY (8)	16.83% – 18.50%	2,266,680	2,266,680	-	2,266,680
			142,714,689	**867,454,723**	**1,010,169,412**

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

6. FINANCIAL LIABILITIES (cont'd)

December 31, 2016:

Currency	Nominal interest rate	Original amount	Short term	Long term	Total
EUR (1) (*)	7.20%	115,686,296	43,621,922	385,562,664	429,184,586
EUR (2) (*)	7.20%	30,051,269	9,069,837	102,417,364	111,487,201
EUR (3) (*)	7.20%	15,006,222	4,359,173	51,312,410	55,671,583
EUR (4) (*)	7.20%	58,912,523	3,396,717	215,162,854	218,559,571
EUR (9)	6.125%	5,018,347	18,617,566	-	18,617,566
TRY (6)	13.90%	5,174,329	5,174,329	-	5,174,329
			84,239,544	**754,455,292**	**838,694,836**

(*) Interest rates of the loans are 7.20% for the first 2 years, 6.80% for upcoming 2 years and 6.00% + Euribor (3 months) for upcoming years.

(1) The loan agreement in amount of EUR 116,000,000 with 10 year maturity having 2 year grace period has been signed for refinancing of Akfen GYO's current loans and financing the investments of ongoing projects. The loans has been used on March 18, 2015 and all loans of Akfen GYO has been refinanced.

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 land, building and equipment of Ankara Esenboğa, Esenyurt and Adana and the land on which hotel is being built in Tuzla are pledged in favor of the creditors,
- Rent revenue of related hotels is alienated in favor of the creditor,
- The bank accounts opened in bank and financial corporations under related projects are pledged to the favor of creditor,
- Sureties of Akfen İnşaat Turizm ve Ticaret A.Ş. ("Akfen İnşaat"), is given for the completion guarantee of Ibis Hotel Tuzla project.
- Some portion of the shares of Akfen GYO which are not publicly open, of Akfen Mühendislik – shareholder of the Group has been pledged to the favor of creditor.

(2) The loan agreement in amount of EUR 30,000,000 having 2 years grace period a 10 years maturity has been signed for refinancing of all loans related to Akfen GT – subsidiary of Akfen GYO- and the loan has been used on November 6, 2015. Interest rate of the loan are 7,20% for the first 2 years, 6,80% for upcoming 2 years and 6,00% + Euribor (3 months) for upcoming years. EUR 15,000,000 portion of the loan has been used as guarantee of the loans used by HDI and RPI from the same bank. This portion is kept in time blockage deposit with the same interest rate of the loan and the guarantee amount in the blockage will be deducted in the same portion with the loans paid by HDI and RPI.

Bank borrowings obtained with this agreement is secured by the followings:

- Some portion of the shares which are not publicly open, of Akfen Holding – shareholder of the Group has been pledged to the favor of creditor,
- Shares of Akfen GYO on Akfen GT has been pledged to the favor of creditor,
- Akfen GYO has corporate guarantee in amount of the loan,
- All shares on Akfen Karaköy have been pledged to the favor of creditor,
- Rent revenue of Merit Park Hotel is alienated in favor of the creditor,
- Right of tenancy of Merit Park Hotel is pledged in favor of the creditors in the 1st degree.

(3) The loan agreement in amount of EUR 15,000,000 having 2 years grace period a 10 years maturity has been signed for refinancing of all loans related to Akfen Karaköy – subsidiary of Akfen GYO- and the loan has been used on November 6, 2015.

Bank borrowings obtained with this agreement is secured by the followings:

- Some portion of the shares which are not publicly open, of Akfen Holding – shareholder of the Group has been pledged to the favor of creditor,
- Right of tenancy of Merit Park Hotel are pledged in favor of the creditors in the 2nd degree,
- Rent revenue of Novotel İstanbul Bosphorus, Karaköy is alienated in favor of the creditor,

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

6. FINANCIAL LIABILITIES (cont'd)

(4) The loan agreement in amount of EUR 59,000,000 having 2 years grace period a 10 years maturity has been signed for refinancing of all loans related to HDI – subsidiary of Akfen GYO- and RHI and RPI – subsidiary of Akfen GT- and the loan has been used on November 6, 2015 and November 17, 2015.

Bank borrowings obtained with this agreement is secured by the followings:

- Some portion of the shares which are not publicly open, of Akfen Holding – shareholder of the Group has been pledged to the favor of creditor,
- All shares of HDI, RHI and RPI have been pledged to the favor of creditor,
- Akfen GT has corporate guarantee in amount of the loans used by RHI and RPI,
- Akfen GYO has corporate guarantee in amount of the loans used by HDI,EUR 15,000,000 portion of the loan used by Akfen GT is kept as guarantee,
- Right of tenancies of Ibis Hotel Yaroslavl, Ibis Hotel Samara, Samara Office, Ibis Hotel Kaliningrad and Ibis Hotel Moscow are pledged in favor of the creditors.
- Rent revenues of the projects are alienated in favor of the creditor.

(5) Senior usage rights of the hotels in Zeytinburnu for the credit used have been subordinately mortgaged as much as the credit amount in favor of the creditor.

(6) Spot loan in amount of TRY 5,000,000 has been used. Akfen Mühendislik has corporate guarantee for the loan used.

(7) Revolving loans in amount of TRY 18,000,000 has been used by the Company.

(8) Shares loan are used to take back the Group's own shares on 2017. The treasury shares were pledged to lenders equal to the loan.

(9) On September 20, 2016 a 1-year term credit amounted to EUR 5,000,000 was used. Senior usage rights of the hotels in Zeytinburnu for the credit used have been subordinately mortgaged as much as the credit amount in favor of the creditor. The loan was closed in 2017.

7. TRADE RECEIVABLES AND PAYABLES

a) Short-term trade rece ivables

As at December 31, 2017 and 2016, short-term trade receivables comprised the followings:

	December 31, 2017	December 31, 2016
Trade receivables from third parties [1]	13,528,688	19,263,217
Trade receivables from related parties (Note 4)	2,050,647	7,414,000
	15,579,335	**26,677,217**

[1] As at December 31, 2017, TRY 7,134,557 (December 31, 2016: TRY 5,086,693) and TRY 5,957,195 (December 31, 2016: TRY 13,379,851) portions of total trade receivables are comprised of receivables of the Group from Tamaris Turizm A.Ş. - operator of the hotels in Turkey and Russian Hotel Management Company - operator of the hotels in Russia - related to hotel rental revenue.

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

7. TRADE RECEIVABLES AND PAYABLES (cont'd)

b) Short and long-term trade payables

As at December 31, 2017 and 2016, short-term trade payables comprise the followings:

	December 31, 2017	**December 31, 2016**
Trade payables to third parties	4,314,390	3,233,249
- Other trade payables	*4,096,935*	*2,965,154*
- Other expenses accruals	*217,455*	*268,095*
	4,314,390	**3,233,249**

As at December 31, 2017 and 2016, long-term trade payables comprise the followings:

	December 31, 2017	**December 31, 2016**
Trade payables to third parties	240,345	-
- Other trade payables	*240,345*	*-*
	240,345	**-**

8. OTHER RECEIVABLES AND PAYABLES

a) Other current receivables

As at December 31, 2017 and 2016, other current receivables are comprised of the followings:

	December 31, 2017	**December 31, 2016**
Other receivables from third parties	32,900	139,311
	32,900	**139,311**

b) Other non current receivables

As at December 31, 2017 and 2016, other non current receivables are comprised of the followings:

	December 31, 2017	**December 31, 2016**
Other receivables from third parties	24,493,021	18,432,945
Deposits and guarantees given	153,616	192,793
	24,646,637	**18,625,738**

As at December 31, 2017, other non- current receivables are comprised of capital receivables of Akfen GT related to capital paid on behalf other shareholders of Akfen Karaköy.

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

8. OTHER RECEIVABLES AND PAYABLES (cont'd)

c) Other current payables

	December 31, 2017	December 31, 2016
Other payables to third parties	7,250,241	7,640,731
Land lease payables(Note 9)	*5,462,133*	*4,728,750*
Taxes and funds payable	*1,519,398*	*2,343,142*
Social security premiums payable	*30,337*	*54,782*
Other	*238,373*	*514,057*
Other payables to related parties (Note 4)	5,978,094	-
	13,228,335	**7,640,731**

d) Other non current payables

	December 31, 2017	December 31, 2016
Land lease payables(Note 9)	34,045,727	29,771,524
Other	3,968	-
	34,049,695	**29,771,524**

9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT

As at December 31, 2017 and 2016 details of investment property and investment property under development are as follows:

	December 31, 2017	December 31, 2016
Operating investment properties	1,564,721,144	1,253,723,338
Investment properties under construction	-	49,770,000
Land lease	39,507,860	34,500,274
Total	**1,604,229,004**	**1,337,993,612**

Operating investment properties:

As at December 31, 2017 and 2016 movements in operating investment property are as follows:

	2017	2016
January 1,	1,253,723,338	1,195,377,875
Additions	7,733,004	7,449,077
Currency translation difference	40,288,989	99,746,871
Transfer to investment properties under construction	52,095,172	181,593,101
Fair value gain/(loss),net	210,880,641	(230,443,586)
December 31,	**1,564,721,144**	**1,253,723,338**

As at December 31, 2017, Ibis Hotel Tuzla which was completed during the period transferred to investment property from investment property under development (December 31, 2016: Novotel İstanbul Bosphorus Karaköy).

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

9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT (cont'd)

Fair values of the Group's investment properties are calculated by a real estate appraisal Group included in the list of authorized companies to offer appraisal services within the framework of the CMB legislation. The fair values of the investment properties of which right of buildings are held, are determined as the present value of aggregate of the estimated cash flows expected to be received from renting out the property and the fair values of the investment properties which the Group owns, are determined as the present value of aggregate of the estimated cash flows for the period of lease agreement made with ACCOR S.A. In the valuation process, a projection period which fits to the lease term for right of tenancy of each hotels 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.

