

**AKFEN GAYRİMENKUL YATIRIM
ORTAKLIĞI ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD 1 JANUARY 2017 – 30 JUNE 2017
(ORIGINALLY ISSUED IN TURKISH)**

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

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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 30 JUNE 2017

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

ASSETS	Notes	<i>Reviewed</i>	<i>Audited</i>
		30 June 2017	31 December 2016
CURRENT ASSETS		29,361,039	43,113,465
Cash and cash equivalents	5	1,344,063	7,826,862
Financial investments	5	1,581,673	-
Trade receivables		17,556,549	26,677,217
- <i>Trade receivables from related parties</i>	4,7	5,064,589	7,414,000
- <i>Trade receivables from third parties</i>	7	12,491,960	19,263,217
Other receivables		27,772	139,311
- <i>Other receivables from third parties</i>	8	27,772	139,311
Prepaid expenses	16	2,724,986	1,964,941
Other current assets	17	6,125,996	6,505,134
NON CURRENT ASSETS		1,474,198,983	1,454,904,927
Financial investments	5	58,463,327	55,648,500
Other receivables		21,021,475	18,625,738
- <i>Other receivables from third parties</i>	8	21,021,475	18,625,738
Investment property	9	1,351,009,858	1,337,993,612
Property and equipment	10	145,703	144,110
Intangible assets		48,686	51,347
- <i>Other intangible assets</i>	11	48,686	51,347
Prepaid expenses	16	8,558,282	8,767,327
Deferred tax assets	24	4,141,409	3,755,023
Other non current assets	17	30,810,243	29,919,270
TOTAL ASSETS		1,503,560,022	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 30 JUNE 2017**

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

	Notes	<i>Reviewed</i>	<i>Audited</i>
		30 June 2017	31 December 2016
LIABILITIES			
CURRENT LIABILITIES		121,530,502	96,930,231
Current borrowings	6	12,640,127	5,174,329
Current portion of non-current borrowings	6	94,374,394	79,065,215
Trade payables		1,838,060	3,233,249
- <i>Trade payables to third parties</i>	7	<i>1,838,060</i>	<i>3,233,249</i>
Other payables		7,765,942	7,640,731
- <i>Other payables to related parties</i>	4,8	<i>1,293,672</i>	-
- <i>Other payables to third parties</i>	8	<i>6,472,270</i>	<i>7,640,731</i>
Deferred revenue	16	3,169,358	-
Current provisions		213,077	259,691
- <i>Current provisions for employee benefits</i>	15	<i>213,077</i>	<i>259,691</i>
Other current liabilities	14,17	1,529,544	1,557,016
NON CURRENT LIABILITIES		878,300,430	840,292,897
Non current borrowings	6	794,288,099	754,455,292
Other payables		30,336,050	29,771,524
- <i>Other payables to third parties</i>	8	<i>30,336,050</i>	<i>29,771,524</i>
Non current provisions		141,677	109,136
- <i>Non current provisions for employee benefits</i>	15	<i>141,677</i>	<i>109,136</i>
Deferred tax liabilities	24	49,731,463	52,453,383
Other non current liabilities	14,17	3,803,141	3,503,562
EQUITY		503,729,090	560,795,264
Equity attributable to owners of parent		490,911,073	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		(39,154,698)	(40,656,244)
- <i>Exchange differences on translation</i>	18	<i>(39,154,698)</i>	<i>(40,656,244)</i>
Restricted reserves appropriated from profits		5,609,501	3,342,930
- <i>Legal reserves</i>	18	<i>4,147</i>	<i>4,147</i>
- <i>Legal reserves for treasury shares</i>	18	<i>5,605,354</i>	<i>3,338,783</i>
Prior years' profits		285,998,577	545,174,055
Net loss for the period		(52,883,024)	(256,908,907)
Non controlling interests		12,818,017	16,236,142
TOTAL LIABILITIES		1,503,560,022	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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2017**

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

	Notes	<i>Reviewed</i> 1 January- 30 June 2017	<i>Reviewed</i> 1 April- 30 June 2017	<i>Reviewed</i> 1 January- 30 June 2016	<i>Reviewed</i> 1 April- 30 June 2016
PROFIT OR LOSS					
Revenue	19	28,046,654	14,999,060	26,112,134	13,515,149
Cost of sales (-)	19	(4,761,460)	(2,398,186)	(4,193,326)	(2,198,048)
GROSS PROFIT		23,285,194	12,600,874	21,918,808	11,317,101
General administrative expenses (-)	20	(2,929,519)	(1,419,193)	(4,276,951)	(2,453,637)
Other operating income from operating activities	21	161,760	96,892	84,886	56,329
Other operating expenses from operating activities (-)	21	(62,617)	(35,335)	(1,115,180)	(1,018,273)
PROFIT FROM OPERATING ACTIVITIES		20,454,818	11,243,238	16,611,563	7,901,520
Financial income	22	13,298,020	240,483	18,888,198	12,184,392
Financial expenses (-)	23	(93,101,323)	(48,208,177)	(23,704,325)	(9,798,226)
PROFIT/(LOSS) BEFORE TAX		(59,348,485)	(36,724,456)	11,795,436	10,287,686
Tax income/(expenses)		2,983,222	4,062,206	(5,649,129)	(2,419,431)
- <i>Current tax expenses (-)</i>	24	(393,526)	43,487	-	-
- <i>Deferred tax income/(expenses)</i>	24	3,376,748	4,018,719	(5,649,129)	(2,419,431)
PROFIT/(LOSS) FOR THE PERIOD		(56,365,263)	(32,662,250)	6,146,307	7,868,255
Profit/(Loss) for the period attributable to:					
Non controlling interests		(3,482,239)	(1,599,000)	23,584	341,570
Owners of the Group		(52,883,024)	(31,063,250)	6,122,723	7,526,685
Net profit/(loss) for the period		(56,365,263)	(32,662,250)	6,146,307	7,868,255
Earnings per share (TL)	25	(0.29)	(0.17)	0.03	0.04
PROFIT/(LOSS) FOR THE PERIOD		(56,365,263)	(32,662,250)	6,146,307	7,868,255
OTHER COMPREHENSIVE INCOME		1,565,660	(9,723,515)	13,582,915	8,498,723
Other comprehensive income that will be reclassified to profit or loss		1,565,660	(9,723,515)	13,582,915	8,498,723
Exchange differences on translation		1,565,660	(9,723,515)	13,582,915	8,498,723
TOTAL COMPREHENSIVE) INCOME/(LOSS)		(54,799,603)	(42,385,765)	19,729,222	16,366,978
Profit/(Loss) for the period attributable to:					
Non controlling interest		(3,418,125)	(1,691,976)	23,584	341,570
Owners of the parent		(51,381,478)	(40,693,789)	19,705,638	16,025,408

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 PERIOD ENDED 30 JUNE 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		Prior year's profits			Non controlling interests	Total equity
						Income and items reclassified to profit or loss	to be Exchange differences on translation	Restricted reserves appropriated from profits	Prior year profit or loss	Net loss for the period		
Balance as at 1 January 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	-	-	-
Total comprehensive income	-	-	-	-	-	13,582,915	-	-	6,122,723	19,705,638	23,584	19,729,222
Balance as at 30 June 2016	184,000,000	317,344	-	58,880,000	53,748,727	(58,426,468)	4,147	548,512,838	6,122,723	793,159,311	30,676,437	823,835,748
Balance as at 1 January 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	-	-	-
Total comprehensive income	-	-	-	-	-	1,501,546	-	-	(52,883,024)	(51,381,478)	(3,418,125)	(54,799,603)
(Decrease) / increase arising from treasury shares transactions (*)	-	-	(2,266,571)	-	-	-	2,266,571	(2,266,571)	-	(2,266,571)	-	(2,266,571)
Balance as at 30 June 2017	184,000,000	317,344	(5,605,354)	58,880,000	53,748,727	(39,154,698)	5,609,501	285,998,577	(52,883,024)	490,911,073	12,818,017	503,729,090

(*) Explained in Note 18.

