**TORUNLAR GAYRİMENKUL
YATIRIM ORTAKLIĞI A.Ş. and
ITS SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2018 AND
INDEPENDENT AUDITOR'S REPORT

(CONVENIENCE TRANSLATION OF
CONSOLIDATED FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN
TURKISH)

Deloitte.

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(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Torunlar Gayrimenkul Yatırım Ortaklığı A.Ş.

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Torunlar Gayrimenkul Yatırım Ortaklığı A.Ş. ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (TFRSs).

2) Basis for Opinion

We conducted our audit in accordance with the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matters

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

Key Audit Matter	How the Matter was Addressed in the Audit
Valuation of Investment Properties The Group, after initial recognition, measures its investment properties at fair value. As of 31 December 2018, investment properties are carried by the value amounting to TL 10,143,533, which has been determined by an independent appraisal company. The relevant details for investment properties are presented in Note 8. This matter is considered as a key audit matter since the investment properties comprise a substantial part of the Group's total assets and the calculations in order to determine fair value include significant estimates and assumptions.	We performed the following audit procedures with regarding to the fair value calculation of the investment properties determined by the appraisal company: • Assessing the competence and sector experience of the valuation specialists assigned by the Group management, • Assessing the appropriateness of the valuation methods in the calculations within the valuation reports, • Assessing the appropriateness of the basic variables such as estimated rent increases, estimated occupancy rates and estimated profit margins used in valuations with the Discounted Cash Flows ("DCF") method, particularly for shopping malls. • Comparing the estimates related to annual rent increases, occupancy rates and profit margins with actual results and assessing thhe appropriateness, • Comparing discount rates and terminal growth rates used in DCF calculations with market data and the data received from independent sources and assessing the appropriateness, • Assessing the reasonableness of the sensitivity analyses performed by changing discount rates, terminal growth rate and other basic variables, and valuation results, • Performing recalculation of valuation work to ensure the accuracy of arithmetic calcularions and checking value increase/decrease to be reflected in the consolidated financial statements. Additionally, we assessed the accuracy of the information and disclosures related to the valuation of invesment properties in the notes to the financial statements.

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

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

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

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

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

In an independent audit, our responsibilities as independent auditors are as follows:

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

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

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

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

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

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

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

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

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

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

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

Deloitte.

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 11 March 2019.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2018 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is H. Erdem Selçuk.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

H. Erdem Selçuk
Partner

İstanbul, 11 March 2019

CONSOLIDATED FINANCIAL STATEMENTS

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

	Notes	(Audited) Current Year 31 December 2018	(Audited) Prior Year 31 December 2017
ASSETS			
Current Assets		**1,680,017**	**2,601,484**
Cash and Cash Equivalents	4	204,337	602,432
Trade Receivables	7	174,151	172,631
Trade Receivables from Related Parties	*7, 23*	*30,700*	*3,882*
Trade Receivables from Third Parties	*7*	*143,451*	*168,749*
Other Receivables	11	12,398	1,642
Other Receivables from Third Parties		*12,398*	*1,642*
Inventories	9	1,261,004	1,624,998
Prepaid Expenses	6	14,275	52,555
Other Current Assets	10	13,852	147,226
Non-Current Assets		**10,594,422**	**8,734,333**
Trade Receivables	7	10,661	33,498
Trade Receivables from Third Parties		*10,661*	*33,498*
Investments Accounted by Equity Method	12	348,425	315,593
Investment Properties	8	10,143,533	8,282,529
Property, Plant and Equipment		86,740	9,416
Intangible Assets		1,060	295
Other Intangible Assets		*1,060*	*295*
Prepaid Expenses	6	4,003	93,002
Total Assets		**12,274,439**	**11,335,817**

The consolidated financial statements as of 31 December 2018 were signed by Deputy of General Manager, İsmail Kazanç on behalf of the Board of Directors and by Accounting Manager, Erkan Çetin on 11 March 2019.

TORUNLAR GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. and ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