As at December 31, 2017 and 2016, the fair values of operating investment properties in Turkey and Northern Cyprus are as follows:

	December 31, 2017		December 31, 2016	
Name of investment property	**Date of appraisal report**	**Fair value**	**Date of appraisal report**	**Fair value**
Merit Park Hotel – TRNC Kyrenia	December 31, 2017	302,820,000	December 31, 2016	240,881,000
Ibis Hotel and Novotel Zeytinburnu	December 31, 2017	176,300,000	December 31, 2016	170,118,000
Novotel İstanbul Bosphorus, Karaköy	December 31, 2017	180,355,000	December 31, 2016	142,946,000
Novotel Trabzon	December 31, 2017	124,995,000	December 31, 2016	109,210,000
Ibis Hotel Tuzla	December 31, 2017	67,080,000	-	-
Ibis Hotel Adana	December 31, 2017	48,870,000	December 31, 2016	43,520,000
Ibis Hotel and Novotel Gaziantep	December 31, 2017	48,320,000	December 31, 2016	40,178,000
Ibis Hotel and Novotel Kayseri	December 31, 2017	47,552,500	December 31, 2016	42,096,000
Ibis Hotel Alsancak İzmir	December 31, 2017	45,910,000	December 31, 2016	45,048,000
Ibis Hotel Esenyurt	December 31, 2017	44,610,000	December 31, 2016	40,952,000
Ibis Hotel Bursa	December 31, 2017	38,290,000	December 31, 2016	37,320,000
Ibis Hotel Ankara Airport	December 31, 2017	47,730,000	December 31, 2016	34,478,000
Ibis Hotel Eskişehir	December 31, 2017	10,995,000	December 31, 2016	11,474,000
Total		**1,183,827,500**		**958,221,000**

As at December 31, 2017 and 2016, the fair value of operating investment properties comprise of value of appraisal report dated December 31, 2017 and 2016 and expenditures till the reporting date from the appraisal report dates.

As at December 31, 2017, Ibis Hotel Yaroslavl, Ibis Hotel Samara and Ibis Hotel Kaliningrad, operating in Russia, owned by RHI have fair values at amounts of TRY 51,856,850, TRY 57,437,957 and TRY 75,966,330 (December 31, 2016: İbis Hotel Yaroslavl TRY 47,777,737, İbis Hotel Samara TRY 52,952,422 and Ibis Hotel Kaliningrad TRY 50,604,339) and the discount rate used for appraisals as of December 31, 2017 is 11% (December 31, 2016: 13%). Samara office project, owned by RPI has fair value amount of TRY 27,453,625 (December 31, 2016: TRY 20,476,174) and the discount rate used for appraisal as of December 31, 2017 is 11% (December 31, 2016: 13.5%). Fair value of Ibis Hotel Moscow of which construction has started in 2 September 2013 and started its operations in 16 July 2015 belonging to HDI which was corporated in Holland in 2011 of which Akfen GYO has 100% of shares is TRY 168,178,882 as of December 31, 2017 (December 31, 2016: TRY 123,691,666) and the discount rate used for appraisal as of December 31, 2017 is 10.5% (December 31, 2016: 12%).

As at December 31, 2017, total insurance amount on operating investment properties is TRY 1,765,069,955 (December 31, 2016: TRY 1,369,349,018).

As at December 31, 2017 the pledge amount on operating investment property is TRY 1,554,938,222 (December 31, 2016: TRY 1,001,113,617).

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

9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT (cont'd)

Discount rates used for fair value calculations of operating investment properties in Turkey and Northern Cyprus as of December 31, 2017 and 2016, are as below:

Name of investment property	Discount Rates December 31, 2017	Discount Rates December 31, 2016
Ibis Hotel and Novotel Zeytinburnu	8.00% and 10.00%	10.09% and 11.18%
Merit Park Hotel – TRNC Kyrenia	8.50% and 10.50%	10.09% and 11.18%
Novotel Trabzon	8.00% and 10.00%	10.09% and 11.18%
Ibis Hotel and Novotel Kayseri	8.00% and 10.00%	10.45% and 11.54%
Ibis Hotel and Novotel Gaziantep	8.00% and 10.00%	10.09% and 11.18%
Ibis Hotel Bursa	8.00% and 10.00%	10.09% and 11.18%
Ibis Hotel Eskişehir	8.00% and 10.00%	10.09% and 11.18%
Ibis Hotel Adana	8.00% and 10.00%	10.09% and 11.18%
Ibis Hotel Esenyurt	8.00% and 10.00%	10.45% and 11.54%
Ibis Hotel Alsancak İzmir	8.00% and 10.00%	10.09% and 11.18%
Ibis Hotel Ankara Airport	8.00% and 10.00%	10.09% and 11.18%
Novotel İstanbul Bosphorus. Karaköy	8.50% and 10.00%	9.73% and 10.82%
Ibis Hotel Tuzla(*)	8.00% and 10.00%	10.45% and 11.54%

***** *Since the hotel started its operations as of December 31, 2017, it has been transferred to operating investment properties from investment properties under construction.*

Investment properties under construction:

As at December 31, 2017 and 2016, the details of investment property under development are as follows:

	2017	2016
January 1	49,770,000	232,983,000
Additions	2,325,172	15,385,224
Fair value loss, net	-	(6,946,789)
Transfer to operating investment properties	(52,095,172)	(181,593,101)
Disposals	-	(10,058,334)
December 31	**-**	**49,770,000**

As at December 31, 2017, the transfer to operating investment properties composed of Ibis Hotel, Tuzla which was completed during the period (December 31, 2016: Novotel İstanbul Bosphorus, Karaköy).

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

9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT (cont'd)

As at December 31, 2017 and 2016, the fair values of investment properties under construction in Turkey is as follows:

	December 31, 2017		December 31, 2016	
Name of investment property	**Date of appraisal report**	**Fair value**	**Date of appraisal report**	**Fair value**
Ibis Hotel Tuzla Project	-	-	December 31, 2016	49,770,000
Total	**-**	**-**		**49,770,000**

Discount rates used for fair value calculation of investment properties under construction as of December 31, 2016 is as below:

Name of investment property under development	**Discount rates December 31, 2016**
Ibis Hotel Tuzla (*)	10.45% and 11.54%

(*) Since the hotel started its operations as of December 31, 2017, it has been transferred to operating investment properties from investment properties under construction.

As at December 31, 2016, total insurance amount on investment properties under construction is TRY 45,075,285.

As at December 31, 2016 the pledge amount on investment property under development is TRY 118,813,900. The Group has no investment property under development as at December 31, 2017.

Land Leases

The Group classifies its rights for the lands that are rented to develop investment real estate as investment real estates. In such a case, the rights to the related land are recognized as if it were a financial lease and in addition, the fair value model is used for the related land that is accounted for. The fair values of the investment properties developed on the leased land have been deducted from the estimated cash flows to be paid for the rents and therefore the discounted values of rentable rentals related to the related land are accounted for in the investment property and other liabilities accounts.

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

10. PROPERTY AND EQUIPMENT

As at December 31, 2017 and 2016, the movement of property and equipment is as follows:

	Equipment	Furniture and fixture	Motor vehicles	Total
Cost value				
Balance at January 1, 2016	4,688	318,809	197,141	520,638
Acquisitions	-	32,622	-	32,622
Disposals	-	(3,013)	-	(3,013)
Balance at December 31, 2016	**4,688**	**348,418**	**197,141**	**550,247**
Cost value				
Balance at January 1, 2017	4,688	348,418	197,141	550,247
Additions	-	27,185	-	27,185
Balance at December 31, 2017	**4,688**	**375,603**	**197,141**	**577,432**
Accumulated depreciation				
Balance at January 1, 2016	(2,915)	(265,666)	(117,678)	(386,259)
Depreciation charge for the year	(385)	(19,215)	(1,410)	(21,010)
Depreciations of disposals	-	1,132	-	1,132
Balance at December 31, 2016	**(3,300)**	**(283,749)**	**(119,088)**	**(406,137)**
Balance at January 1, 2017	(3,300)	(283,749)	(119,088)	(406,137)
Charge for the year	(360)	(26,113)	(19,433)	(45,906)
Balance at December 31, 2017	**(3,660)**	**(309,862)**	**(138,521)**	**(452,043)**
Net carrying value				
January 1, 2016	1,773	53,143	79,463	134,379
December 31, 2016	1,388	64,669	78,053	144,110
January 1, 2017	1,388	64,669	78,053	144,110
December 31, 2017	1,028	65,741	58,620	125,389

As at December 31, 2017 there is no pledge on property and equipment (December 31, 2016: None)

As of December 31, 2017, depreciation expenses amounting to TRY 45,906 has been recognized in general administrative expenses (December 31, 2016: TRY 21,010).

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

11. INTANGIBLE ASSETS

As at December 31, 2017 and 2016, the movement of intangible assets is as follows:

	Software
Cost vale	
Balance at January 1, 2016	101,166
Additions	3,400
Balance at December 31, 2016	**104,566**
Balance at January 1, 2017	104,566
Additions	1,500
Balance at December 31, 2017	**106,066**
Accumulated amortisation	
Balance at January 1, 2016	(47,848)
Charge for the year	(5,371)
Balance at December 31, 2016	**(53,219)**
Balance at January 1, 2017	(53,219)
Charge for the year	(5,368)
Balance at December 31, 2017	**(58,587)**
Net carrying value	
January 1, 2016	53,318
December 31, 2016	51,347
January 1, 2017	51,347
December 31, 2017	47,479

As of December 31, 2017, amortization expenses amounting to TRY 5,368 has been recognized in administrative expenses (December 31, 2016: TRY 5,371).

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 December 31, 2008 in TRNC.

13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

The number of cases in which the Group is a party to the lawsuit as of December 31, 2017 is 14 (December 31, 2016: 11) and the explanation of the significant lawsuit by the Group is given below.

Significant lawsuits

The tax lawsuit regarding whether the rental income withholding tax covering the period 2007-2010 between Akfen GT and Income and Tax Office ("Tax Office") at T.R.N.C could benefit from the investment allowance was concluded on December 5, 2017 and it was decided that Akfen GT would not be able to benefit from the 100% investment incentive at TRNC for the rental income withholding tax. As a result of this decision, it became clear that the obligation to pay amounting to TRY 9,378,484 to the Tax Office together with the penalty and interest for 2007-2010 period is finalized.

Following the conclusion of the lawsuit, the tax office has notified the tax / penalty notifications related to these years claiming that rent incomes will not benefit from the investment allowance for 2011-2016 period and considering the rent incomes of 2017 which has not yet been notified, total rent amounting to TRY 19,003,369 the tax expense provisioned for the period 2007-2017. In the consolidated financial statements as of December 31, 2017, amounting to TRY 2,735,391 has been accounted to short-term provisions and amounting to TRY 16,267,978 has been accounted to long-term provisions.