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 CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2017

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

	Notes	Reviewed 30 June 2017	Reviewed 30 June 2016
A. Cash flows from operating activities			
Profit/(loss) for the period		(56,365,263)	6,146,307
<i>Adjustments to reconcile profit/(loss):</i>			
Adjustments for depreciation and amortisation expense	10, 11	28,567	15,382
Adjustments for provisions related with employee benefits	15	65,281	35,929
Adjustments for interest income and expense		25,696,078	18,490,598
Adjustments for unrealised foreign exchange (gains)/losses		54,051,313	(15,361,150)
Adjustments for tax expense	24	(2,983,222)	5,649,129
Other adjustments to reconcile (loss)/profit		272,107	(91,881)
		20,764,861	14,884,314
Changes in working capital:			
Adjustments for decrease/(increase) in trade accounts receivable		9,120,668	8,358,460
Adjustments for increase in other receivables related with operations		(1,577,458)	(619,526)
Adjustments for (decrease)/increase in trade accounts payable		(1,395,189)	(585,145)
Adjustments for increase in other operating payables		5,817,644	2,746,740
Other adjustments for Other increase/(decrease) in working capital		(1,062,837)	737,937
		31,667,689	25,522,780
Cash flows from operations			
Employee benefits paid	15	(79,354)	-
Taxes paid		(2,259,650)	-
		29,328,685	25,522,780
B. Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	10,11	(27,499)	(29,684)
Proceeds from sales of property, plant, equipment and intangible assets	10,11	-	1,881
Cash outflows from acquisition of investment property		(6,289,236)	(15,827,730)
		(6,316,735)	(15,855,533)
C. Cash flows (used in)/from financing activities			
Proceeds from loans		7,267,625	5,000,000
Loan repayments		(8,092,985)	-
Interest received		30,381	598,444
Interest paid		(26,433,199)	(18,639,626)
Cash outflows from other financial liabilities		(2,266,571)	-
Other outflows of cash		-	(449,416)
		(29,494,749)	(13,490,598)
Cash flows (used in)/from financing activities			
		(6,482,799)	(3,823,351)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		7,826,862	16,238,637
		1,344,063	12,415,286
Cash and cash equivalents at the end of the period	5		

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

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 25 June 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 25 April 2006 and Capital Markets Board of Turkey’s (“CMB”) approval numbered 31/894 and dated 14 July 2006 with the result of the Group’s conversion to “Real Estate Investment Trust” registered in 25 August 2006. The change of title and activities was published on Official Trade Gazette on 31 August 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 11 May 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 21 February 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 30 June 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 16 July 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 31 May 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 30 June 2017, the number of employees of the group is 20 (31 December 2016: 21).

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

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

(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 13 June 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 Communiqué 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 30 June 2017 have been approved by the Group’s Board of Directors on 4 August 2017. General assembly and related legal institutions have right to correct related financial tables and financial tables according to legal statute.

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

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

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

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

(Amounts are expressed in Turkish Lira (“TRY”) 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 30 June 2017 and 31 December 2016:

The Group	Direct or indirect shares of Group (%)
Akfen GT	100
HDI	100
RHI	97.72
RPI	95
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 or in full, the relevant amount in the FCTR is transferred to profit or loss.

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

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2017**

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

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

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 30 June 2017 are presented comparatively to the financial statements as at 31 December 2016 and 30 June 2016.

Adjustments in financial statements for the prior period

"Time deposit interest income" amount of TRY 24,739 under the heading of "Revenue" was classified within the "Interest income" under the heading of "Financial income" in the consolidated financial statement as of June 30, 2016.

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 31 December 2016.

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).

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

2.2. Accounting estimates (cont’d)

The Group, for the current period, applied amendments and interpretations among the new and revised TAS (Turkish Accounting Standards) /TFRS (Turkish Financial Reporting Standards) amendments and interpretations published by the Turkish Accounting Standards Authority (TASB) and TASB’s Turkish Financial Reporting Interpretations Committee (TFRIC), effective for as of 31 December 2016 and 30 June 2016 that affected the Group’s consolidated financial statements.

The new standards, amendments and interpretations which are effective as at January 1, 2017 are as follows:

- IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants
- AS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)
- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)
- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)
- IAS 1: Disclosure Initiative (Amendments to IAS 1)
- Annual Improvements to IFRSs - 2012-2014 Cycle

These amendments did not have any impact on the financial position or performance of the Group.

Standards issued but not yet effective and not early adopted:

IFRS 15 - Revenue from Contracts with Customers
IFRS 9 Financial Instruments
IAS 7 Statement of Cash Flows (Amendments)
IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)
IFRS 16 Leases
IFRS 4 Insurance Contracts (Amendments)
IAS 40 Investment Property: Transfers of Investment Property (Amendments)
IFRIC 22 Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs - 2014-2016 Cycle
IFRS 17 - The new Standard for insurance contracts
IFRIC 23 Uncertainty over Income Tax Treatments

The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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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 confidently.

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.

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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 development are those which are held either to earn income or for capital appreciation or for both. Investment properties under development are stated at fair value as operating investment property. The fair value of the investment properties under development are determined by discounted cash flow projections based on reliable estimates of future cash flows, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows and also includes the expenditures required to complete the project.

2.4.4. Property and equipment

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

Depreciation

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

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

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

Subsequent expenditure

Expenditures incurred to replace a component of tangible assets that is accounted for separately, including major inspection and overhaul costs, are 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.

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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.

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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).

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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.

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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 31 December 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.

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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% 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.

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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 31 December 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 28 May 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.

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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.

30 June 2017:

	Turkey	TRNC	Russia	Elimination	Total
Revenue	10,303,778	8,966,336	8,776,540	-	28,046,654
Cost of sales (-)	(3,251,621)	(17,516)	(1,492,323)	-	(4,761,460)
GROSS PROFIT	7,052,157	8,948,820	7,284,217	-	23,285,194
General administrative expenses (-)	(1,818,796)	(90,365)	(1,020,358)	-	(2,929,519)
Other operating income from operating activities	117,972	-	43,788	-	161,760
Other operating expenses from Operating activities (-)	(33,462)	(143)	(29,012)	-	(62,617)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	5,317,871	8,858,312	6,278,635	-	20,454,818
Financial income	2,994,944	-	10,303,076	-	13,298,020
Financial expenses (-)	(61,662,710)	(1,952,826)	(29,485,787)	-	(93,101,323)
PROFIT/(LOSS) BEFORE TAX	(53,349,895)	6,905,486	(12,904,076)	-	(59,348,485)
Tax income	2,254,599	(1,635,218)	2,363,841	-	2,983,222
- Current period tax expense	(393,526)	-	-	-	(393,526)
- Deferred tax income	2,648,125	(1,635,218)	2,363,841	-	3,376,748
LOSS FOR THE PERIOD	(51,095,296)	5,270,268	(10,540,235)	-	(56,365,263)

30 June 2017:

Reportable segment assets	1,359,954,139	249,192,886	330,963,163	(436,550,166)	1,503,560,022
Reportable segment liabilities	849,722,562	49,443,546	252,723,500	(152,058,676)	999,830,932
Capital expenditures, net	6,153,944	-	162,791	-	6,316,735
Depreciation and amortization expenses	11,040	697	16,830	-	28,567