	Notes	(Audited) Current Year 31 December 2018	(Audited) Prior Year 31 December 2017
LIABILITIES			
Current Liabilities		**2,356,846**	**2,215,527**
Short-Term Borrowings	5	258,038	469,671
Short-Term Portion of Long-Term Borrowings	5	1,685,608	396,372
Other Payables	11	28,772	35,278
Other Payables to Third Parties		*28,772*	*35,278*
Derivative Instruments		-	277
Trade Payables	7	99,246	119,224
Trade Payables to Related Parties	*7, 23*	*30,078*	*11,171*
Trade Payables to Third Parties	*7*	*69,168*	*108,053*
Payables Related to Employee Benefits		1,818	2,496
Short-Term Provisions	13	9,807	10,527
Other Short-Term Provisions		*9,807*	*10,527*
Other Current Liabilities	*10*	175,973	5,172
Deferred Income	6	97,584	1,176,510
Non-Current Liabilities		**2,303,875**	**2,741,633**
Long-Term Borrowings	5	2,250,389	2,740,433
Long-Term Provisions	13	1,182	1,200
Long-Term Provisions for Employee Benefits		*1,182*	*1,200*
Other Non-Current Liabilities	10	52,304	-
EQUITY		**7,613,718**	**6,378,657**
Share Capital	15	1,000,000	1,000,000
Treasury Shares	15	(3,338)	(1,195)
Share Premium	15	25,770	25,770
Restricted Reserves Appropriated From Profit		74,255	65,153
- Legal reserves	*15*	*74,255*	*65,153*
Retained Earnings	15	5,229,827	4,833,821
Net Profit for the Period	15	1,287,204	455,108
TOTAL LIABILITIES AND EQUITY		**12,274,439**	**11,335,817**

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

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018

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

	Notes	(Audited) 1 January- 31 December 2018	(Audited) 1 January- 31 December 2017
PROFIT OR LOSS			
Revenue	16	1,954,283	780,140
Cost of Sales (-)	16	(1,069,194)	(271,486)
GROSS PROFIT/LOSS		**885,089**	**508,654**
Administrative Expenses (-)	17	(51,496)	(44,913)
Marketing Expenses (-)	17	(6,424)	(11,051)
Other Income From Operating Activities	19	1,777,183	393,425
Other Expenses From Operating Activities (-)	19	(1,394)	(1,754)
OPERATING PROFIT/LOSS		**2,602,958**	**844,361**
Share of the Group on Profit/(Loss) of Investments Accounted by Equity Method	12	**54,364**	**30,161**
OPERATING PROFIT BEFORE FINANCE INCOME/(EXPENSES)		**2,657,322**	**874,522**
Finance Income	20	64,665	67,229
Finance Expenses (-)	20	(1,434,783)	(486,643)
PROFIT/LOSS BEFORE TAX FROM CONTINUED OPERATIONS		**1,287,204**	**455,108**
Current Tax Expense/Income	22	-	-
PROFIT/LOSS FOR THE PERIOD FROM CONTINUED OPERATIONS		**1,287,204**	**455,108**
PROFIT/LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS		**-**	**-**
PROFIT/LOSS FOR THE PERIOD		**1,287,204**	**455,108**
Earnings per share from continuing operations	21	1.29	0.46
OTHER COMPREHENSIVE INCOME		**-**	**-**
TOTAL COMPREHENSIVE INCOME		**1,287,204**	**455,108**

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

TORUNLAR GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. and ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018

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

	Share Capital	Treasury Shares	Share Premium	Restricted Reserves Appropriated from Profit	Retained Earnings	Net Profit for the Period	Total Equity
Balance as of 1 January 2017 (opening balance)	**500,004**	**(1,195)**	**25,770**	**53,732**	**4,222,854**	**1,172,384**	**5,973,549**
Transfers	-	-	-	11,421	1,160,963	(1,172,384)	-
Capital increase (*)	499,996	-	-	-	(499,996)	-	-
Dividend payment (*)	-	-	-	-	(50,000)	-	(50,000)
Total comprehensive income	-	-	-	-	-	455,108	455,108
Balance as of 31 December 2017 (closing balance)	**1,000,000**	**(1,195)**	**25,770**	**65,153**	**4,833,821**	**455,108**	**6,378,657**
Balance as of 1 January 2018 (opening balance)	**1,000,000**	**(1,195)**	**25,770**	**65,153**	**4,833,821**	**455,108**	**6,378,657**
Transfers	-	-	-	9,102	446,006	(455,108)	-
Transactions with non-controlling interests (*)	-	(2,143)	-	-	-	-	**(2,143)**
Dividend payment (*)	-	-	-	-	(50,000)	-	**(50,000)**
Total comprehensive income	-	-	-	-	-	1,287,204	**1,287,204**
Balance as of 31 December 2018 (closing balance)	**1,000,000**	**(3,338)**	**25,770**	**74,255**	**5,229,827**	**1,287,204**	**7,613,718**

(*) See: Note 15.

(**) See: Note 12.