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

13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

On the other hand, as a result of the finalization of the assessments made by Tax Office, Akfen GT has never benefited from investment incentive since 2007 and hence the investment allowances that can be used has increased from amounting to TRY 22,112,588 to TRY 70,365,847 as of December 31, 2017. In order to ensure that the increased amount of investment allowances can be used in 2018 and subsequent years, Akfen GT has initiated all necessary work to ensure that the Tax Office develops additional commercial income generation.

Beside this, the legal process continues in the European Court of Human Rights and other competent courts in the TRNC.

14. COMMITMENT AND CONTINGENCIES

14.1. CPM are given by the Group

As at December 31, 2017 and 2016, Group's position related to commitments, pledges and mortgages ("CPM") are as follows:

CPM are given by the Group	**December 31, 2017**	**December 31, 2016**
A. Total amount of CPM is given on behalf of own legal personality	1,371,288,960	1,127,499,933
B, Total amount of CPM is given in favor of subsidiaries which are fully consolidated	641,781,560	553,165,560
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	-	-
i. Total amount of CPM is given in favor of parent company	-	-
ii. Total amount of CPM is given in favor of other group companies, which B and C doesn't include	-	-
iii. The amount of CPM is given in favor of third party which C doesn't include	-	-
	2,013,070,520	**1,680,665,493**

Total original amount of foreign currency denominated CPM given on behalf of the Group's own legal personality are EUR 302,302,899 and USD 800,000 as at December 31, 2017 (December 31, 2016: EUR 302,302,899 and USD 800,000). Total original amount of foreign currency denominated other CPM is EUR 110,000,000 as at December 31, 2017 (December 31, 2016: EUR 110,000,000).

Other guarantees given by the shareholders and the alienation of rent revenue which will be generated from the hotels are presented at Note 6.

Based upon the loans used from Credit Europe related to Ibis Hotel Yaroslavl, Ibis Hotel Samara and Ibis Hotel Kaliningrad, the Group pledged, the shares of RHI in Akfen GT and Cüneyt Baltaoğlu in ratio of 97.72% and 2.28%, respectively.

As of December 31, 2017 and 2016, total amount of CPM is given in favor of subsidiaries which are fully consolidated of Akfen GYO includes CPMs given only for the subsidiaries owned by 100%.

14. COMMITMENT AND CONTINGENCIES (cont'd)

14.2. The Group as lessee

As of December 31, 2017 and 2016, total amount of CPM is given in favor of subsidiaries which are fully consolidated of the Group includes securities of Akfen GYO in amount of EUR 30,000,000 and EUR 17,800,000 given for respectively Akfen GT and HDI which are 100% subsidiaries of Akfen GYO as a result of loans used by the companies, share pledges of Akfen GYO in amount of TL 145,076,560 given for Akfen GT as a result of the loan used by Akfen GT. The remaining balance includes the securities of Akfen GT in amount of EUR 15,000,000 and EUR 26,200,000 given for respectively Karaköy and RHI, RPI as a result of the loan used by the companies and mortgage in amount of EUR 21,000,000 on Merit Park Hotel in 2nd degree for the loan used by Akfen Karaköy. The CPMs given by the Group are related to the loans for project financing.

Operating lease arrangements

As at December 31, 2016, the Group has undergone 11 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 Girne and establishing right of tenancy on July 15, 2003. The lease payments started in 2003 and the payments are made annually. The lease term is 49 years starting from agreement date. Rent amount for the year 2017 is USD 12,057 and it will increase by 3% every year. Rents are paid annually.
- The Group signed a rent agreement with the Ministry of Treasury and Finance, on December 4, 2003 to lease a land and for constructing a hotel in Zeytinburnu, Istanbul. The lease term is 49 years starting from November 18, 2002. The lease payment composed of yearly fixed lease payments determined by Ministry of Treasury and Finance and 1% of the total annually revenue generated by the hotel constructed on the land.
- The Group signed a rent agreement with Municipality of Eskişehir on August 8, 2005 to lease an incomplete hotel construction site located at Eskişehir for 22 years starting from February 8, 2007. 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 annually fixed lease amount determined by the agreement and 5% of the total annually revenue generated by the hotel constructed on the land.
- The Group signed a rent agreement with Trabzon Dünya Ticaret Merkezi A.Ş. on October 30, 2006 to lease a land and to construct a hotel in Trabzon. The lease term is 49 years starting from August 27, 2008. 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 lease payment for the first 5 years is paid in advance and annual rent amount for year 2017 is USD 50,000.
- The Group signed a rent agreement with Kayseri Chamber of Industry on November 4, 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 starting from March 3, 2010. Lease payments will start after a five year rent free period. The lease payment for the first 5 years is paid in advance and annual rent amount for year 2017 is USD 50,000.
- The Group signed a rent agreement with Municipality of Gaziantep on May 31, 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 starting from December 3, 2009. The lease payment for the first 5 years is paid in advance and annual rent amount for year 2017 is USD 87,518.
- The Group signed a rent agreement with Bursa International Textile Trading Centre Business Cooperative on May 9, 2008 to lease a land and to construct a hotel in Bursa. The lease term is 30 years starting from October 6, 2010. Lease payments will start after a five year rent free period and annual rent amount for year 2017 is USD 106,200.
- The Group signed lease agreement on February 18, 2009 for land of Kaliningrad projects with Kaliningrad Municipality amounting to TRY 23,371 per year. The Group has right to purchase the land over a percentage to be specified on its cadastral value or to extend the lease period for utmost 49 years. On November 11, 2013, lease agreement for 49 years has been signed with Kaliningrad Municipality and the Group plans to use its right to purchase the land in the second quarter of 2018.

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

14. COMMITMENT AND CONTINGENCIES (cont'd)

14.2. The Group as lessee (cont'd)

- The Group signed a rent agreement with Prime Ministry General Directorate of Foundations on September 16, 2010 to lease a land and to construct a hotel in İzmir for 49 years starting from the agreement date. The lease payments made for the first three years are TRY 2,340 per month and TRY 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"). Monthly rent amount as of December 31, 2017 is TRY 39,102 and 30% percent deduction has been existence.
- The Group took over the lease agreement for a period of 49 years starting from the agreement date on June 22, 2011, which was signed between the 1. Regional Directorate of Foundations and Hakan Madencilik ve Elektrik Üretim Sanayi Ticaret A.Ş. for the land in Beyoglu district of Istanbul under the build-operate-transfer model at September 1, 2009. Monthly rent amount as of December 31, 2017 is TRY 275,903 by yearly increase in ratio of PPI and shall continue till the end of 49th year and 30% percent deduction has been existence.
- Group signed a lease agreement with Moscow City Administration on April 20, 2010 valid till 24 September 2056 related to land on which Ibis Hotel Moscow was constructed and all object is projected as hotel. An additional lease agreement has been signed on June 2, 2011 related to aforesaid lease agreement. Rent amount of land is approximately TRY 201,551 in 2017.

Most of operating lease contracts contains clauses on review of market conditions in the event that the Group exercises its option to renew.

Relating with Bulvar Loft agreement signed with İller Bankası A.Ş. ("İller Bankası") and Akfen Construction related to the Land Sales Counterpart Revenue Sharing Work of the 120573 Island 1 Parcel in the size of 36,947 m2 at the Kızılcaşar Quarter of the Ankara Province Gölbaşı District, the joint venture established between Akfen GYO and Akfen İnşaat of the contract was transferred on November 10, 2017. According to this contract, Iller Bank's revenue share is 22% against the sale of the plant where the project is being done.

Payments recognized as an expense

	December 31, 2017	**December 31, 2016**
Rent expenses (*)	5,888,345	6,488,791
	5,888,345	**6,488,791**

(*) As of December 31, 2017 and 2016, the Group's rent expenses amounting to TRY 5,327,407 and TRY 5,886,739 has been recognized in cost of sales respectively. As of December 31, 2017 and 2016, the Group's rent expenses amounting to TRY 560,938 and TRY 602,052 has been recognized in general administrative expenses respectively.

As of December 31, 2017 and 2016, the Group's minimum amount of estimated rental expenses to be paid for operating lease in total is given below by taking into account terms of existing contracts:

	December 31, 2017	**December 31, 2016**
Less than one year	5,818,430	5,151,838
1 - 5 years	24,447,565	20,609,564
5 years and longer	217,072,284	190,790,993
	247,338,279	**216,552,395**

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

14. COMMITMENT AND CONTINGENCIES (cont'd)

Accrued rent expenses (*)	December 31, 2017	December 31, 2016
Short term (Note 17)	1,686,699	1,557,016
Long term (Note 17)	3,750,472	3,503,562
	5,437,171	**5,060,578**

(*) The related amounts arise from the lease expenses accounting on a straight-line basis.

14.3. The Group as lessor

Operating lease arrangements

As at December 31, 2017, the Group has undergone 11 operating lease arrangements as;

- The Group signed a rent agreement with ACCOR S.A. on November 18, 2005 to lease a hotel which was completed in 2007 and started operations in Eskişehir.
- The Group signed a rent agreement with ACCOR S.A. on December 12, 2005 to lease two hotels which were completed in 2007 and started operations in Istanbul.
- The Group signed a rent agreement with ACCOR S.A. on July 26, 2006 to lease a hotel which was completed and started operations in 2008 in Trabzon.
- The Group signed a rent agreement with ACCOR S.A. on March 24, 2008 to lease two hotels which was completed and started operations in 2010 in Kayseri.
- The Group signed a rent agreement with ACCOR S.A. on March 24, 2008 to lease two hotels which was completed and started operations in 2010 in Gaziantep.
- The Group signed a rent agreement with ACCOR S.A. on July 31, 2009 to lease a hotel which is completed and started operations in 2010 in Bursa.
- The Group signed a rent agreement with ACCOR S.A. on September 7, 2010 to lease a hotel which is completed and start its operations in 2012 in Adana.
- The Group signed a rent agreement with ACCOR S.A. on August 16, 2010 to lease a hotel which was completed at the end of 2012 and starts its operations in beginning of 2013 in Esenyurt.
- The Group signed a rent agreement with ACCOR S.A. on February 2, 2011 to lease a hotel which was completed and starts its operations in 2013 in Izmir.
- The Group signed a rent agreement with ACCOR S.A. on December 19, 2012 to lease a hotel which was completed and starts its operations in 2016 in Karaköy.
- The Group signed a rent agreement with ACCOR S.A. on March 28, 2013 to lease a hotel which was completed and starts its operations in 2014 in Ankara Esenboğa.
- The Group signed a rent agreement with ACCOR S.A. on March 1, 2014 to lease a hotel which is planned to complete and starts its operations on April 1, 2017 in Tuzla.