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3. SEGMENT REPORTING (cont’d)

30 June 2016:

	Turkey	TRNC	Russia	Elimination	Total
Revenue	10,527,462	7,676,315	7,908,357	-	26,112,134
Cost of sales	(2,954,435)	(110,444)	(1,128,447)	-	(4,193,326)
GROSS PROFIT	7,573,027	7,565,871	6,779,910	-	21,918,808
General administrative expenses	(3,346,208)	(91,885)	(838,858)	-	(4,276,951)
Other operating income	39,810	-	45,076	-	84,886
Other operating expenses	(42,998)	(57,120)	(1,015,062)	-	(1,115,180)
OPERATING PROFIT	4,223,631	7,416,866	4,971,066	-	16,611,563
Financial income	1,124,636	164,441	17,599,121	-	18,888,198
Financial expenses	(16,562,142)	(643,459)	(6,498,724)	-	(23,704,325)
LOSS)					
/PROFIT BEFORE TAX	(11,213,875)	6,937,848	16,071,463	-	11,795,436
Current tax income/(expense)	393,936	(1,643,316)	(4,399,749)	-	(5,649,129)
- <i>Deferred tax income/(expense)</i>	393,936	(1,643,316)	(4,399,749)	-	(5,649,129)
(LOSS)/PROFIT FOR THE YEAR	(10,819,939)	5,294,532	11,671,714	-	6,146,307

31 December 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

30 June 2016:

Capital expenditures, net	15,894,138	35,150	(71,874)	-	15,857,414
Depreciation and amortization expenses	8,690	699	5,993	-	15,382

As of 30 June 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 62% and 32%, respectively (As of 30 June 2016: ACCOR S.A. : 66%, Voyager Kıbrıs Limited: 29%).

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4. RELATED PARTY DISCLOSURES

4.1. Related party balances

Due from related parties (trade):

	30 June 2017	31 December 2016
Akfen İnşaat Turizm ve Ticaret A.Ş. (“Akfen İnşaat”)	5,032,017	7,414,000
Akfen Çevre ve Su Yatırım Yapım İşletme A.Ş. (“Akfen Su”)	32,572	-
	5,064,589	7,414,000

The whole trade receivables balance from the Akfen İnşaat as at 30 June 2017 and 31 December 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):

	30 June 2017	31 December 2016
Akfen Mühendislik A.Ş.	1,293,672	-
	1,293,672	-

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)

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Akfen İnşaat	-	-	9,998,601	6,005,646
	-	-	9,998,601	6,005,646

b) Rent expenses

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Hamdi Akın	166,050	73,800	212,024	106,001
	166,050	73,800	212,024	106,001

c) Interest income

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Akfen Holding	-	-	1,632	486
	-	-	1632	486

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4. RELATED PARTY DISCLOSURES (cont’d)

4.2. Related party transactions (cont’d)

d) Interest expenses

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Akfen İnşaat	4,364	-	21	10
Akfen Mühendislik	46,073	46,073	-	-
	50,437	46,073	21	10

e) Remuneration of top management

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Remuneration of top management	914,578	439,178	1,090,013	474,849
	914,578	439,178	1,090,013	474,849

5. CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
Cash on hand	17,376	20,485
Cash at banks	1,326,687	7,692,305
- Demand deposits	880,293	2,640,425
- Time deposits	446,394	5,051,880
Investment funds	-	114,072
Cash and cash equivalents in cash flow statement	1,344,063	7,826,862

Demand deposits

As at 30 June 2017 and 31 December 2016 demand deposits are comprised of the following currencies:

	30 June 2017	31 December 2016
Euro	556,914	2,016,405
Russian Ruble	254,717	72,776
TRY	64,372	541,572
US Dollar	4,290	9,672
Total demand deposits	880,293	2,640,425

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5. CASH AND CASH EQUIVALENTS (cont’d)

Time deposits

As at 30 June 2017 and 31 December 2016 time deposits are comprised of the following currencies:

30 June 2017

Currency	Maturity	Interest rate	30 June 2017
Russian Ruble	July 2017	8.50%	446,394
Total			446,394

31 December 2016

Currency	Maturity	Interest rate	31 December 2016
Euro	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 30 June 2017 and 31 December 2016 short and long term financial assets are comprised of the following currencies:

Short term financial investments:

Currency	Maturity	Interest rate	30 June 2017	31 December 2016
Euro	July 2025	7.20%	1,581,673	-
Total			1,581,673	-

Long term financial investments:

Currency	Maturity	Interest rate	30 June 2017	31 December 2016
Euro	July 2025	7.20%	58,463,327	55,648,500
Total			58,463,327	55,648,500

As at 30 June 2017 and 31 December 2016, time deposit on Credit Europe Bank is portion - in amount of Euro 15,000,000 in time blockage deposit- of Euro 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

	30 June 2017	31 December 2016
Current financial liabilities:		
Short-term bank borrowings	12,640,127	5,174,329
Current portion of long-term bank borrowings	94,374,394	79,065,215
Non-current financial liabilities:		
Long-term bank borrowings	794,288,099	754,455,292
Total financial liabilities	901,302,620	838,694,836

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6. FINANCIAL LIABILITIES (cont’d)

The repayment schedule of financial liabilities is as follows:

	30 June 2017	31 December 2016
Less than one year	107,014,521	84,239,544
1 - 2 years	82,644,456	71,913,883
2 - 3 years	79,483,694	74,670,044
3 - 4 years	73,614,440	69,367,684
4 - 5 years	73,775,299	63,939,206
5 years and longer	484,770,210	474,564,475
Total financial liabilities	901,302,620	838,694,836

30 June 2017:

Currency	Nominal interest rate	Original amount	Short term	Long term	Total
Euro (1) (*)	6.80%	113,208,560	50,015,245	403,158,621	453,173,866
Euro (2) (*)	7.20%	29,950,814	11,534,694	108,358,413	119,893,107
Euro (3) (*)	7.20%	14,954,608	5,588,210	54,275,086	59,863,296
Euro (4) (*)	7.20%	58,867,641	7,151,186	228,495,979	235,647,165
Euro (5)	6.125%	5,017,502	20,085,059	-	20,085,059
TRY (6)	14.35%	5,372,502	5,372,502	-	5,372,502
TRY (7)	16.00%	5,000,000	5,000,000	-	5,000,000
TRY (8)	11.00% - 16.00%	2,267,625	2,267,625	-	2,267,625
			107,014,521	794,288,099	901,302,620

31 December 2016:

Currency	Nominal interest rate	Original amount	Short term	Long term	Total
Euro (1) (*)	% 7.20	115,686,296	43,621,922	385,562,664	429,184,586
Euro (2) (*)	% 7.20	30,051,269	9,069,837	102,417,364	111,487,201
Euro (3) (*)	% 7.20	15,006,222	4,359,173	51,312,410	55,671,583
Euro (4) (*)	% 7.20	58,912,523	3,396,717	215,162,854	218,559,571
Euro (5)	% 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 Euro 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 18 March 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.

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6. FINANCIAL LIABILITIES (cont’d)

- (2) The loan agreement in amount of Euro 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 6 November 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. Euro 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 Euro 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 6 November 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,

- (4) The loan agreement in amount of Euro 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 6 November 2015 and 17 November 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,
- Euro 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) 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

- (6) Spot loan in amount of TRY 5,000,000 has been used in October 2016. Akfen Holding has corporate guarantee for the loan used.

- (7) Spot loan in amount of TRY 5,000,000 has been used in April 2017. Akfen Mühendislik has corporate guarantee for the loan used.

- (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.