TORUNLAR GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. and ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018

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

	Notes	(Audited) Current Year 1 January- 31 December 2018	(Audited) Prior Year 1 January- 31 December 2017
A. CASH FLOWS FROM OPERATING ACTIVITIES		**271,785**	**60,667**
Profit for the Period		**1,287,204**	**455,108**
Adjustments Related to Reconciliation of Profit for the Period		**(649,381)**	**(45,592)**
Adjustments related to unrealized foreign exchange differences		843,975	207,829
Adjustments related to interest income and expenses	20	250,437	128,331
Adjustments related to depreciation and amortisation expenses		1,241	1,312
Adjustments related to doubtful trade receivable provision	7	3,518	3,512
Adjustments related to provisions		660	(3,356)
Adjustments related to fair value differences of derivative financial instruments		(277)	(2,974)
Adjustment related to gains arising from changes in the fair values of investment properties	8	(1,694,571)	(374,050)
Adjustments related to undistributed profits of investments accounted for by equity method		(54,364)	(6,196)
Changes in working capital		**(365,360)**	**(348,067)**
Adjustments related to decrease in trade receivables		17,799	66,541
Adjustments related to decrease in trade payables		(19,978)	(22,038)
Adjustments related to decrease/(increase) in inventories		324,350	(422,915)
Adjustments related to decrease in prepaid expenses		39,179	42,643
Adjustments related to increase/(decrease) in deferred income		(855,406)	22,564
(Increase)/decrease in other current/non-current assets due to operations		135,202	(36,720)
Increase/(decrease) in other payables due to operations		(6,506)	1,858
Cash generated from operations		**272,463**	**61,449**
Employment termination benefits payment		(678)	(421)
Other payments		-	(361)
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(113,028)**	**(143,327)**
Dividends received	12	19,389	18,761
Payments for Acquisition of Property, Plant and Equipment and Intangible Assets		(60,040)	(7,493)
Payments for Acquisition of Investment Properties	8	(72,377)	(154,595)
C. CASH FLOWS FROM FINANCING ACTIVITIES		**(550,836)**	**177,388**
Interest received		70,609	63,220
Interest paid		(301,243)	(97,922)
Proceeds from borrowings		1,048,123	2,651,296
Repayment of borrowings		(1,318,397)	(2,392,706)
Cash inflows from derivative financial instruments		72	26,950
Cash outflows from derivative financial instruments		-	(23,450)
Dividends paid		(50,000)	(50,000)
Net increase/(decrease) in cash and cash equivalents before the effect of exchange rate changes		**(392,079)**	**94,728**
Effects of exchange rate changes on cash and cash equivalents		-	(6,510)
Net increase/(decrease) in cash and cash equivalents	4	**(392,079)**	**88,218**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**595,219**	**507,001**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**203,140**	**595,219**

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

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Torunlar Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("Torunlar REIC" or the "Company") and its subsidiary, TRN Otel İşletmeciliği ve Yatırımları A.Ş. ("TRN") referred together as a "Group". The Company was incorporated in 1996 with the trade name of Toray İnşaat Sanayi ve Ticaret A.Ş. in İstanbul, Turkey. With a change in the Articles of Association published on Trade Registry Gazette on 25 January 2008, the Company has been registered with the trade name of Torunlar Gayrimenkul Yatırım Ortaklığı A.Ş. on 21 January 2008. The Company's stocks have been traded at the Borsa Istanbul since 21 October 2010 and registered to Capital Markets Board ("CMB"). The Company operates in Turkey. As of 31 December 2018, the total number of the Company's employees is 105 (31 December 2017: 176) and the main shareholder is the Torun Family (Note 15).

The Company is registered in İstanbul Trade Registry Office in Turkey in the following address: Rüzgarlıbahçe Mahallesi Özalp Çıkmazı No: 4 Beykoz 34805 İstanbul/Turkey.

The Company's principle activity is to engage in the pre-defined objectives and areas stipulated in the Communiqué on real estate investment companies published by the Capital Markets Board of Turkey ("CMB") such as investing in real estate, capital market instruments based on real estate, real estate projects and capital market instruments.

Torunlar REIC purchased 100% of the shares of TRN Otel İşletmeciliği ve Yatırımları A.Ş. as of 12 March 2018. Accordingly, the financial statements for the period ended on 31 December 2018 are prepared as consolidated. The principal activity of TRN, and the Group's participation rates are as follows:

Company	Operating country	Operating sector	2018 Participation rate %	2017 Participation rate %
TRN Otel İşletmeciliği ve Yatırımları A.Ş.	Turkey	Hotel Managemen	100	-

TRN started to opeate in the student residence management during the year ended 31 December 2018.

Joint Ventures

The Joint Ventures of Torunlar REIC operate in Turkey and their principal activities and joint venture partners as of 31 December 2018 are as follows (Note 2):

Joint Venture	Principal activity	Joint venture partner
TTA Gayrimenkul Yatırım Geliştirme ve Yönetim A.Ş. ("TTA")	Shopping mall project	Anaterra Gayrimenkul Yatırım İnşaat ve Ticaret A.Ş.