All of the eleven 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% guarantees over these agreements.

The lease term is sum of the period between the opening date of the hotel 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 Group 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.

14. COMMITMENT AND CONTINGENCIES (cont'd)

According to Agreement of Nature signed in December 2012, yearly rent amount to be paid by lessee to lessor:

Valid starting from January 1, 2013;

- In Ibis Hotel Zeytinburnu, Ibis Hotel Eskişehir, Ibis Hotel Kayseri, Ibis Hotel Gaziantep, Ibis Hotel Bursa, Ibis Hotel Adana, Ibis Hotel Esenyurt and Ibis Hotel Alsancak İzmir, 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.

- In Novotel Zeytinburnu, Novotel Trabzon, Novotel Kayseri and Novotel Gaziantep, 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.

- In Novotel İstanbul Bosphorus, Karaköy, 22% of gross revenue or the higher of 85% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.

- In Ibis Hotel Ankara Airport, 25% of gross revenue or the higher of 85% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.

- In Ibis Hotel Tuzla, 25% of gross revenue or the higher of 85% of the Adjusted Gross Operating Profit ("AGOP") pays from Tamaris Turizm A.Ş. to Akfen GYO as a rent.

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

Each time that a total of new 500 rooms in Turkey, Russia and Ukraine will be open to the public by Akfen GYO, AGOP ratios in agreements of the hotels in Turkey, except Karaköy and Ankara shall be increased by 2,5%. In any case, rent to be calculated based on AGOP for these hotels shall not exceed 80%.

Currently, since the Tuzla project will start its operations in 2016, the AGOP rent ratio which is 70% in Turkey, increased to %72.5.

Annual rent is paid quarterly (January, April, July and October) based on the higher of AGOP ratio or gross revenue ratio actualized in related quarter.

The Group has additional thirteen operating lease arrangements as lessor other than operating lease agreements signed with ACCOR S.A. in Turkey:

- An agreement related to rental of Merit Park Hotel with its casino and all equipment for 20 years had been signed between the parties in May 15, 2012 and first year rent amount is EUR 4,750,000. The start date of the agreement is set as January 2013. In first 5 year, the rent amount will not increase, from 6th year, the rent will increase if yearly Euribor is less than 2%, in ratio of Euribor, if yearly Euribor is higher than 2%, in ratio of 2%, additional to previous year's rent amount. The name of the hotel has changed as "Merit Park Hotel" as at October 6, 2012.

14. COMMITMENT AND CONTINGENCIES (cont'd)

- The Group signed rent agreement with Algök Turizm Gıda İnşaat San. Tic. Ltd. Şti. for Eskişehir İbis Hotel Fitness Center on April 29, 2016. The rent payments begin as of May 1, 2016 which the rentable area is delivered. Agreement period includes three periods having 7 years and after each period the agreement may be terminated in cased of informing before 6 months. VAT included monthly rent amount for the year 2017 is TRY 19,352 and the rent amount will be increased by inflation rate at the beginning of each year.
- The Group signed rent agreement with Seven Turizm İnşaat ve Reklam Sanayi Ticaret Limited Şirketi for the bar/café in Eskişehir İbis Hotel on at May 11, 2007. The rent payments begin after two months after the bar/café is delivered. The rent increases at the beginning of the period as the average of annual PPI and CPI. VAT included monthly rent amount for the year 2017 is TRY 7,160.
- Russian Hotel through its subsidiary 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. The lease term is 25 years with right of 10 years' of prolongation of ACCOR S.A. The rent shall be equal to 75% of the Adjusted Gross Operating Revenue. ACCOR S.A. has the right to cancel the lease agreement at the end of 15th year of the lease agreement
- HDI through its subsidiary Severny signed a lease agreement for 317 rooms IBIS Hotel building under operation in Moscow, Russia, with Russian Management Hotel Company, a company which ACCOR S.A. operates in Russia on January 29, 2014. The lease term is 25 years with right of 10 years' of prolongation of ACCOR S.A. The rent shall be equal to 25% of gross revenue or the higher of 85% of the Adjusted Gross Operating Profit ("AGOP"). ACCOR S.A. has the right to cancel the lease agreement at the end of fifteenth year of the lease agreement
- Russian Hotel through its subsidiary 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. The lease term is 25 years with right of 10 years' of prolongation of ACCOR S.A. The rent shall be equal to 75% of the Adjusted Gross Operating Revenue. ACCOR S.A. has the right to cancel the lease agreement at the end of 15th year of the lease agreement.
- Russian Hotel through its subsidiary 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. The lease term is 25 years with right of 10 years' of prolongation of ACCOR S.A. The rent shall be equal to 75% of the Adjusted Gross Operating Revenue. The Parties agreed that the Minimum Annual Guaranteed Rent for first year is EUR 4,000 per a room, for second year EUR 5,000 per a room, from third year to fifteenth year EUR 6,000 per a room. The parties agreed that the Minimum Annual Guaranteed Rent the highest price is EUR 12,000 per a room. ACCOR S.A. has the right to cancel the lease agreement at the end of 15th year of the lease agreement.

14. COMMITMENT AND CONTINGENCIES (cont'd)

14.3. The Group as lessor (cont'd)

- Russian Property leased 1,562 squaremeter area of total rentable 4,637 squaremeter area of Samara Office in portfolio of Russian Property through its subsidiary Volgastroykom, to OAO Bank VTB with an agreement signed on 1 March 2013. The duration of the agreement is 6 years and monthly rent amount is approximately TRY 121,428. The delivery of the rented offices was made in March 15, 2013. According to lease agreement, there will be no increase to the rent for the first year and for the upcoming year, the rent increase will be 10% with the condition of proving the rent increase in the market with an expertise report.
- On September 2, 2013, Russian Hotel signed a lease agreement for a fitness center including in Ibis Hotel Yaroslavl through its subsidiary LLC YaroslavlOtelInvest. The maturity of the rent is December 31, 2016 and the monthly rent revenue for 2017 is approximately TRY 4,880, including VAT.
- Russian Property leased 1,869 squaremeter area of total rentable 4,637 squaremeter area of Samara Office in portfolio of Russian Property through its subsidiary Volgastroykom, to Rosneft Oil Company with an agreement signed in December 2, 2013 which will be valid till September 30, 2018. Monthly rent amount is approximately TRY 78,945, including VAT. Additionally, 584 squaremeter area of the office was leased to Rosneft with the agreement signed in December 31, 2016 of which lease duration will start in 1 July 2016 and end September 30, 2018. According to the agreement, monthly rent amount is approximately TRY 24,637, including VAT.
- Russian Property leased 588 squaremeter area of total rentable 4,637 squaremeter area of Samara Office in portfolio of Russian Property through its subsidiary Volgastroykom, to Samarasnabpodshipnik Company which is established by Samara Podshibnik Company -one of the biggest roller producers- for sale of its productions with an agreement signed in February 19, 2014 and September 1, 2015. Monthly rent amount is approximately TRY 24,637, including VAT.
- On March 1, 2015, Russian Hotel signed a lease agreement for a store placed in entrance floor of Ibis Hotel Yaroslavl through its subsidiary LLC YaroslavlOtelInvest. The monthly rent revenue is approximately TRY 7,678, including VAT.
- On December 18, 2015, the Group, has signed lease agreement with BNS Gıda ve Turizm Yatırımları A.Ş. for store in Novotel İstanbul Bosphorus, Karaköy. The lease payments started with opening of Novotel İstanbul Bosphorus, Karaköy. The lease agreement has 10 years maturity and for determination of the rent amount for the first 5 years; 12% of total yearly turnover obtained by the lessee from the store will be calculated. Rent amount will be higher of the calculated amount or monthly USD 20,000 for the first 2 years, monthly USD 22,000 for 2^{nd} and 3^{rd} years, and monthly USD 25,000 for 5th year. Starting from 6^{th} year, the rent amount will be monthly USD 25,000 and will be increased by 3% every year. However, only a discount of 50% will be applied on Rental Price. From January 2017 to August 2017, the lease period will be 10% of the monthly gross revenue of the Tenant's operation provided that the monthly rent is not less than USD 5,000.
- On January 18, 2016, the Group, has signed lease agreement with Imperium Yeme İçme Hizmetleri A.Ş. for store in Novotel İstanbul Bosphorus, Karaköy. The lease payments started with opening of Novotel İstanbul Bosphorus, Karaköy. The lease agreement has 10 years maturity and for determination of the rent amount for the first 5 years; 12% of total yearly turnover obtained by the lessee from the store will be calculated. Rent amount will be higher of the calculated amount or monthly USD 12,500 for the first 2 years, monthly USD 13,500 for 2^{nd} and 3^{rd} years, and monthly USD 15,000 for 5^{th} year. Starting from 6^{th} year, the rent amount will be monthly USD 15,000 and will be increased by %3 every year. However, only a discount of 50% will be applied on Rental Price. From January 2017 to August 2017, the lease period will be 10% of the monthly gross revenue of the Tenant's operation provided that the monthly rent is not less than USD 5,000.

Received guarantees

Group has received the bils from its customers amounted to TRY 4,863,901 regarding its sales contracts related to the Bulvar Loft project.

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

15. EMPLOYEE TERMINATION BENEFITS

	December 31, 2017	**December 31, 2016**
Provision for vacation pay liability-short term	230,728	259,691
Provision for employee termination benefits-long term	175,407	109,136
	406,135	**368,827**

The provision for employee termination benefits reflects the present value of future liabilities likely to be arisen due to retirement of employees of the Group and calculated according to Labor Act of Turkey. The provision for employee termination benefits are calculated based on accrual principle as soon as the employees deserve such right and reflected to the financial statements. The ceiling for calculation of the provision for employee termination benefits are the ceiling stipulated by the government for employee termination benefits. The ceilings for employee termination benefits as of December 31, 2017 are TRY 4,732 (December 31, 2016: TRY 4,297), respectively.

In accordance with TAS 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" in accordance with TAS 19 and 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 December 31, 2017 and 2016 the liability is calculated using the following assumptions:

	December 31, 2017	**December 31, 2016**
Net discount rate	4.72%	4.50%
Anticipated retirement turnover rate	99.99%	91.60%

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 related financial statements.

Provision for severance pay is calculated in accordance with the severance pay cap announced by the Government. As of December 31, 2017, the severance pay cap stood at a full TRY 5,002 (December 31, 2016: full TRY 4,426).