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7. TRADE RECEIVABLES AND PAYABLES

a) Short-term trade receivables

As at 30 June 2017 and 31 December 2016, short-term trade receivables comprised the followings:

	30 June 2017	31 December 2016
Trade receivables from third parties ⁽¹⁾	12,491,960	19,263,217
Trade receivables from related parties (Note 4)	5,064,589	7,414,000
	17,556,549	26,677,217

⁽¹⁾ As at 30 June 2017, TRY 6,065,356 (31 December 2016: TRY 5,086,693) and TRY 5,712,420 (31 December 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.

b) Short-term trade payables

As at 30 June 2017 and 31 December 2016, short-term trade payables comprise the followings:

	30 June 2017	31 December 2016
Trade payables to third parties	1,838,060	3,233,249
- <i>Other trade payables</i>	1,632,494	2,965,154
- <i>Other expenses accruals</i>	205,566	268,095
	1,838,060	3,233,249

8. OTHER RECEIVABLES AND PAYABLES

a) Other current receivables

As at 30 June 2017 and 31 December 2016, other current receivables are comprised of the followings:

	30 June 2017	31 December 2016
Other receivables from third parties	27,772	139,311
	27,772	139,311

b) Other non current receivables

As at 30 June 2017 and 31 December 2016, other non current receivables are comprised of the followings:

	30 June 2017	31 December 2016
Other receivables from third parties	20,874,638	18,432,945
Deposits and guarantees given	146,837	192,793
	21,021,475	18,625,738

As at 30 June 2017, other non- current receivables are comprised of capital receivables of Akfen GT related to capital paid on behalf other shareholders of Akfen Karaköy.

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8. OTHER RECEIVABLES AND PAYABLES (cont’d)

c) Other current payables

	30 June 2017	31 December 2016
Other payables to third parties	6,472,270	7,640,731
Land lease payables(Note 9)	4,340,239	4,728,750
Taxes and funds payable	1,853,101	2,343,142
Social security premiums payable	54,591	54,782
Other	224,339	514,057
Other payables to related parties (Note 4)	1,293,672	-
	7,765,942	7,640,731

d) Other non current payables

	30 June 2017	31 December 2016
Land lease payables(Note 9)	30,336,050	29,771,524
	30,336,050	29,771,524

9. INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT

As at 30 June 2017 and 31 December 2016 details of investment property and investment property under development are as follows:

	30 June 2017	31 December 2016
Operating investment properties	1,316,333,569	1,253,723,338
Investment properties under development	-	49,770,000
Land lease	34,676,289	34,500,274
Total	1,351,009,858	1,337,993,612

Operating investment properties:

As at 30 June 2017 and 2016 movements in operating investment property are as follows:

	2017	2016
January 1	1,253,723,338	1,195,377,875
Additions	3,964,064	2,658,517
Currency translation difference	6,550,995	33,416,711
Transfer to investment properties under development	52,095,172	181,593,101
June 30	1,316,333,569	1,413,046,204

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

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

Name of investment property	30 June 2017		31 December 2016	
	Date of appraisal report	Fair value	Date of appraisal report	Fair value
Merit Park Hotel – TRNC Kyrenia	31 December 2016	240,881,000	31 December 2016	240,881,000
Ibis Hotel and Novotel Zeytinburnu	31 December 2016	170,135,647	31 December 2016	170,118,000
Novotel İstanbul Bosphorus, Karaköy	31 December 2016	146,290,551	31 December 2016	142,946,000
Novotel Trabzon	31 December 2016	109,472,087	31 December 2016	109,210,000
Ibis Hotel Tuzla	31 December 2016	52,095,172	-	-
Ibis Hotel Alsancak İzmir	31 December 2016	45,048,000	31 December 2016	45,048,000
Ibis Hotel Adana	31 December 2016	43,574,204	31 December 2016	43,520,000
Ibis Hotel and Novotel Kayseri	31 December 2016	42,096,000	31 December 2016	42,096,000
Ibis Hotel Esenyurt	31 December 2016	40,974,950	31 December 2016	40,952,000
Ibis Hotel and Novotel Gaziantep	31 December 2016	40,236,138	31 December 2016	40,178,000
Ibis Hotel Bursa	31 December 2016	37,338,990	31 December 2016	37,320,000
Ibis Hotel Ankara Airport	31 December 2016	34,500,707	31 December 2016	34,478,000
Ibis Hotel Eskişehir	31 December 2016	11,474,000	31 December 2016	11,474,000
Total		1,014,117,446		958,221,000

As at 30 June 2017, the fair value of operating investment properties comprise of value of appraisal report dated 31 December 2016 and expenditures at the balance sheet date.

As at 31 December 2016, Ibis Hotel Yaroslavl, Ibis Hotel Samara and Ibis Hotel Kaliningrad, operating in Russia, owned by RHI have fair values at amounts of TRY 48,838,411, TRY 524,130,387 and TRY 51,771,280 (31 December 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 31 December 2016 is 13%. Samara office project, owned by RPI has fair value amount of TRY 20,930,747 (31 December 2016: TRY 20,476,174) and the discount rate used for appraisal as of 31 December 2016 is 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 incorporated in Holland in 2011 of which Akfen GYO has 100% of shares is TRY 126,545,296 as of 30 June 2017 (31 December 2016: TRY 123,691,666) and the discount rate used for appraisal as of 31 December 2016 is %12.

As at 31 December 2016, total insurance amount on operating investment properties is TRY 1,564,738,131 (31 December 2016: TRY 1,369,349,018).

As at 30 June 2017 the pledge amount on operating investment property is TRY 1,208,407,194 (31 December 2016:TRY 1,001,113,617).

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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 31 December 2016, are as below:

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

* Since the hotel started its operations as of 30 June 2017, it has been transferred to operating investment properties from investment properties under development.

Investment properties under development:

As at 30 June 2017 and 2016, the details of investment property under development are as follows:

	2017	2016
1 January	49,770,000	232,983,000
Additions	2,325,172	13,169,213
Transfer to operating investment properties	(52,095,172)	(181,593,101)
30 June	-	64,559,112

As at 30 June 2017, the transfer to operating investment properties composed of Ibis Hotel, Tuzla which was completed during the period (31 December 2016: Novotel İstanbul Bosphorus, Karaköy).

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

As at 30 June 2017 and 31 December 2016, the fair values of investment properties under development in Turkey is as follows:

Name of investment property	30 June 2017		31 December 2016	
	Date of appraisal report	Fair value	Date of appraisal report	Fair value
Ibis Hotel Tuzla Project	-	-	30 June 2016	49,770,000
Total	-	-		49,770,000

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

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

(*) Since the hotel started its operations as of 30 June 2017, it has been transferred to operating investment properties from investment properties under development.

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

As at 31 December 2016 the pledge amount on investment property under development is TRY 118,813,900. The Group has no investment property under development as at 30 June 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.