TTA Gayrimenkul Yatırım ve Yönetim A.Ş. has been incorporated on 7 January 2010 after winning the tender related to the old cigarette factory and its auxiliary buildings which are located in Samsun, İlkadım district, 205 lot, 2, 8, 9, 10, 11, 12, 13, 14 parcels and 376 lot, 1 parcel and 377 lot, 5 parcel whose ownership is registered to Samsun Metropolitan Municipality. The project includes, by the approval of Samsun Cultural and Natural Heritage Protection Regional Committee; the renovation as shopping mall and/or hotel; constructing two stores underground car park and facilitating the right of operation to Samsun Metropolitan Municipality; operating for 30 years with a limited incorporeal right (permanent and individual usufruct right) on land registry by the same term and providing a certain share of the revenue of shopping mall and/or hotel to Samsun Metropolitan Municipality; delivering the project to Samsun Metropolitan Municipality at the end of the 30 year term.

As a result of winning the tender and the agreement made with Samsun Metropolitan Municipality, the earned right as part of the financial leasing is classified as investment property within the scope of TAS 40 and is measured at fair value.

In August 2011, 450,000 shares which were previously owned by Turkmall Gayrimenkul Geliştirme Yönetim ve Yatırım A.Ş. and valued nominally as TL 450,000 and 50,000 shares which were previously owned by Ahmet Demir and valued nominally as TL 50,000 were transferred to Anaterra Gayrimenkul Yatırım İnşaat ve Ticaret A.Ş. After the transfer, the shareholding structure of TTA is 40% Torunlar REIC, 8% Torunlar Gıda Sanayi Ticaret A.Ş., 1% Aziz Torun, 1% Mehmet Torun and 50% Anaterra Gayrimenkul Yatırım İnşaat ve Ticaret A.Ş. The construction of the TTA Bulvar Samsun Mall project has been started in 2011 and the Mall started to operate in July 2012.

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP (cont'd)

Joint Ventures (cont'd)

Torunlar Özyazıcı

Torunlar Özyazıcı was incorporated as an ordinary partnership with a joint venture agreement on 26 January 2009. The subject of the joint venture is to conduct construction and sales of the housing development project Nishistanbul in Yenibosna İstanbul. This project includes 63 offices, 585 residences and 52 shops in 4 blocks each with 17 floors.

In accordance with the revenue sharing agreement signed between Torunlar Özyazıcı and land owner of the project, 31% of total project revenues will be distributed to the land owner and the remaining 69% portion will be shared to between the joint ventures as 60% Torunlar REIC and 40% Özyazıcı İnşaat Elektrik, Makine, Müşavirlik ve Taah. Ltd. Şti.

As of 31 December 2016, the Torunlar Özyazici project partnership, which is a joint venture of the Company, has completed its operations after the sale of all property belonging to the project partnership and completed the dissolution procedures on 30 May 2017. The profit from the dissolution of the project partnership has been accounted in the statement of profit or loss as of 31 December 2017.

Associates

The Associates of Torunlar REIC are incorporated in Turkey and their primary operations and nature of businesses are stated below:

Associate	Principal Activity
Yeni Gimat GYO A.Ş. ("Yeni Gimat")	Owner of ANKAmall AVM and Crowne Plaza Hotel
Netsel Turizm Yatırımları A.Ş. ("Netsel")	Management of Marmaris Marina

Yeni Gimat

Yeni Gimat has been incorporated by participation of 1,050 individual shareholders as founding members on 30 July 1999. The Entity owns Ankamall Shopping Mall since 2006 and Ankara Crowne Plaza Hotel since 2007. While the Group owns 14.83% of Yeni Gimat shares and Torunlar family members also own another 5% of Yeni Gimat, as a result the Group has significant influence on Yeni Gimat and is also represented in the Board of Directors. The investment in Yeni Gimat is accounted by the equity method in the consolidated financial statements.

Netsel

Netsel has been incorporated by Net Turizm Ticaret and Sanayi A.Ş. and Yüksel İnşaat A.Ş. on 6 October 1987. The coastal property operated by Netsel, has been leased from Ministry of Culture and Tourism for 49 years on 22 December 1988. Net Turizm sold its shares to Marmara Bank on 1992 and Yüksel İnşaat sold its shares to Çukurova Group in 1994. Following the liquidation process of Marmara Bank, 44.60% of Netsel was sold to Torunlar REIC in accordance with share transfer agreements on 31 May 2005 and 7 June 2005 respectively and 55% of Netsel was transferred to Tek-Art Kalamış and Fenerbahçe Marmara Turizm Tesisleri A.Ş. (a subsidiary of Koç Holding A.Ş.) in accordance with share transfer agreement on 22 August 2005 as a privatization transaction. It was accounted for by using equity method since the Group has a significant influence in Netsel. The remaining 0.40% belongs to Torun family.