Movement of provision for employee termination benefits is as follows:

	2017	**2016**
January 1,	109,136	80,773
Interest costs	12,005	11,754
Service costs	37,447	11,771
Paid during the year	(52,007)	(48,409)
Actuarial loss	68,826	53,247
December 31,	**175,407**	**109,136**

Movement of vacation pay liability is as follows:

	2017	**2016**
January 1,	259,691	450,977
Paid during the year	(50,200)	(169,260)
Increase/(decrease) during the year	21,237	(22,026)
December 31,	**230,728**	**259,691**

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

16. PREPAID EXPENSES AND DEFERRED REVENUE

a) Short term prepaid expenses

	December 31, 2017	December 31, 2016
Prepaid expenses [1]	595,455	604,837
Advances given to suppliers	470,595	1,299,591
Business advances	52,528	60,513
	1,118,578	**1,964,941**

b) Long term prepaid expenses

	December 31, 2017	December 31, 2016
Prepaid expenses [1]	8,504,534	8,767,327
	8,504,534	**8,767,327**

(1) TRY 7,393,121 (December 31, 2016: TRY 7,729,535) of short term and long term prepaid expenses is related to prepaid amount made by Akfen Karaköy to Hakan Madencilik for transfer of land lease agreement related to Novotel İstanbul Bosphorus, Karaköy which is recorded as profit or loss by the straight-line basis over the lease term.

c) Deferred revenue

As at December 31, 2017 deferred revenue consists of advances received for the apartments for which the Group's Bulvar Loft project related sales contract has been signed and will be accounted as revenue with conveyance of titles.

17. OTHER CURRENT / NON-CURRENT ASSETS AND LIABILITIES

a) Other current assets

	December 31, 2017	December 31, 2016
VAT carryforward	6,783,904	5,386,762
Prepaid taxes and funds	1,636,999	430,333
Other	826,337	688,039
	9,247,240	**6,505,134**

b) Other non-current assets

	December 31, 2017	December 31, 2016
VAT carryforward	25,510,364	29,919,270
	25,510,364	**29,919,270**

(Amounts are expressed in Turkish Lira (“TRY”) unless otherwise stated.)

17. OTHER CURRENT / NON-CURRENT ASSETS AND LIABILITIES (cont’d)

c) Other current liabilities

	December 31, 2017	December 31, 2016
Rent expenses accrual (Note 14)	1,686,699	1,557,016
	1,686,699	**1,557,016**

d) Other non-current liabilities

	December 31, 2017	December 31, 2016
Rent expenses accrual (Note 14)	3,750,472	3,503,562
	3,750,472	**3,503,562**

18. EQUITY

18.1. Paid in capital

The capital structure as at December 31, 2017 and 2016 is as follows:

Shareholders	(%)	December 31, 2017	(%)	December 31, 2016
Akfen Mühendislik [1]	56.88	104,656,831	-	-
Akfen Holding [1]	-	-	56.88	104,656,831
Publicly trade [2]	24.43	44,962,433	24.43	44,962,433
Hamdi Akın	16.41	30,196,838	16.41	30,196,838
İbrahim Süha Güçsav	2.25	4,140,380	2.25	4,140,380
Akınısı Makina Sanayi ve Tic. A.Ş.	0.02	43,513	0.02	43,513
Akfen İnşaat	<0.001	2	<0.001	2
Mehmet Semih Çiçek	<0.001	1	<0.001	1
Mustafa Dursun Akın	<0.001	1	<0.001	1
Ahmet Seyfi Usluoğlu	<0.001	1	<0.001	1
Total		**184,000,000**		**184,000,000**
Restatement effect		317,344		317,344
Restated capital		**184,317,344**		**184,317,344**

[1] All of the shares of the Akfen GYO which are in the assets of the main shareholders Akfen Holding, are transferred to Akfen Mühendislik A.Ş. (Akfen Mühendislik) with partial division and relevant division was completed on February 16, 2017.

[2] There are publicly traded shares that are not included in the shares of other shareholders. Additionally, shares of Akfen GYO amounting to TRY 4,218,000 (December 31, 2016: 2,409,000 shares) have been purchased by Akfen GYO as of December 31, 2017 within the scope of "Repurchase Program" according to a decree taken in the Ordinary General Assembly which was held on May 24, 2016, ratio of Akfen GYO shares which have been received back as of December 31, 2016 is 2.29%(December 31, 2016: 1.31%).

As at December 31, 2017, the issued capital of the Group is TRY 184,000,000 (December 31, 2016: TRY 184,000,000). As at December 31, 2017, the issued capital of the Group comprises of 184,000,000 registered units with a nominal value of TRY 1 each (December 31, 2016: TRY 1, units, 184,000,000 units). The share group of A, C, D owning 1,000 unit share for each, has the privilege to select 2 nominees for each for the board of directors member selection.

18. EQUITY (cont'd)

18.2. Purchase of share of entity under common control

100% of Akfen GT and 50% of RHI and RPI were acquired with the nominal value from parents of the Group in 2007 and 2009, respectively. The acquired subsidiary, Akfen GT 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 recognized 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 recognized in "Business combination under common control" directly in equity.

18.3. Foreign currency translation reserves

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

18.4. Share Premiums

The surplus of sales price over the nominal value of the shares amounted to TRY 58,880,000 during the initial public offering of the shares at May 11, 2011 were accounted as share premium.

18.5. Restricted reserves allocated from profit

As of December 31, 2017 and 2016, the legal reserve of the Group is TRY 4,147.

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.

Accordingly the inflation adjustments provided for within the framework of TAS/TFRS, 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 TAS/TFRS values.

18.6 Treasury shares

The amount that is paid when the shares that are registered as paid capital are received again, the paid amount shall be deducted from the equities covering the amount remaining after the tax effect of the costs are deducted. The shares that are received back are shown as decrease in the equities.

Shares of Akfen GYO amounting to TRY 5,605,354 (December 31, 2016: 3,338,783), 4,218,000 shares (December 31, 2016: 2,409,000 shares) have been purchased by Akfen GYO as of December 31, 2017 within the scope of "Repurchase Program" according to a decree taken in the Ordinary General Assembly which was held on May 24, 2016, ratio of Akfen GYO shares which have been received back as of December 31, 2016 is 2,29% (December 31, 2016: 1,31%).

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

18. EQUITY (cont'd)

In accordance with the decision taken at the meeting of CMB dated June 7, 2014 and numbered 20/670, for the capital market institutions which are included in the Communiqué on Principles of Financial Reporting in Capital Markets, "Financial statements prepared in accordance with" Capital "," Restricted Reserves "and" Share Premiums "are required to be presented in the statutory amounts. Differences in the valuation of items (such as inflation correction differences):

- if the difference arises from the "Paid-in Capital" and not yet added to the capital, with the "Capital Adjustment Differences" to be issued after the "Paid-in Capital";
- "Retained Earnings / Losses" from "Restricted Reserves Appropriated from Profit" and "Share Premiums" and not yet subject to profit distribution or capital increase,

Other shareholders' equity items are presented with their amounts recognized in the scope of Turkish Financial Reporting Standards.

19. REVENUE AND COST OF SALES

For the years ended December 31, 2017 and 2016, sales and cost of sales are as follows:

	December 31, 2017	**December 31, 2016**
Rent income	63,539,265	54,180,018
Total revenue	**63,539,265**	**54,180,018**
Operating lease expenses[1]	(5,327,407)	(5,886,739)
Taxes and duties expenses	(2,293,187)	(1,571,686)
Insurance expenses	(1,199,831)	(1,164,771)
Outsourced service expenses	(728,561)	(763,145)
Other	(39,736)	(117,443)
Total cost of sales	**(9,588,722)**	**(9,503,784)**

(1) Operational lease expenses include rent expense accruals in the period belonging to rented lands of the hotels and the projects in the Group's portfolio.

20. GENERAL ADMINISTRATIVE EXPENSES

For the years ended December 31, 2017 and 2016, administrative expenses are as follows:

	December 31, 2017	**December 31, 2016**
Personnel expenses	2,983,957	3,055,536
Consultancy expenses	994,191	1,062,093
Operating lease expenses	560,938	602,052
Outsourced service expenses	341,858	1,663,459
Travel and hosting expenses	241,132	205,507
Tax and duties expenses	153,184	258,272
Advertising expenses	104,934	46,343
Depreciation expense	45,906	21,010
Amortization expense	5,368	5,371
Donations and grants (*)	-	500,000
Other	258,801	161,369
Total	**5,690,269**	**7,581,012**

(*)The donations and assistances made as of December 31, 2016 consist of the donation amount that the Group made to GYODER Real Estate and Real Estate Investment Company Association GNAT Structure Consortium.

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

20. GENERAL ADMINISTRATIVE EXPENSES (cont'd)

Personnel expenses

	December 31, 2017	December 31, 2016
Wages and salaries	2,469,285	2,627,238
Social security premiums	300,541	300,719
Change in employment termination benefit	118,278	76,772
Other	95,853	50,807
Total	**2,983,957**	**3,055,536**

For the years ended December 31, 2017 and 2016, selling and marketing expenses are as follows:

	December 31, 2017	December 31, 2016
Advertisement expenses (*)	2,417,599	-
Other	12,593	-
Toplam	**2,430,192**	**-**

(*) Advertisment expenses are related with Bulvar Loft project which is taken over in the last quarter of 2017 by Group.

21. OTHER OPERATING INCOME/EXPENSES

a) Other operating income

For the years ended December 31, 2017 and 2016, other operating income are as follows:

	December 31, 2017	December 31, 2016
Fair value gain on investment property, net	210,880,641	-
Foreign exchange gain	24,982	16,956
Other	1,142,999	126,299
Total	**212,048,622**	**143,255**

b) Other operating expenses

For the years ended December 31, 2017 and 2016, other operating expenses are as follows:

	December 31, 2017	December 31, 2016
Foreign exchange loss	20,441	86,733
Fair value loss on investment property, net	-	237,390,375
Other	1,028,794	1,886,829
Total	**1,049,235**	**239,363,937**

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

22. FINANCIAL INCOME

For the years ended December 31, 2017 and 2016, financial income are as follows:

	December 31, 2017	December 31, 2016
Foreign exchange gain	12,560,898	41,399,030
Interest income	1,568,000	1,344,069
Total	**14,128,898**	**42,743,099**

23. FINANCIAL EXPENSES

For the years ended December 31, 2017 and 2016, financial expenses are as follows:

	December 31, 2017	December 31, 2016
Foreign exchange loss	145,003,394	83,954,775
Interest expenses	52,736,687	38,722,169
Other	1,069,274	923,155
Total	**198,809,355**	**123,600,099**

For the period ended December 31, 2017, the Group has capitalized interest expenses amounting to TRY 2,558,396 on investment properties under construction (December 31, 2016: TRY 6,602,370).