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

AKFEN GAYRİMENKUL YATIRIM ORTAKLIĞI ANONİM ŞİRKETİ

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2017**

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

10. PROPERTY AND EQUIPMENT

As at 30 June 2017 and 2016, the movement of property and equipment is as follows:

	Equipment	Furniture and fixture	Motor vehicles	Total
Cost value				
Balance at 1 January 2016	4,688	318,809	197,141	520,638
Additions	-	26,284	-	26,284
Disposals	-	(3,013)	-	(3,013)
Closing at 30 June 2016	4,688	342,080	197,141	543,909
Cost value				
Balance at 1 January 2017	4,688	348,418	197,141	550,247
Additions	-	27,499	-	27,499
Closing at 30 June 2016	4,688	375,917	197,141	577,746
Accumulated depreciation				
Balance at 1 January 2016	(2,915)	(265,666)	(117,678)	(386,259)
Charge for the period	(192)	(11,823)	(701)	(12,716)
Disposals	-	1,132	-	1,132
Closing at 30 June 2016	(3,107)	(276,357)	(118,379)	(397,843)
Balance at 1 January 2017	(3,300)	(283,749)	(119,088)	(406,137)
Charge for the period	(191)	(10,261)	(15,454)	(25,906)
Closing at 30 June 2017	(3,491)	(294,010)	(134,542)	(432,043)
Net carrying value				
1 January 2016	1,773	53,143	79,463	134,379
30 June 2016	1,581	65,723	78,762	146,066
1 January 2017	1,388	64,669	78,053	144,110
30 June 2017	1,197	81,907	62,599	145,703

As at 30 June 2017 there is no pledge on property and equipment (31 December 2016: None)

As of 30 June 2017, depreciation expenses amounting to TRY 25,906 has been recognized in general administrative expenses (30 June 2016: TRY 12,716).

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11. INTANGIBLE ASSETS

As at 30 June 2017 and 2016, the movement of intangible assets is as follows:

	Software
Cost vale	
Balance at 1 January 2016	101,166
Additions	3,400
Closing balance at 30 June 2016	104,566
Balance at 1 January 2017	104,566
Additions	-
Closing balance at 30 June 2017	104,566
Accumulated amortisation	
Balance at 1 January 2016	(47,848)
Charge for the period	(2,666)
Closing balance at 30 June 2016	(50,514)
Balance at 1 January 2017	(53,219)
Charge for the period	(2,661)
Closing balance at 30 June 2017	(55,880)
Net carrying value	
1 January 2016	53,318
30 June 2016	54,052
1 January 2017	51,347
30 June 2017	48,686

As of 30 June 2017, amortization expenses amounting to TRY 2,661 has been recognized in administrative expenses (30 June 2016: TRY 1,328).

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12. GOVERNMENT GRANTS AND INCENTIVES

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

13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

There is no ongoing or finalized significant lawsuit against the Group as at 30 June 2017 and 31 December 2016.

14. COMMITMENT AND CONTINGENCIES

14.1. CPM are given by the Group

As at 30 June 2017 and 31 December 2016, Group’s position related to commitments, pledges and mortgages (“CPM”) are as follows:

CPM are given by the Group	30 June 2017	31 December 2016
A. Total amount of CPM is given on behalf of own legal personality	1,217,861,803	1,127,499,933
B. Total amount of CPM is given in favor of subsidiaries which are fully consolidated	585,406,560	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	-	-
	1,803,268,363	1,680,665,493

Total original amount of foreign currency denominated CPM given on behalf of the Group’s own legal personality are Euro 302,302,899 and USD 800,000 as at 30 June 2017 (31 December 2016: Euro 302,302,899 and USD 800,000). Total original amount of foreign currency denominated other CPM is Euro 110,000,000 as at 30 June 2017 (31 December 2016: Euro 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 30 June 2017 and 31 December 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%.

As of 30 June 2017 and 31 December 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 Euro 30,000,000 and Euro 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 Euro 15,000,000 and Avro 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 Euro 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.

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14. COMMITMENT AND CONTINGENCIES (cont’d)

14.2. The Group as lessee

Operating lease arrangements

As at 31 December 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 15 July 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 4 December 2003 to lease a land and for constructing a hotel in Zeytinburnu, Istanbul. The lease term is 49 years starting from 18 November 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 8 August 2005 to lease an incomplete hotel construction site located at Eskişehir for 22 years starting from 8 February 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 30 October 2006 to lease a land and to construct a hotel in Trabzon. The lease term is 49 years starting from 27 August 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 Dollar 50,000.
- The Group signed a rent agreement with Kayseri Chamber of Industry on 4 November 2006 to lease a land and to construct a hotel in Kayseri. The term of the servitude right obtained with this agreement is 49 years starting from 3 March 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 Dollar 50,000.
- The Group signed a rent agreement with Municipality of Gaziantep on 31 May 2007 to lease a land and to construct a hotel in Gaziantep. The term of the servitude right obtained with this agreement is 30 years starting from 3 December 2009. The lease payment for the first 5 years is paid in advance and annual rent amount for year 2017 is USD Dollar 87,518.
- The Group signed a rent agreement with Bursa International Textile Trading Centre Business Cooperative on 9 May 2008 to lease a land and to construct a hotel in Bursa. The lease term is 30 years starting from 6 October 2010. Lease payments will start after a five year rent free period and annual rent amount for year 2017 is USD Dollar 106,200.
- The Group signed lease agreement on 18 February 2009 for land of Kaliningrad projects with Kaliningrad Municipality amounting to TRY 16,190 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 11 November 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 2017.
- The Group signed a rent agreement with Prime Ministry General Directorate of Foundations on 16 September 2010 to lease a land and to construct a hotel in İzmir for 49 years 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 30 June 2017 is TRY 30,840 and 30% percent deduction has been existence.

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14. COMMITMENT AND CONTINGENCIES (cont’d)

14.2. The Group as lessee (cont’d)

Operating lease arrangements(cont’d)

- The Group took over the lease agreement for a period of 49 years starting from the agreement date on 22 June 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 1 September 2009. Monthly rent amount as of 30 June 2017 is TRY 240,187 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 20 April 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 2 June 2011 related to aforesaid lease agreement. Rent amount of land is approximately TRY 231,190 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.

Payments recognized as an expense

	30 June 2017	30 June 2016
Rent expenses(*)	2,939,975	2,847,206
	2,939,975	2,847,206

(*) As of 30 June 2017 and 30 June 2016, the Group’s rent expenses amounting to TRY 2,644,616 and TRY 2,544,191 has been recognized in cost of sales respectively. As of 30 June 2017 and 30 June 2016, the Group’s rent expenses amounting to TRY 295,359 and TRY 303,015 has been recognized in general administrative expenses respectively.

As of 30 June 2017 and 31 December 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:

	30 June 2017	31 December 2016
Less than one year	4,607,533	5,151,838
1 - 5 years	22,516,962	20,609,564
5 years and longer	200,417,968	190,790,993
	227,542,463	216,552,395

Accrued rent expenses are as follows:

	30 June 2017	31 December 2016
Accrued rent expenses (*)		
Short term (Note 17)	1,529,544	1,557,016
Long term (Note 17)	3,803,141	3,503,562
	5,332,685	5,060,578

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

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14. COMMITMENT AND CONTINGENCIES (cont’d)

14.2. The Group as lessee (cont’d)

14.3. The Group as lessor

Operating lease arrangements

As at 30 June 2017, the Group has undergone 25 operating lease arrangements as;

- The Group signed a rent agreement with ACCOR S.A. on 18 November 2005 to lease a hotel which was completed in 2007 and started operations in Eskişehir.
- The Group signed a rent agreement with ACCOR S.A. on 12 December 2005 to lease two hotels which were completed in 2007 and started operations in Istanbul.
- The Group signed a rent agreement with ACCOR S.A. on 26 July 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 24 March 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 24 March 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 31 July 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 7 September 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 16 August 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 2 February 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 19 December 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 28 March 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 1 March 2014 to lease a hotel which is planned to complete and starts its operations on 1 April 2016 in Tuzla.

All of the twelve 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 Euro 750,000.

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14. COMMITMENT AND CONTINGENCIES (cont'd)

14.3. The Group as lessor (cont'd)

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

Valid starting from 1 January 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 15 May 2012 and first year rent amount is Euro 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 6 October 2012.