Subsidiary

TRN Otel İşletmeciliği A.Ş.

The Group management has decided to purchase that 100% of the shares of TRN Otel İşletmeciliği ve Yatırımları A.Ş. with a nominal value of 500,000 nominal amount and nominal value of TL 0.22 that has been valued at TL 109 as of 12 March 2018. The Group has consolidated TRN Otel İşletmeciliği A.Ş. at the rate of 100% in the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Preparation

Preparation of the consolidated financial statements

The Company and its subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The accompanying financial statements are prepared in TL based on historical cost method, except for investment properties at fair values. These financial statements are restated based on statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS/TFRS.

The Company maintains its books of account and prepares their statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The accompanying financial statements are prepared in Turkish Lira based on historical cost method, except for financial assets and liabilities at fair values. These financial statements are restated based on statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS/TFRS.

The Group's financial statements as of 31 December 2018 have been approved by the Board of Directors on 11 March 2019. General assembly has the right to modify the consolidated financial statements.

Statement of Compliance in TAS

The accompanying consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on 13 June 2013. The accompanying consolidated financial statements are prepared based on the Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") and their appendices and interpretations that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué. In addition, the consolidated financial statements and disclosures have been prepared in accordance with the formats of CMB dated 7 June 2013.

Preparation of financial statements in hyperinflationary economies

In accordance with the communique issued by CMB, for companies that operate in Turkey and prepare their financial statements applying Turkish Accounting Standards, it is decided not to apply inflation accounting from 1 January 2005 which is published on 17 March 2005 numbered 11/367. Accordingly, as of 1 January 2005 No:29 " Financial Reporting in Hyperinflationary Economies" ("TAS 29") was not applied.

Functional and Presentation Currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional and presentation currency is Turkish Lira ("TL").

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Preparation (cont'd)

Basis of the Consolidation

Subsidiary

Subsidiaries of the Company as at 31 December 2018 and 2017 are detailed as follows:

Company	Operating country	Operating sector	2018 Participation rate %	2017 Participation rate %
TRN Otel İşletmeciliği ve Yatırımları A.Ş.	Turkey	Hotel Managemen	100	-

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Preparation (cont'd)

Basis of the Consolidation

Joint Ventures

Interests in joint ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in Joint Ventures on combined basis are as follows:

	31 December 2018	**31 December 2017**
Current assets	2,714	7,310
Non-current assets	141,431	128,867
Total assets	**144,145**	**136,177**
Short-term liabilities	51,587	39,119
Long-term liabilities	27,804	38,307
Equity	64,754	58,751
Total liabilities and equity	**144,145**	**136,177**
Net profit/(loss) for the period	**9,129**	**(14,722)**

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in its consolidated financial statements in proportion to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the TFRSs applicable to the particular assets, liabilities, revenues and expenses.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Preparation (cont'd)

Basis of the Consolidation (cont'd)

Associates

Investments in associates, over which the Group has significant influence, but which it does not control, are accounted for by the equity method of accounting. The Group's share of its associates' post-acquisition profits or losses is recognized under "profit from investments accounted for by using equity method" in the statement of profit or loss. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. The accounting policies of the associates can be modified if required in order to provide integrity with policies accepted by the Group.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Carrying amount in the date of termination of significant influence, presented with fair value if fair value after this date can be measured securely, otherwise, presented with cost value.

Torunlar REIC's direct and indirect voting rights in the associates as of 31 December 2018 and 2017 are as follows:

	31 December 2018 (%)	31 December 2017 (%)
Netsel	44.60	44.60
Yeni Gimat	14.83	14.83

Interest in associates on combined basis (*)

	31 December 2018	31 December 2017
Total assets	1,871,068	1,981,809
Total liabilities	41,012	32,806
Net profit for the period	297,502	195,985

(*) These combined balances represent amounts presented in the consolidated financial statements of associates which are accounted by the equity method after their classifications and adjustment entries for the equity method. The above mentioned figures represent the complete result of operations of these companies.

Interest in Yeni Gimat

	31 December 2018	31 December 2017
Total assets	1,825,053	1,954,235
Total liabilities	26,731	19,698
Net profit for the period	275,719	189,964

Interest in Netsel

	31 December 2018	31 December 2017
Total assets	46,015	27,574
Total liabilities	14,281	13,108
Net profit for the period	21,783	6,021

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Preparation (cont'd)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Going concern

The Group's consolidated financial statements have been prepared on a going concern basis.

2.2. Changes in Accounting Policies

Significant changes in accounting policies have been applied retrospectively and prior period consolidated financial statements are restated.

2.3 Changes in Accounting Estimates and Errors

If changes in accounting estimates and errors are for only one period, changes are applied in the current period but if the estimated changes affect the following periods, changes are applied both on the current and following years prospectively.