24. 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 are exempt from Corporate Income Tax in Turkey. This exemption is also applicable to Quarterly Advance Corporate Tax. Therefore, deferred tax is not recognized for the income of the Group from the operations as a real estate investment trust since those are exempt from income tax.

Deferred tax has been recognized for the temporary differences of Akfen GT 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 rates are 23.5% and 20% in Northern Cyprus and Holland, respectively.

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

24. TAX ASSETS AND LIABILITIES (cont'd)

For the years ended December 31, 2017 and 2016, the main components of tax expenses are as follows:

	December 31, 2017	**December 31, 2016**
Current period tax expense	(19,003,369)	(1,013,071)
Deferred tax (expense)/income	(14,490,690)	11,853,415
Total	**(33,494,059)**	**10,840,344**

The reported taxation charge for the years ended December 31, 2017 and 2016 are different than the amounts computed by applying the statutory tax rate to income before tax as shown in the following:

	%	**January 1, - December 31, 2017**	**%**	**January 1, - December 31, 2016**
Profit/(loss) for the year before tax		**72,149,012**		**(282,982,460)**
Tax (expense)/income using the domestic tax expense rate	(20)	(14,429,802)	(20)	56,596,492
Tax-exempt loss [(1)]	(8,52)	(6,148,643)	15,32	(43,354,083)
Non-deductible expenses	(3,58)	(2,586,071)	0,58	(1,639,420)
Effect of different tax rates in foreign countiries	3,67	(2,650,268)	0,27	(763,198)
Investment incentive (Note 13)	15,72	11,339,516	-	-
Tax expense relating previous periods (Note 13) [(2)]	(26,34)	(19,003,369)	-	-
Other	(0,02)	(15,422)	0,00	553
Tax (expense)/income		**(33,494,059)**		**10,840,344**

(1) Akfen GYO is exempt from Corporate Tax.
(2) As explained in Note 13, the balance is related to the tax effect of Akfen GT's lawsuit provision.

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

24. TAX ASSETS AND LIABILITIES (cont'd)

Recognized deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities as at December 31, 2017 and 2016 were attributable to the items detailed in the table below:

	Deferred tax assets		**Deferred tax liabilities**		**Net**	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Investment incentive (1)	16,535,974	7,782,057	-	-	16,535,974	7,782,057
Fair value gain on investment property	-	-	(90,597,125)	(59,246,408)	(90,597,125)	(59,246,408)
Tax losses carried forward	13,060,483	4,144,875	-	-	13,060,483	4,144,875
Other	-	-	(3,289,152)	(1,378,884)	(3,289,152)	(1,378,884)
Deferred tax asset / (liability)	**29,596,457**	**11,926,932**	**(93,886,277)**	**(60,625,292)**	**(64,289,820)**	**(48,698,360)**
Net off tax	(25,705,556)	(8,171,909)	25,705,556	8,171,909	-	-
Net deferred tax asset / (liability)	**3,890,901**	**3,755,023**	**(68,180,721)**	**(52,453,383)**	**(64,289,820)**	**(48,698,360)**

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

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

25. EARNINGS PER SHARE

Earnings per share are calculated by dividing net income for the years ended by the weighted average number of shares of the Group during the year. For the years ended December 31, 2017 and 2016, the earnings per share computation are as follows:

	December 31, 2017	December 31, 2016
Number of shares in circulation		
January 1	184,000,000	184,000,000
Closing balance	**184,000,000**	**184,000,000**
Weighted average number of shares	184,000,000	184,000,000
Net profit/(loss) for the year	39,410,018	(256,908,907)
Earnings/(loss) per share	0.21	(1.40)

26. THE FAIR VALUE EXPLANATIONS

The fair value is described as a price that will be obtained from sales of an asset or paid on transfer of a debt, in an ordinary transaction on the date of calculation among the market attendants.

Financial Instruments

The Group has determined the estimated fair values of the financial instruments by employing current market information and appropriate valuation methods. However, interpretation and reasoning are required to estimate the fair values by evaluating the market information. As a result, the estimations presented herein may not be indicative of the amounts that the Group can obtain in a current market transaction.

The following methods and assumptions have been used to estimate the fair value of the financial instruments for which estimation of the fair values in practice is possible:

Financial Assets

It is foreseen that book values of the cash and cash equivalents are close to their fair values since they are short term cash assets.

It is also foreseen that their book values reflect the fair value since the trade receivables are short-term.

It is foreseen that the fair values of the balances in foreign currency that are converted with the period-end rates are close to their book values.

Financial Liabilities

It is considered that fair values of the trade payables and other monetary liabilities approach to the values that they bear due to the fact that they are short-term. .

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

26. THE FAIR VALUE EXPLANATIONS (cont'd)

The bank credits are expressed with their amortized cost values and transactional costs are added into the first cost of the credits. As the floating rate bank credits of the Group have been repriced in the recent history, it is considered that its fair values reflect the value that they bear.

Classes and fair values of financial instruments

December 31, 2017	**Credits and receivables (including cash and cash equivalents)**	**Financial liabilities increasing in value with the effective interest method**	**Book value**	**Fair Value**	**Note**
Financial Assets					
Cash and cash equivalents	**3,125,149**	**-**	**3,125,149**	**3,125,149**	**5**
Trade receivables from non-related parties	**13,528,688**	**-**	**13,528,688**	**13,528,688**	**7**
Trade receivables from the related parties	**2,050,647**	**-**	**2,050,647**	**2,050,647**	**4**
Financial Liabilities					
Financial liabilities	**-**	**1,010,169,412**	**1,010,169,412**	**1,010,169,412**	**6**
Trade payables to non-related parties	**-**	**4,554,735**	**4,554,735**	**4,554,735**	**7**

December 31, 2016	Credits and receivables (including cash and cash equivalents)	Financial liabilities increasing in value with the effective interest method	Book value	Fair Value	Note
Financial Assets					
Cash and cash equivalents	7,826,862	-	7,826,862	7,826,862	5
Trade receivables from non-related parties	19,263,217	-	19,263,217	19,263,217	7
Trade receivables from the related parties	7,414,000	-	7,414,000	7,414,000	4
Financial liabilities	-	838,694,836	838,694,836	838,694,836	6
Trade payables to non-related parties	-	3,233,249	3,233,249	3,233,249	7

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

26. THE FAIR VALUE EXPLANATIONS (cont'd)

Non-Financial Assets

The real estate appraisal reports that are prepared by the real estate valuation Group authorized by the CMB are based on while determining the fair values of the investment real estates which are measured with their fair values in the consolidated financial statements (Note9).

The fair value classifications of the non-financial assets which are calculated with their fair values are as follows:

December 31, 2017			**Fair Value Level**
	Level 1 TRY	**Level 2 TRY**	**Level 3 TRY**
Operating investment properties	**-**	**-**	1,564,721,144
Investment properties under construction	**-**	**-**	-

December 31, 2016			**Fair Value Level**
	Level 1 TRY	**Level 2 TRY**	**Level 3 TRY**
Operating investment properties	-	-	1,253,723,338
Investment properties under construction	-	-	49,770,000

The fair value of the assets and liabilities are determined as follows:

- First level: It increases in value from the stock exchange prices that are traded on the active market in terms of the identical assets and liabilities.
- Second level: It increases in value from the inputs which are used in order to find the price that can be directly or indirectly observed other than the stock exchange rate of the related asset or liability which is specified in the first level.
- Third Level: It increases in value from the inputs which are used in order to find the fair value of the asset or liability and which do not depend on any observable data in the market.

The fair values of the investment real estates on the sector basis, and the methods that are used to identify the fair values and significant unobservable assumptions are as follows:

					December 31, 2017	December 31, 2016
	December 31, 2017	December 31, 2016	**Valuation method**	**Unobservable significant inputs**	**Weighted average amount**	Weighted average amount
Hotel			Discounted	* Room price (per day) – Euro	**51**	58
Level 3	**1,537,267,519**	1,283,017,164	cash flows	* Occupancy rate	**77%**	74%
Office			Discounted	* Rentable area / m2	**4,637**	4,637
Level 3	**27,453,625**	20,476,174	cash flows	* Occupancy rate	**99%**	95%

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

26. THE FAIR VALUE EXPLANATIONS (cont'd)

Discounted cash flows (DCF)

The fair value of an asset under the discounted cash flows is estimated by referring to the net assumptions on the benefits and liabilities of the property including the output and final value. This estimation includes estimation of a series of cash flow and a discount rate depending on an appropriate market is applied in order to create the current value of the income flow.

Period of the cash flow and certain schedule of the inputs and outputs are determined by events such as review of the rents, renewal of the lease contracts and relative rental periods, rent again, re-development and renewal.

The costs incurred during the development of the assets and constructional costs, development costs and anticipated sales revenue will be estimated in order to reach a series of net cash flow which is discounted over the additional development and marketing expenditures that are foreseen for duration of the rent. Certain development risks such as planning, licenses, zoning permits should be separately evaluated.

Level 3 Sensitivity analysis of significant changes in unobserved inputs that are used in the fair value calculations

The sensitivity analysis for the unobservable inputs which are used in measurement of the fair values of the active and ongoing investment real estates of the Group is as follows:

		If it increases	**If it decreases**
December 31, 2017	**Sensitivity Analysis**	**Profit/(loss) effect on the fair value (TRY)**	**Profit/(loss) effect on the fair value (TRY)**
Hotel			
Discount rate	**0.50%**	**(68,702,500)**	**74,010,000**
Room price ramping rate	**1%**	**20,650,703**	**(23,395,904)**
Occupancy rate	**1%**	**16,644,476**	**(16,734,677)**
Office			
Discount rate	**0.50%**	**(860,000)**	**900,000**
Occupancy rate	**1%**	**300,000**	**(295,000)**

		If it increases	If it decreases
December 31, 2016	Sensitivity Analysis	Profit/(loss) effect on the fair value (TRY)	Profit/(loss) effect on the fair value (TRY)
Hotel			
Discount rate	0.50%	(58,590,500)	64,932,000
Room price ramping rate	1%	11,423,507	(12,534,000)
Occupancy rate	1%	18,246,002	(14,616,285)
Office			
Discount rate	0.50%	(594,000)	593,000
Occupancy rate	1%	296,000	(75,000)

27. 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.