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14. COMMITMENT AND CONTINGENCIES (cont'd)

14.3. The Group as lessor (cont'd)

- The Group signed rent agreement with Algök Turizm Gıda İnşaat San. Tic. Ltd. Şti. for Eskişehir İbis Hotel Fitness Center on 1 July 2015. The rent payments begin as of 1 July 2015 which the rentable area is delivered. Agreement period includes three periods having 7 years and after each period the agreement may be terminated in case 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 11 May 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 fifteenth 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 29 January 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 fifteenth 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 Euro 4,000 per a room, for second year Euro 5,000 per a room, from third year to fifteenth year Euro 6,000 per a room. The parties agreed that the Minimum Annual Guaranteed Rent the highest price is Euro 12,000 per a room. ACCOR S.A. has the right to cancel the lease agreement at the end of fifteenth year of the lease agreement.

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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 110,232. The delivery of the rented offices was made in 15 March 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 2 September 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 31 December 2016 and the monthly rent revenue for 2017 is approximately TRY 4,430, 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 2 December 2013 which will be valid till 30 September 2018. Monthly rent amount is approximately TRY 71,666, including VAT. Additionally, 584 squaremeter area of the office was leased to Rosneft with the agreement signed in 30 June 2016 of which lease duration will start in 1 July 2016 and end 30 September 2018. According to the agreement, monthly rent amount is approximately TRY 21,292, including VAT.
- Russian Property leased 622 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 19 February 2014 and 1 September 2015. Monthly rent amount is approximately TRY 22,571, including VAT.
- On 1 March 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 6,970, including VAT.
- On 18 December 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 2nd and 3th years, and monthly USD 25,000 for 5th year. Starting from 6th 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 18 January 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 2nd and 3th years, and monthly USD 15,000 for 5th year. Starting from 6th 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.

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15. EMPLOYEE TERMINATION BENEFITS

	30 June 2017	31 December 2016
Provision for vacation pay liability-short term	213,077	259,691
Provision for employee termination benefits-long term	141,677	109,136
	354,754	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 30 June 2017 are TRY 4,426 (31 December 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 30 June 2017 and 31 December 2016 the liability is calculated using the following assumptions:

	30 June 2017	31 December 2016
Net discount rate	4.50%	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.

Movement of provision for employee termination benefits is as follows:

	2017	2016
January 1	109,136	80,773
Interest costs	11,754	9,063
Service costs	11,771	11,433
Paid during the period	(52,007)	-
Actuarial loss	61,023	(565)
June 30	141,677	100,704

Movement of vacation pay liability is as follows:

	2017	2016
January 1	259,691	450,977
Paid during the period	(27,347)	-
(Decrease) / increase during the period	(19,267)	15,998
June 30	213,077	466,975

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16. PREPAID EXPENSES AND DEFERRED REVENUE

a) Short term prepaid expenses

	30 June 2017	31 December 2016
Prepaid expenses ⁽¹⁾	1,382,397	604,837
Advances given to suppliers ⁽²⁾	1,274,174	1,299,591
Business advances	68,415	60,513
	2,724,986	1,964,941

b) Long term prepaid expenses

	30 June 2017	31 December 2016
Prepaid expenses ⁽¹⁾	8,558,282	8,767,327
	8,558,282	8,767,327

⁽¹⁾ TRY 7,641,959 (31 December 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.

⁽²⁾ As at 30 June 2017 and 31 December 2016, advances given to subcontractors comprised of advances given to construction project.

c) Deferred revenue

As at 30 June 2017 deferred revenue is rent revenue which was collected in advance related to the rental of Merit Park Hotel in Northern Cyprus to Voyager.

17. OTHER CURRENT / NON-CURRENT ASSETS AND LIABILITIES

a) Other current assets

	30 June 2017	31 December 2016
VAT carryforward	3,823,318	5,386,762
Prepaid taxes and funds	1,546,111	430,333
Other	756,567	688,039
	6,125,996	6,505,134

b) Other non-current assets

	30 June 2017	31 December 2016
VAT carryforward	30,810,243	29,919,270
	30,810,243	29,919,270

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

c) Other current liabilities

	30 June 2017	31 December 2016
Rent expenses accrual (Note 14)	1,529,544	1,557,016
	1,529,544	1,557,016

d) Other non-current liabilities

	30 June 2017	31 December 2016
Rent expenses accrual (Note 14)	3,803,141	3,503,562
	3,803,141	3,503,562

18. EQUITY

18.1. Paid in capital

The capital structure as at 30 June 2017 and 31 December 2016 is as follows:

Shareholders	(%)	30 June 2017	(%)	31 December 2016
Akfen Mühendislik(1)	51.72	95,156,384	-	-
Akfen Holding(1)	5.16	9,500,447	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 16 February 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 (31 December 2016: 2,409,000 shares) have been purchased by Akfen GYO as of June 30, 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%(31 December 2016: 2.29%).

As at 30 June 2017, the issued capital of the Group is TRY 184,000,000 (31 December 2016: TRY 184,000,000). As at 30 June 2017, the issued capital of the Group comprises of 184,000,000 registered units with a nominal value of TRY 1 each (31 December 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.

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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 11 May 2011 were accounted as share premium.

18.5. Restricted reserves allocated from profit

As of 30 June 2017 and 31 December 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 (31 December 2016: 3,338,783), 4,218,000 shares (31 December 2016: 2,409,000 shares) have been purchased by Akfen GYO as of June 30, 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% (31 December 2016: 1,31%).

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18. EQUITY (cont'd)

In accordance with the decision taken at the meeting of CMB dated 7 June 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 periods ended 30 June 2017 and 2016, sales and cost of sales are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Rent income	28,046,654	14,999,060	26,112,134	13,515,149
Total revenue	28,046,654	14,999,060	26,112,134	13,515,149
Operating lease expenses ⁽¹⁾	(2,644,616)	(1,350,975)	(2,544,191)	(1,273,292)
Taxes and duties expenses	(1,177,488)	(587,068)	(735,450)	(424,988)
Insurance expenses	(585,813)	(294,600)	(587,664)	(310,512)
Outsourced service expenses	(343,896)	(156,767)	(319,963)	(184,061)
Others	(9,647)	(8,776)	(6,058)	(5,195)
Total cost of sales	(4,761,460)	(2,398,186)	(4,193,326)	(2,198,048)

⁽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 periods ended 30 June 2017 and 2016, administrative expenses are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Personnel expenses	1,638,430	751,160	1,653,806	746,096
Consultancy expenses	458,014	260,857	537,835	290,591
Operating lease expenses (Note 14)	295,359	133,323	303,015	154,917
Outsourced service expenses	171,671	85,191	1,473,452	1,117,846
Travel and hosting expenses	109,392	58,141	108,390	62,260
Tax and duties expenses	67,402	38,618	58,684	30,217
Advertising expenses	58,307	14,749	41,895	2,634
Depreciation expense	25,906	19,751	12,716	6,684
Amortisation expense	2,661	1,337	2,666	1,338
Other	102,377	56,066	84,492	41,054
Total	2,929,519	1,419,193	4,276,951	2,453,637

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20. GENERAL ADMINISTRATIVE EXPENSES (cont’d)

Personnel expenses

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Wages and salaries	1,350,811	644,580	1,416,600	611,547
Social security premiums	181,674	89,212	162,612	89,337
Change in termination benefit	84,548	6,215	19,931	2,280
Other	21,397	11,153	54,663	42,932
Total	1,638,430	751,160	1,653,806	746,096