2.4 New and Revised Turkish Accounting Standards

New and amended Turkish Financial Reporting Standards that are effective for the current year

TFRS 9 Financial Instruments

(a) Recognition and measurement of financial assets

In the current year, the Group has applied TFRS 9 Financial Instruments (as revised in 2017) and the related consequential amendments to other TFRS Standards that are effective for an annual period that begins on or after 1 January 2018. As a result of the transition provisions of TFRS 9, the Group has recognized the cumulative effect arising from the first-time adoption of TFRS 9 as difference adjustment in retained earnings as of 1 January 2018, and the comparatives have not been restated accordingly. TFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied TFRS 9 in accordance with the transition provisions set out in TFRS 9.

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of TFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of TFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts related to the instruments that will be accounted as of 1 January 2018 are restated when required.

All recognised financial assets that are within the scope of TFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS 9 Financial Instruments (cont'd)

(a) Recognition and measurement of financial assets (cont'd)

The Group's management reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of TFRS 9 does not have a significant impact on the Group's financial assets as regards their classification and measurement:

None of the other reclassifications of financial assets have had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

(b) Impairment of financial assets

In relation to the impairment of financial assets, TFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under TAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, TFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

1) Trade receivables:

In particular, TFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. TFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

<u>Impairment</u>

Financial assets measured at amortized cost are subject to the impairment provisions of TFRS 9. The Group applies the simplified approach to recognize lifetime expected credit losses for its trade receivables, receivables from related parties, finance lease receivables and contract assets as required or permitted by TFRS 9. These calculated amounts are not materially high, therefore no provision for expected credit losses is made in the accompanying consolidated financial statements.

(c) Classification and measurement of financial liabilities

A significant change introduced by TFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

The application of TFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS 15 Revenue from Contracts with Customers

Impact on the Consolidated Financial Statements

In the current year, the Group has applied TFRS 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 January 2018. TFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's financial statements are described below.

TFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has preferred disclosures with previous terms rather than adopting new terminology in order to define such balances.

Apart from providing more extensive disclosures for the Group's revenue transactions, the application of TFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

Amendments to TFRS 2 Classification and Measurement of Share-Based Payment Transactions

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Amendments to TFRS 2 have no impact on the Group's consolidated financial statements.

Amendments to TAS 40 Transfers of Investment Property

Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments to TAS 40 have no impact on the Group's consolidated financial position or performance.

Annual Improvements to TFRS Standards 2014-2016 Cycle:

TAS 28: The detailed list of evidences stated between paragraphj 57(a)-(d) was changed as a list of examples.

The amendment clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Annual improvements to TFRS Standards 2014-2016 cycle have no impact on the Group's consolidated financial statements.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS Interpretation 22 Foreign Currency Transaction and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

- There is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretation Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

New and revised Turkish Financial Reporting Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised standards below that have been issued but are not yet effective:

TFRS 16	*Leases*[1]
Amendments to TAS 28	*Long-term Interests in Associates and Joint Ventures* [1]
TFRS Interpretation 23	*Uncertainty over Income Tax Treatments* [1]
TFRS 10 and TAS 28 (amendments)	*Sale of Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to TAS 19	*Amendments to "Employee Benefits"*[1]
Annual Improvements to TFRS Standards 2015–2017 Cycle	*Amendments to TFRS 3, TFRS 11, TAS 12 and TAS 23 standards* [1]

[1] Effective from periods on or after 1 January 2019.

The Group Management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements in future periods, except as noted below:

Amendments to TAS 28 Long-term Interests in Associates and Joint Ventures

This amendment clarifies that an entity applies TFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

TFRS Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation addresses the application of recognition and measurement provisions under TAS 12 when there is uncertainty over income tax treatments.

TFRS 10 and TAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

This amendment clarifies that all profit or loss from the sale or contribution of assets between an investor and its associate or joint venture are required to be recognized by the investor.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

New and revised Turkish Financial Reporting Standards in issue but not yet effective (cont'd)

TFRS 16 Leases

<u>General impact of application of TFRS 16 Leases</u>

TFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. TFRS 16 will supersede the current lease guidance including TAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Group will be 1 January 2019. In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TAS 17.

Amendments to TAS 19 Employee Benefits

The Amendments to TAS 19 Employee Benefits address the impact of the changes in defined benefit plans (one of the two benefits provided after employment relationship is ended: defined benefit plans and defined contribution plans) to the recognition of the defined benefit plans, and TAS 19 has been amended.