Board of Directors states the risk options and ensures performing of the risk management implementations. 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 and Russia.

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.

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

(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 optimizing 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 December 31, 2017, 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, EUR, GBP and TRY to manage the foreign currency risk.

The Group realizes the medium and long term bank borrowings in the currency of project revenues. Additionally, the Group realizes short term bank borrowings in TRY and EUR in balance by pooling/ portfolio model.

The EUR / TRY and USD / TRY exchange rate as at the end of each year are as follows:

	December 31, 2017	**December 31, 2016**
EUR / TRY	4.5155	3.7099
US Dollar / TRY	3.7719	3.5192
Ruble/TRY	0.06507	0.0586

Interest rate risk

The Group is exposed to basis risk for its floating rate borrowings, which is the difference in reprising 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.

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

(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 authorization 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

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Capital management

The Group manages its capital by minimizing the investment risk through portfolio diversification. The Group's objective; is to ensure its continuity as an income-generating business, look after interests of shareholders and corporate members besides to ensure sustainability of its efficient capital structure by reducing cost of capital and continuing net debt-to-equity rate at market averages.

The Group's goals for capital management are to provide return to its members and benefit to other stakeholders besides to have the Group to protect its ability for conducting its activity for preserving the most suitable capital structure to reduce the cost of capital.

For preserving its capital structure or reorganizing it, the Group determines dividend amounts to be paid to members, may issue new shares and may sell assets to restrict borrowings.

As of December 31, 2017 and 2016, the net debt-to-invested capital rate is given below:

	December 31, 2017	**December 31, 2016**
Total liabilities	1,155,376,073	937,223,128
Cash and cash equivalents(*)	(70,262,925)	(63,475,362)
Net liabilities	1,085,113,148	873,747,766
Equity	607,819,213	560,795,264
Total capital	**1,692,932,361**	**1,434,543,030**
Net liabilities/total sources rate	**64%**	**61%**

(*)The amount of the liquid assets as from December 31, 2017 includes the long-term financial investments possessed by the Group and amounted to TRY 67,137,776 as well as the cash and cash equivalents. (December 31, 2016: TRY 55,648,500).

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

27.1. Credit risk disclosures

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 December 31, 2017 and 2016 is as follows:

	Receivables					
	Trade receivables		Other receivables			
December 31, 2017	Related party	Third party	Related party	Third party	Deposits on bank	Other
Exposure to maximum credit risk as of reporting date (A+B+C+D)	**2,050,647**	**13,528,688**	**-**	**24,679,537**	**70,228,077**	**8,912**
- The portion of maximum risk covered by guarantee	-	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	2,050,647	13,528,688	-	24,679,537	70,228,077	8,912
B. Net carrying value of financial assets which are overdue but not impaired	-	-	-	-	-	-
C. 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)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc.)	-	-	-	-	-	-
D.Off balance sheet items with credit risks	-	-	-	-	-	-

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

	Receivables					
	Trade receivables		Other receivables			
December 31, 2016	**Related party**	**Third party**	**Related party**	**Third party**	**Deposits on bank**	**Other**
Exposure to maximum credit risk as of reporting date (A+B+C+D)	**7,414,000**	**19,263,217**	**-**	**18,765,049**	**63,454,877**	**-**
- The portion of maximum risk covered by guarantee	-	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	7,414,000	19,263,217	-	18,765,049	63,454,877	-
B. Net carrying value of financial assets which are overdue but not impaired	-	-	-	-	-	-
C. 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)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc.)	-	-	-	-	-	-
D.Off balance sheet items with credit risks	-	-	-	-	-	-

As at December 31, 2017 and 2016, the Group does not have any financial assets which are overdue but not impaired.

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

27.2. 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:

December 31, 2017:

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)
Non-derivative financial liabilities						
Financial liabilities	1,010,169,412	1,368,902,300	78,141,334	85,598,853	480,780,734	724,381,379
Trade payables	4,554,735	4,314,390	4,314,390	-	240,345	-
Other payables (other liabilities included)	71,718,571	297,418,767	49,746,035	4,446,653	28,852,397	214,373,682

December 31, 2016:

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)
Non-derivative financial liabilities						
Financial liabilities	838,694,836	1,184,829,316	24,338,126	77,452,434	381,187,594	701,851,162
Trade payables	3,233,249	3,233,249	3,233,249	-	-	-
Other payables (other liabilities included)	42,472,834	244,720,935	19,829,544	3,897,406	25,325,467	195,668,518

The Group does not have any derivative financial liabilities as at December 31, 2017 and 2016. Since taxes and funds payable and social security premiums payable are non-financial liabilities, they are not included in other payables.

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

27.3. Market risk

a) Foreign currency position table and sensitivity analysis

December 31, 2017 Foreign currency position		TRY Equivalent (Functional currency)	USD	EUR	GBP	RUB
1	Trade receivables	6,259,705	42,946	5,437	-	93,332,798
2a	Monetary financial assets (cash and bank accounts included)	1,834,128	11,268	126,316	45	18,764,738
2b	Non-monetary financial assets	-	-	-	-	-
3	Other	68,504,301	-	14,872,015	-	20,742,592
4	**Current assets (1+2+3)**	**76,598,134**	**54,214**	**15,003,768**	**45**	**132,840,127**
5	Trade receivables	-	-	-	-	-
6a	Monetary financial assets	-	-	-	-	-
6b	Non-monetary financial assets	-	-	-		-
7	Other	2,575	-	570	-	-
8	**Non-current assets (5+6+7)**	**2,575**	**-**	**570**	**-**	**-**
9	**Total assets (4+8)**	**76,600,709**	**54,214**	**15,004,338**	**45**	**132,840,127**
10	Trade payables	1,377,523	280,155	70,967	-	5,446
11	Financial liabilities	93,878,598	-	20,790,300	-	-
12a	Other monetary financial liabilities	-	-	-	-	-
12b	Other non-monetary financial liabilities	1,812,766	-	37,400	-	25,263,348
13	**Short-term liabilities (10+11+12)**	**97,068,887**	**280,155**	**20,898,667**	**-**	**25,268,795**
14	Trade payables	-	-	-	-	-
15	Financial liabilities	867,454,723	-	192,106,017	-	-
16a	Other monetary financial liabilities	-	-	-	-	-
16b	Other non-monetary financial liabilities	4,419,576	1,171,711	-	-	-
17	**Long-term liabilities (14+15+16)**	**871,874,299**	**1,171,711**	**192,106,017**	**-**	**-**
18	**Total liabilities (13+17)**	**968,943,186**	**1,451,866**	**213,004,684**	**-**	**25,268,795**
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)**	**(892,342,477)**	**(1,397,652)**	**(198,000,346)**	**45**	**107,571,332**
21	**Net foreign currency position of monetary assets / (liabilities) (1+2a+5+6a-10-11-12a-14-15-16a)**	**(954,617,011)**	**(225,941)**	**(212,835,531)**	**45**	**112,092,089**
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**	**-**	**-**	**-**	**-**	**-**

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

27.3. Market risk (cont'd)

a) Foreign currency position table and sensitivity analysis (cont'd)

December 31, 2016 **Foreign currency position**		**TRY Equivalent (Functional currency)**	**USD**	**EUR**	**GBP**	**RUB**
1	Trade receivables	12,635,048	-	-	-	220,430,010
2a	Monetary financial assets (cash and bank accounts included)	6,557,724	3,397	1,744,737	45	1,269,633
2b	Non-monetary financial assets	-	-	-	-	-
3	Other	55,876,790	-	15,001,060	-	3,914,131
4	**Current assets (1+2+3)**	**75,069,562**	**3,397**	**16,745,797**	**45**	**225,613,774**
5	Trade receivables	-	-	-	-	-
6a	Monetary financial assets	-	-	-	-	-
6b	Non-monetary financial assets	-	-	-	-	-
7	Other	18,432,988	-	4,968,594	-	-
8	**Non-current assets (5+6+7)**	**18,432,988**	**-**	**4,968,594**	**-**	**-**
9	**Total assets (4+8)**	**93,502,550**	**3,397**	**21,714,391**	**45**	**225,613,774**
10	Trade payables	1,858,031	-	80,157	-	27,227,094
11	Financial liabilities	79,065,215	-	21,311,953	-	
12a	Other monetary financial liabilities	-	-	-	-	
12b	Other non-monetary financial liabilities	1,720,909	-	60,840	-	26,085,101
13	**Short-term liabilities (10+11+12)**	**82,644,155**	**-**	**21,452,950**	**-**	**53,312,195**
14	Trade payables	-	-	-	-	-
15	Financial liabilities	754,455,292	-	203,362,703	-	-
16a	Other monetary financial liabilities	3,939,696	1,119,486	-	-	-
16b	Other non-monetary financial liabilities	-	-	-	-	-
17	**Long-term liabilities (14+15+16)**	**758,394,988**	**1,119,486**	**203,362,703**	**-**	**-**
18	**Total liabilities (13+17)**	**841,039,143**	**1,119,486**	**224,815,653**	**-**	**53,312,195**
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)**	**(747,536,593)**	**(1,116,089)**	**(203,101,262)**	**45**	**172,301,579**
21	**Net foreign currency position of monetary assets / (liabilities) (1+2a+5+6a-10-11-12a-14-15-16a)**	**(820,125,462)**	**(1,116,089)**	**(223,010,076)**	**45**	**194,472,549**
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**	**-**	**-**	**-**	**-**	**-**

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency sensitivity analysis

December 31, 2017:		**Profit or (Loss)**		**Equity**
	Appreciation of foreign currency	**Devaluation of foreign currency**	**Appreciation of foreign currency**	**Devaluation of foreign currency**
10% change of the USD against TRY				
1- Net USD denominated asset/liability	(527,180)	527,180	-	-
2- Hedged portion of TRY against USD risk (-)	-	-	-	-
3- Net effect of USD (1+ 2)	**(436,881)**	**436,881**	**-**	**-**
4- Net Euro denominated asset/liability	(89,407,058)	89,407,058	-	-
5- Hedged portion of TRY against Euro risk (-)	-	-	-	-
6- Net effect of Euro (4+5)	**(89,407,058)**	**89,407,058**	**-**	**-**
10% change of other foreign currencies against TRY				
7- Net other foreign currencies denominated asset/liability	-	-	699,990	(699,990)
8- Hedged portion of TRY against other currencies risk (-)	-	-	-	-
9- Net effect of other foreign currencies (7+8)	**-**	**-**	699,990	(699,990)
TOTAL(3+6+9)	**(89,934,238)**	**89,934,238**	**699,990**	**(699,990)**