21. OTHER OPERATING INCOME/EXPENSES

a) Other operating income

For the periods ended 30 June 2017 and 2016, other operating income are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Foreign exchange gain	24,982	-	13,798	6,482
Other income	136,778	96,892	71,088	49,847
Total	161,760	96,892	84,886	56,329

b) Other operating expenses

For the periods ended 30 June 2017 and 2016, other operating expenses are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Foreign exchange loss	33,299	20,235	27,799	17,159
Other	29,318	15,100	1,087,381	1,001,114
Total	62,617	35,335	1,115,180	1,018,273

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22. FINANCIAL INCOME

For the periods ended 30 June 2017 and 2016, financial income are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Foreign exchange gain	12,560,899	-	18,289,754	11,882,715
Interest income	737,121	240,483	598,444	301,677
Total	13,298,020	240,483	18,888,198	12,184,392

23. FINANCIAL EXPENSES

For the periods ended 30 June 2017 and 2016, financial expenses are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Foreign exchange loss	66,213,979	35,429,053	4,615,283	-
Interest expenses	26,433,199	12,505,875	18,639,626	9,491,401
Expenses for letter of guarantees	50,472	37,939	24,913	12,734
Commission expenses	-	-	187,850	93,925
Other	403,673	235,310	236,653	200,166
Total	93,101,323	48,208,177	23,704,325	9,798,226

For the period ended 30 June 2017, the Group has capitalized interest expenses amounting to TRY 1,713,229 on investment properties under development (30 June 2016: TRY 3,170,228).

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.

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24. TAX ASSETS AND LIABILITIES (cont’d)

For the periods ended 30 June 2017 and 2016, the main components of tax expenses are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Current period tax expense	3,376,748	4,018,719	(5,649,129)	(2,419,431)
Deferred tax income	(393,526)	43,487	-	-
Total	2,983,222	4,062,206	(5,649,129)	(2,419,431)

The reported taxation charge for the periods ended 30 June 2016 and 2015 are different than the amounts computed by applying the statutory tax rate to income before tax as shown in the following:

	(%)	1 January - 30 June 2017	(%)	1 January - 30 June 2016
Profit/(loss) for the period before tax		(59,348,485)		11,795,436
Income tax using the domestic tax expense rate	(20)	11,869,697	(20)	(2,359,087)
Tax-exempt loss ⁽¹⁾	14.16	(8,403,379)	(13.34)	(1,574,018)
Non-deductible expenses	0.39	(229,373)	(12.47)	(1,471,274)
Effect of different tax rates in foreign	0.41	(241,692)	(2.06)	(242,825)
Other	0.02	(12,031)	(0.02)	(1,925)
Taxation income / (expense)		2,983,222		(5,649,129)

(1) Akfen GYO is exempt from Corporate Tax.

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24. TAX ASSETS AND LIABILITIES (cont'd)

Recognized deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities as at 30 June 2017 and 31 December 2016 were attributable to the items detailed in the table below:

	Deferred tax assets		Deferred tax liabilities		Net	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Investment incentive ⁽¹⁾	6,479,192	7,782,057	-	-	6,479,192	7,782,057
Fair value gain on investment property	-	-	(60,307,293)	(59,246,408)	(60,307,293)	(59,246,408)
Tax losses carried forward	8,922,167	4,144,875	-	-	8,922,167	4,144,875
Other	-	-	(684,120)	(1,378,884)	(684,120)	(1,378,884)
Deferred tax asset / (liability)	15,401,359	11,926,932	(60,991,413)	(60,625,292)	(45,590,054)	(48,698,360)
Net off tax	(11,259,950)	(8,171,909)	11,259,950	8,171,909	-	-
Net deferred tax asset / (liability)	4,141,409	3,755,023	(49,731,463)	(52,453,383)	(45,590,054)	(48,698,360)

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

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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 periods ended 30 June 2017 and 2016, the earnings per share computation are as follows:

	1 January - 30 June 2017	1 April - 30 June 2017	1 January - 30 June 2016	1 April - 30 June 2016
Number of shares in circulation				
1 January	184,000,000	184,000,000	184,000,000	184,000,000
Closing balance	184,000,000	184,000,000	184,000,000	184,000,000
Weighted average number of shares	184,000,000	184,000,000	184,000,000	184,000,000
Net profit/(loss) for the period	(52,883,024)	(31,063,250)	6,122,723	7,526,685
Earnings per share	(0.29)	(0.17)	0.03	0.04

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. .

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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

30 June 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	1,344,063	-	1,344,063	1,344,063	-
Trade receivables from non-related parties	12,491,960	-	12,491,960	12,491,960	-
Trade receivables from the related parties	5,064,589	-	5,064,589	5,064,589	-
Financial Liabilities					
Financial liabilities	-	901,302,620	901,302,620	901,302,620	-
Trade payables to non-related parties	-	1,838,060	1,838,060	1,838,060	-
<hr/>					
31 December 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	-
Trade receivables from non-related parties	19,263,217	-	19,263,217	19,263,217	-
Trade receivables from the related parties	7,414,000	-	7,414,000	7,414,000	-
Financial Liabilities					
Financial liabilities	-	838,694,836	838,694,836	838,694,836	-
Trade payables to non-related parties	-	3,233,249	3,233,249	3,233,249	-

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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:

30 June 2017	Fair Value Level		
	Level 1 TRY	Level 2 TRY	Level 3 TRY
Operating investment properties	-	-	1,316,333,569
Investment properties under development	-	-	-

31 December 2016	Fair Value Level		
	Level 1 TRY	Level 2 TRY	Level 3 TRY
Operating investment properties	-	-	1,253,723,338
Investment properties under development	-	-	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:

	30 June 2017	31 December 2016	Valuation method	Unobservable significant inputs	30 June 2017 Weighted average amount	31 December 2016 Weighted average amount
Hotel Level 3	1,292,020,569	1,279,180,338	Discounted cash flows	* Room price (per day) – Euro * Occupancy rate	98 %79	98 %79
Office Level 3	24,313,000	24,313,000	Discounted cash flows	* Rentable area / m2 * Occupancy rate	4,637 %95	4,637 %95

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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
30 June 2017	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
Room price ramping rate	1%	185,000	(223,000)
Occupancy rate	1%	296,000	(75,000)
31 December 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
Room price ramping rate	1%	185,000	(223,000)
Occupancy rate	1%	296,000	(75,000)

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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.

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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 30 June 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, Euro, 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 Euro in balance by pooling/ portfolio model.

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

	30 June 2017	31 December 2016
EUR / TRY	4.0030	3.7099
US Dollar / TRY	3.5071	3.5192
Ruble/TRY	0.0591	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.

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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

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

	30 June 2017	31 December 2016
Total liabilities	999,830,932	937,223,128
Cash and cash equivalents(*)	(61,389,063)	(63,475,362)
Net liabilities	938,441,869	873,747,766
Equity	503,729,090	560,795,264
Total capital	1,442,170,959	1,434,543,030
Net liabilities/total sources rate	%65	%61

(*)The amount of the liquid assets as from June 30, 2017 includes the long-term financial investments possessed by the Group and amounted to TRY 60,045,000 as well as the cash and cash equivalents. (31 December 2016: TRY 55,648,500).

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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 30 June 2017 and 31 December 2016 is as follows:

30 June 2017	Receivables				Deposits on bank	Other
	Trade receivables		Other receivables			
	Related party	Third party	Related party	Third party		
Exposure to maximum credit risk as of reporting date (A+B+C+D)	5,064,589	12,491,960	-	21,049,247	61,371,687	-
- The portion of maximum risk covered by guarantee	-	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	5,064,589	12,491,960	-	21,049,247	61,371,687	-
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	-	-	-	-	-	-

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

31 December 2016	Receivables				Deposits on bank	Other
	Trade receivables		Other receivables			
	Related party	Third party	Related party	Third party		
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 30 June 2017 and 31 December 2016, the Group does not have any financial assets which are overdue but not impaired

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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:

30 June 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	901,302,620	1,244,844,467	52,882,239	73,085,115	417,853,037	701,024,076
Trade payables	1,838,060	1,838,060	1,838,060	-	-	-
Other payables (other liabilities included)	43,434,677	246,821,002	22,654,279	3,745,992	26,007,971	194,412,760

31 December 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 30 June 2017 and 31 December 2016. Since taxes and funds payable and social security premiums payable are non-financial liabilities, they are not included in other payables.