Annual Improvements to TFRS Standards 2015–2017 Cycle

Annual Improvements to TFRS Standards 2015–2017 Cycle include amendments to TFRS 3 *Business Combinations* and TFRS 11 *Joint Arrangements* in when a party that participates in, but does not have joint control of, TAS 12 *Income Taxes*; income tax consequences of dividends in profit or loss, and TAS 23 *Borrowing Costs* in capitalized borrowing costs.

The Group evaluates the effects of these standards, amendments and improvements on the Group's consolidated financial position and performance.

2.5 Comparative Information and Restatement of Prior Period Consolidated Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassed and significant changes are disclosed if necessary.

In the current period, the Group has not made any reclassifications to its prior period consolidated financial statements.

2.6 Summary of Significant Accounting Policies

Significant accounting policies applied to prepare the consolidated financial statements are summarized as follows:

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value (Note 4).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Related parties

A related party is a person or entity that is related to reporting entity, the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

In the consolidated financial statements, shareholders, key management personnel and members of Board of Directors and their families, Torun Family and companies under their control and affiliated companies, subsidiaries and partnerships are considered and stated as related parties (Note 23).

Foreign Currency Transactions

Transactions in foreign currencies are translated into functional currency at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to functional currency TL at the exchange rate at that date. Gains or losses on translation of foreign currency denominated transactions to functional currency TL are recognized in statement of comprehensive income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on the delivery date. The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Group reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Financial assets (cont'd)

Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset is not measured at amortized cost or at FVTPL, the change in fair value is measured at profit or loss.

At the initial recognition, the Group may irrevocably elect to present changes in fair value of an equity investment that is not held for trade, in other comprehensive income.

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

(a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Group applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.

(b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Group applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item (Note 20).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedging policy).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Financial assets (cont'd)

<u>Foreign exchange gains and losses</u>

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss for the period. Other exchange differences are recognised in other comprehensive income;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income.

<u>Impairment of financial assets</u>

The Group recognises a loss allowance for expected credit losses on borrowing instruments, rental receivables, trade receivables, contract assets and expected credit losses related to investments for financial guarantee contracts that are measured at amortised cost and at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables that are not significant financing components and calculates the allowance for impairment at the same amount with the lifetime ECL of the related financial assets. For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

<u>*Measurement and recognition of expected credit losses*</u>

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows (all cash-deficiencies) that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate (or credit-based adjusted effective interest rate for financial assets with credit-value impairment when purchased or incurred).

<u>Derecognition of financial assets</u>

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Financial liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.

Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Group continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.

A contingent consideration recognized in the consolidated financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The entity does not reclassify any financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the consolidated financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. The Group does not have an open derivative instrument as of 31 December 2018.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Accounting Policy Applied for Financial Instruments Until 31 December 2017

Financial assets

Classification

The Group's financial assets comprise trade receivables and cash and cash equivalents. The Management does the classification of the financial assets according to their acquisition dates.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet which are classified as non-current assets.

Trade receivables generally comprise receivables from sales on credit terms based on preliminary sale contracts of residence projects and rent receivables from shopping malls.

b) Derivative financial instruments

The Group applies option, forward and swap transaction with full indemnity in order to manage the cash flows risks that the Group is exposed to due to the foreign currency position. Transactions that do not comply with the required documentation terms in the TAS 39 "Recognition of financial assets" regarding the risk accounting are recognized as derivative financial instruments in the consolidated financial statements.

Recognition and Measurement

Financial assets are recognized on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets except for these that are carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method

Marketable derivative financial instruments are initially recognized at cost and subsequently valued at fair value. Gains and losses arising from the changes in the fair values of these instruments are accounted as income or expense in the statement of comprehensive income.

Derivatives, which have positive fair value, are recognized in assets, derivatives which have negative fair value are recognized in liabilities in the financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Advances

Advances received due to preliminary sales contracts related to residence projects are classified as short-term and long-term regarding the estimated delivery date of the residences. Other advances received due to operational reasons are classified as short-term and long-term regarding the acquisition purpose and term of the advance. Advances denominated in foreign currencies given to suppliers and subcontractors in relation to the projects being developed are not subject to exchange rate valuation. Advances denominated in foreign currencies given to legal entities and real persons in relation to residence and office projects are subject to exchange rate valuation if received from real persons with repayment obligations continuing after the delivery of the residences and offices, however exchange rate valuation is not applied if the advances are received from legal entities with no obligation regarding the repayment of the advance.

Financial liabilities and borrowing cost

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method in the consolidated financial statements. For the projects starting after the 1 January 2009, the borrowing costs are capitalized as a part of the qualifying assets which are directly attributable with the construction or production of the regarding assets if it takes significant time to be available for use or sale ("qualifying assets"). In the periods prior to 1 January 2009, borrowing costs were recognized as expense in the scope of the option existed TAS 23.