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Foreign currency sensitivity analysis (cont'd)

December 31, 2016:		**Profit or (Loss)**		**Equity**
	Appreciation of foreign currency	**Devaluation of foreign currency**	**Appreciation of foreign currency**	**Devaluation of foreign currency**
10% change of the USD against TRY				
1- Net USD denominated asset/liability	(392,774)	392,774	-	-
2- Hedged portion of TRY against USD risk (-)	-	-	-	-
3- Net effect of USD (1+ 2)	**(392,774)**	**392,774**	**-**	**-**
4- Net Euro denominated asset/liability	(82,734,508)	82,734,508	-	-
5- Hedged portion of TRY against Euro risk (-)	-	-	-	-
6- Net effect of Euro (4+5)	**(82,734,508)**	**82,734,508**	**-**	**-**
10% change of other foreign currencies against TRY				
7- Net other foreign currencies denominated asset/liability	-	-	1,009,687	(1,009,687)
8- Hedged portion of TRY against other currencies risk (-)	-	-	-	-
9- Net effect of other foreign currencies (7+8)	**-**	**-**	**1,009,687**	**(1,009,687)**
TOTAL(3+6+9)	**(83,127,282)**	**83,127,282**	**1,009,687**	**(1,009,687)**

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

27. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (Continued)

b) Interest rate risk table and sensitivity analysis

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

	December 31, 2017	December 31, 2016
Fixed rate instruments		
Financial assets	69,512,513	60,700,380
Financial instruments	1,010,169,412	838,694,836

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.

Cash flow sensitivity analysis for variable rate instruments

The floating interest loans which are classified by the Group as the financial liabilities in the consolidated financial statement are exposed to the interest risk depending on the interest changes.

The following table shows the sensitivity of the Group with regard to the effect of the interest rates on the profit (loss) for a possible change (0.01%) when all other factors remain as fixed.

Euribor	**Increase / (Decrease)**	**Effect profit / (loss) before tax**
December 31, 2017	**(0,01%)**	**84,209**
	0,01%	**(84,192)**

Euribor	**Increase / (Decrease)**	**Effect profit / (loss) before tax**
December 31, 2016	(0.01%)	59,140
	0.01%	(59,142)

28. DISCLOSURES RELATED TO THE SHARES IN OTHER ENTITIES

Information for the Group's subsidiaries having non-controlling interests in significant level as below.

December 31, 2017	**Non-controlling interest (%)**	**Profit/(loss) for non-controlling interest**	**Non-controlling interest**
Subsidiary			
Akfen Karaköy	30	(928,297)	10,828,352

December 31, 2016	**Non-controlling interest (%)**	**Profit/(loss) for non-controlling interest**	**Non-controlling interest**
Subsidiary			
Akfen Karaköy	30	(15,831,701)	11,756,649

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

28. DISCLOSURES RELATED TO THE SHARES IN OTHER ENTITIES (cont'd)

Summarized financial figures before elimination for related subsidiaries are shown as below:

Balance sheet summary:

Akfen Karaköy	**December 31, 2017**	**December 31, 2016**
Cash and cash equivalents	24,161	155,933
Other current assets	3,147,476	2,893,958
Investment property	196,611,819	157,100,671
Other non current assets	19,677,838	19,991,235
TOTAL ASSETS	**219,461,294**	**180,141,797**
Current portion of long term financial liabilities	7,138,381	4,359,173
Other current liabilities	96,815,571	68,890,142
Long term financial liabilities	59,363,153	51,312,410
Other non current liabilities	20,050,889	16,392,551
TOTAL LIABILITIES	**183,367,994**	**140,954,276**
TOTAL EQUITY	**36,093,300**	**39,187,521**

Statement of profit or loss summary:

Akfen Karaköy	**December 31, 2017**	**December 31, 2016**
PROFIT OR LOSS		
Revenue	4,624,388	1,863,077
Cost of sales	(2,401,712)	(3,166,894)
GROSS PROFIT/(LOSS)	**2,222,676**	**(1,303,817)**
General administrative expenses	(422,909)	(508,994)
Other operating income/(loss), net	31,510,268	(45,554,286)
OPERATING PROFIT/(LOSS)	**33,310,035**	**(47,367,097)**
Financial loss, net	(34,458,107)	(18,265,760)
LOSS BEFORE TAX	**(1,148,072)**	**(65,632,857)**
Current tax (expense)/income	(1,946,149)	12,862,279
- Deferred tax (expense)/income	*(1,946,149)*	*12,862,279*
NET LOSS FOR THE YEAR	**(3,094,221)**	**(52,770,578)**

29. SUBSEQUENT EVENTS

Following CMB's approval for a convertible bond issuance of TRY 300,000,000, Akfen GYO issued convertable bond amounting to TRY 170,000,000 with a 3-year maturity and 12% annual interest rate on January 17, 2018. The conversion decision belongs to the Company; the principal and interest will be paid either by the Company at the end of the maturity or the conversion will be made at the price determined by the CMB's method as appropriate.

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

29. SUBSEQUENT EVENTS (cont'd)

Merger with no liquidation of the Company's main shareholder Akfen Mühendislik in accordance with the provisions of Article 136 of the Turkish Commercial Code (TTK) No. 6102 and the provisions of Articles 19 and 20 of the Law on Corporations Tax No 5520 ("KVK"), and registration transactions were realized as of February 28, 2018 by joining Akfen Holding, which has the same partnership structure as itself.

APPENDIX: COMPLIANCE CONTROL ON PORTFOLIO LIMITATIONS

The Group's control of compliance of the portfolio limits according to the CMB Communiqué Serial: III, No. 48.1 "Communiqué on Principles Regarding Real Estate Investment Trusts" is as follows:

	Unconsolidated (separate) financial statement main account items	Related Regulation	December 31, 2017	December 31, 2016
A	Cash and capital market instruments	III-48.1. S/N 24 / (b)	1,120,603	851,716
B	Investment properties, investment property-based projects, investment property-based rights	III-48.1. S/N 24 / (a)	722,815,403	643,531,638
C	Participations	III-48.1. S/N 24 / (b)	415,653,381	427,864,488
	Due from related parties (non-trade)	III-48.1. S/N 23 / (f)	-	-
	Other assets		**77,464,113**	**25,831,483**
D	**Total assets**	**III-48.1. S/N 3 / (p)**	**1,217,053,500**	**1,098,079,325**
E	Financial liabilities	III-48.1. S/N 31	548,298,049	452,976,482
F	Other financial liabilities	III-48.1. S/N 31	32,263,760	25,493,790
G	Finance lease liabilities	III-48.1. S/N 31	-	-
H	Due to related parties (non-trade)	III-48.1. S/N 23 / (f)	-	-
I	Shareholders' equity (net asset value)	III-48.1. S/N 31	636,491,691	619,609,053
	Other liabilities		**-**	**-**
D	**Total liabilities and equity**	**III-48.1. S/N 3 / (p)**	**1,217,053,500**	**1,098,079,325**

	Unconsolidated (separate) other financial information	Related Regulation	December 31, 2017	December 31, 2016
A1	Cash and capital market instruments held for payments of investment properties for 3 years	III-48.1. S/N 24 / (b)		
A2	Time / demand TRY / foreign currency	III-48.1. S/N 24 / (b)	-	-
A3	Foreign capital market instruments	III-48.1. S/N 24 / (d)	1,104,842	837,969
B1	Foreign investment property, investment property-based projects, investment property-based rights	III-48.1. S/N 24 / (d)	-	-
B2	Idle lands	III-48.1. S/N 24 / (c)	-	-
C1	Foreign subsidiaries	III-48.1. S/N 24 / (d)	-	-
C2	Participation to the operator company	III-48.1. S/N 28/1(a)	-	59,579,441
J	Non-cash loans	III-48.1. S/N 31	-	-
K	Pledges on land not owned by the Investment Trust which will be used for project developments	III-48.1. S/N 22 / (e)	219,585,899	180,873,629
L	Cash and capital market instrument Investments held on One Unique Company	III-48.1. S/N 22 / (I)	394,940	612,101

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

APPENDIX: COMPLIANCE CONTROL ON PORTFOLIO LIMITATIONS (cont'd)

	Portfolio Constraints Related Regulation	Portfolio Constraints Related Regulation	Current Period	Previous Year	Minimum/ Maximum Ratio
1	Pledges on Land not Owned by the Investment Trust which will be Used for Project Developments	III-48.1. S/N 22 / (e)	0.00%	0.00%	<%10
	Investment Property, Investment Property Based Projects, Investment Property Based Rights	III-48.1. S/N 24 / (a). (b)			
2	Cash and Capital Market Instruments and Participations	III-48.1. S/N 24 / (b)	59.39%	58.61%	>%51
	Foreign Investment Property, Investment Property based Projects, Investment Property Based Rights, Participations, Capital Market Instruments	III-48.1. S/N 24 / (d)			
3	Idle Lands	III-48.1. S/N 24 / (c)	34.24%	39.04%	<%50
	Participation to the Operator Company	III-48.1. S/N 28			
4	Borrowing Limit	III-48.1. S/N 31	34.15%	38.96%	<%50
5	Time / Demand TRY / Foreign Currency	III-48.1. S/N 22 / (e)	0.00%	0.00%	<%20
6	Cash and capital market instrument Investments held on One Unique Company	III-48.1. S/N 22 / (I)	0.00%	0.00%	<%10
7	Pledges on Land not Owned by the Investment Trust which will be Used for Project Developments	III-48.1. S/N 22 / (e)	125.71%	106.41%	<%500
8	Investment Property, Investment Property Based Projects, Investment Property Based Rights	III-48.1. S/N 24 / (a). (b)	0.09%	0.08%	<%10
9	Cash and Capital Market Instruments and Participations	III-48.1. S/N 24 / (b)	0.03%	0.06%	<%10

Presented information in the footnote of "Compliance Control on Portfolio Limitations" as at December 31, 2017, in accordance with Capital Markets Board's Communiqué Serial: II, No: 14.1 "Financial Reporting in Capital Markets" Amendment No: 16 comprised condensed information and prepared in accordance with Capital Markets Board's Communiqué Serial: III, No: 48.1"Real Estate Investment Company" published in the Official Gazette dated May 28, 2013 numbered 28660.

In addition since the information given "Restrictions on the Investment Portfolio of Real Estate Investment" comprise unconsolidated data; such information may not match with the information disclosed in the consolidated financial statements.

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