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

27.3. Market risk

a) Foreign currency position table and sensitivity analysis

30 June 2017		TRY Equivalent	USD	EURO	GBP	RUB
		(Functional currency)				
Foreign currency position						
1	Trade receivables	6,088,270	66,824	-	-	99,101,259
2a	Monetary financial assets (cash and bank accounts included)	1,269,664	1,873	140,340	45	11,869,131
2b	Non-monetary financial assets	-	-	-	-	-
3	Other	61,424,044	10,033	15,005,647	-	22,367,577
4	Current assets (1+2+3)	68,781,978	78,730	15,145,987	45	133,337,967
5	Trade receivables	-	-	-	-	-
6a	Monetary financial assets	-	-	-	-	-
6b	Non-monetary financial assets	-	-	-	-	-
7	Other	2,574	-	643	-	-
8	Non-current assets (5+6+7)	2,574	-	643	-	-
9	Total assets (4+8)	68,784,552	78,730	15,146,630	45	133,337,967
10	Trade payables	1,911,781	126,566	354,383	-	834,712
11	Financial liabilities	94,374,392	-	23,575,916	-	-
12a	Other monetary financial liabilities	-	-	-	-	-
12b	Other non-monetary financial liabilities	1,637,132	-	(10,508)	-	28,427,218
13	Short-term liabilities (10+11+12)	97,923,305	126,566	23,919,791	-	29,261,930
14	Trade payables	-	-	-	-	-
15	Financial liabilities	794,288,101	-	198,423,208	-	-
16a	Other monetary financial liabilities	-	-	-	-	-
16b	Other non-monetary financial liabilities	4,201,039	1,197,867	-	-	-
17	Long-term liabilities (14+15+16)	798,489,140	1,197,867	198,423,208	-	-
18	Total liabilities (13+17)	896,412,445	1,324,433	222,342,998	-	29,261,930
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)	(827,627,893)	(1,245,703)	(207,196,368)	45	104,076,037
21	Net foreign currency position of monetary assets / (liabilities) (1+2a+5+6a-10-11-12a-14-15-16a)	(883,216,340)	(57,869)	(222,213,166)	45	110,135,678
22	Fair value of the financial instruments used in foreign currency hedging	-	-	-	-	-
23	Amount of foreign currency assets hedged	-	-	-	-	-
24	Amount of foreign currency liabilities hedged	-	-	-	-	-

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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)

31 December 2016		TRY Equivalent	USD	EURO	GBP	RUB
		(Functional currency)				
Foreign currency position						
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	-	-	-	-	-

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

Foreign currency sensitivity analysis

30 June 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	(436,881)	436,881	-	-
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	(82,940,705)	82,940,705	-	-
5- Hedged portion of TRY against Euro risk (-)	-	-	-	-
6- Net effect of Euro (4+5)	(82,940,705)	82,940,705	-	-
10% change of other foreign currencies against TRY				
7- Net other foreign currencies denominated asset/liability	-	-	614,797	(614,797)
8- Hedged portion of TRY against other currencies risk (-)	-	-	-	-
9- Net effect of other foreign currencies (7+8)	-	-	614,797	(614,797)
TOTAL(3+6+9)	(83,377,586)	83,377,586	614,797	(614,797)

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

Foreign currency sensitivity analysis (cont'd)

31 December 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)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

(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:

	30 June 2017	31 December 2016
Fixed rate instruments		
Financial assets	60,491,394	60,700,380
Financial instruments	901,302,620	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.

28. DISCLOSURES RELATED TO THE SHARES IN OTHER ENTITIES

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

30 June 2016	Non-controlling interest (%)	Profit/(loss) for non-controlling interest	Non-controlling interest
Subsidiary			
Akfen Karaköy	30	(3,307,372)	8,449,177
31 December 2016			
Subsidiary			
Akfen Karaköy	30	(15,831,701)	11,756,649

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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	30 June 2017	31 December 2016
Cash and cash equivalents	9,895	155,933
Other current assets	2,450,425	2,893,958
Investment property	160,019,043	157,100,671
Other non current assets	21,422,220	19,991,235
TOTAL ASSETS	183,901,583	180,141,797
Current portion of long term financial liabilities	5,588,210	4,359,173
Other current liabilities	82,248,690	68,890,142
Long term financial liabilities	54,275,086	51,312,410
Other non current liabilities	13,626,615	16,392,551
TOTAL LIABILITIES	155,738,601	140,954,276
TOTAL EQUITY	28,162,981	39,187,521

Statement of profit or loss summary:

Akfen Karaköy	30 June 2017	30 June 2016
PROFIT OR LOSS		
Revenue	1,019,151	701,421
Cost of sales (-)	(1,200,431)	(1,312,618)
GROSS LOSS	(181,280)	(611,197)
General administrative expenses (-)	(221,862)	(242,358)
Other operating income, net	42,622	8,841
OPERATING LOSS	(360,520)	(844,714)
Financial expenses, net (-)	(13,419,110)	(1,050,152)
LOSS BEFORE TAX	(13,779,630)	(1,894,866)
Current tax income	2,755,090	377,911
- <i>Deferred tax income</i>	2,755,090	377,911
NET LOSS FOR THE PERIOD	(11,024,540)	(1,516,955)

29. SUBSEQUENT EVENTS

None.

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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	30 June 2017	31 December 2016
A	Cash and capital market instruments	III-48.1. S/N 24 / (b)	233,881	851,716
B	Investment properties, investment property-based projects, investment property-based rights	III-48.1. S/N 24 / (a)	646,889,554	643,531,638
C	Participations	III-48.1. S/N 24 / (b)	381,817,200	427,864,488
	Due from related parties (non-trade)	III-48.1. S/N 23 / (f)	-	-
	Other assets		74,679,359	25,831,483
D	Total assets	III-48.1. S/N 3 / (p)	1,103,619,994	1,098,079,325
E	Financial liabilities	III-48.1. S/N 31	485,899,052	452,976,482
F	Other financial liabilities	III-48.1. S/N 31	25,873,827	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	591,847,115	619,609,053
	Other liabilities		-	-
D	Total liabilities and equity	III-48.1. S/N 3 / (p)	1,103,619,994	1,098,079,325
	Unconsolidated (separate) other financial information	Related Regulation	30 June 2017	31 December 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)	225,461	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)	1,054,960,157	987,005,991
L	Cash and capital market instrument Investments held on One Unique Company	III-48.1. S/N 22 / (I)	-	-

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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)	%58.62	%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)	%34.62	%39.04	<%50
Participation to the Operator Company	III-48.1. S/N 28			
4 Borrowing Limit	III-48.1. S/N 31	%34.60	%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)	%264.72	%236.52	<%500
8 Investment Property, Investment Property Based Projects, Investment Property Based Rights	III-48.1. S/N 24 / (a). (b)	%0.02	%0.08	<%10
9 Cash and Capital Market Instruments and Participations	III-48.1. S/N 24 / (b)	%0.00	%0.00	<%10

Presented information in the footnote of “Compliance Control on Portfolio Limitations” as at 30 June 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 28 May 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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