Leases

The Group – *as lessee*

Finance Lease

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Principal rental payments are recognized as liability and decreased when they are paid. Interest payments are recognized as expense in the statement of comprehensive expense during the lease period. Assets acquired via finance leases are considered an integral part of these investment properties (elevators, escalators etc.) therefore, they are classified under cost of investment properties.

Investment properties are carried at market value in the financial statements and include these additional components purchased under finance lease. Debts arising from financial lease contracts are shown under "Financial liabilities" in the balance sheet. Interest and foreign exchange differences related to financial leasing are reflected in comprehensive income statements.

The Group has sell and leaseback agreements for the acquisition of equipment for the malls. These contracts, in accordance with TAS 27, are essentially treated as a financial liability and recognized as financial liabilities on the financial statements. Assets subject to sell and leaseback contract within the scope of sell and leaseback contract are air conditioning and cooling systems, elevators and escalators and electronic devices.

Operational Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Current and deferred tax for the period

The Company 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 Company has no tax obligation over its earnings for the related period.

Provision for employment termination benefits

Severance pay according to the current laws and collective bargaining agreements in Turkey is paid in case of retirement or dismissal. In accordance with the updated TAS 19 Employee Benefits Standard ("TAS 19"), such payments are considered as defined retirement benefit plans.

The defined provision for the present value of the defined benefit obligation is calculated using the prescribed liability method. All actuarial gains and losses are recognized in the statement of comprehensive income. As of 31 December 2018, they are not recognized since their effect on the consolidated financial statements is not significant.

Share capital

Common shares are classified as equity. Costs related to newly issued shares are recognized in equity less tax effect.

Provisions, contingent assets and liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Contingent assets or contingent obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in financial statements and are treated as contingent assets or liabilities.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost elements included in inventories consist of the cost of lands which is held for residential construction for sale by the Group and residential construction in process on these lands. Cost of inventories includes all purchase costs, conversion costs and other costs incurred in bringing the inventories to their present state and position. The unit cost of inventories is determined using the lower of cost or net realizable value. Borrowing costs of the Inventories (Inventories that are identified as qualifying asset according to TAS 23) which the construction has started before 1 January 2009 are not capitalized but the borrowing costs that can be attributed to the projects that are started after 1 January 2009 are capitalized. The lands that are or will be used for residential constructions are evaluated in Inventory. Inventories are classified as short-term as of 31 December 2018, taking into account the expected completion date of residential construction (Note 9).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Property, plant and equipment and related depreciation

Property and equipment are carried at cost less accumulated depreciation and provision for impairment, if any. Any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement.

Depreciation is calculated over of the cost of property and equipment using the straight-line method based on expected useful lives.

The expected useful lives for property, plant and equipment are stated below:

	Years
Motor vehicles	5
Furniture and fixtures	4-5
Buildings	50

Subsequent costs incurred for tangible assets are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditures are recognized as expense.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the provision for impairment is charged to statement of comprehensive income.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales and are included in the related income and expense accounts, as appropriate.

Intangible Assets

Intangible assets acquired separately are carried at cost, less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis.

Impairment of assets

The Group reviews all assets including tangible assets at each balance sheet date in order to see if there is a sign of impairment on the stated asset. If there is such a sign, carrying amount of the stated asset is projected. Impairment exists if the carrying value of an asset or a cash generating unit including the asset is greater than its net realizable value. Net recoverable value is the higher of the net sales value or value in use. Value in use is the present value of cash flows generated from the use of the asset and the disposal of the asset after its useful life. Impairment losses are recorded in the statement of comprehensive income. Impairment loss for an asset is reversed, if an increase in recoverable amount is related to a subsequent event following the booking of impairment by not exceeding the amount reserved for impairment.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Investment properties

Lands, buildings, hotels, congress centers and malls that are held to acquire rent or appreciation purpose instead of the purpose of using in the production of goods and services or selling for management purposes or in the natural course of the business, are classified as investment properties. Investment properties, after initial recognition, are carried at fair value. Gains and losses resulting from changes in fair values of investment property are recognized in the statement of comprehensive income (Note 8).

An investment property can be accounted as an asset, if and only if, it is probable that economic benefits related to real estate would flow to the entity and the cost of the investment property would be measured reliably.

The profit or loss recognized due to condemnation or disposal of an investment property is the difference between net collection obtained from the disposal of the asset and the book value of the real estate, and it is accounted as net profit or loss from appreciation in investment properties when their use is ended or they are disposed.

Investment property is measured initially at cost. These costs comprise of the costs related to the acquisition of investment properties and costs from subsequent additions, adjustments or service costs for investment properties. The transaction cost and borrowing costs are included to the cost. Borrowing costs related to acquisition, construction or production of qualifying assets are capitalized and this capitalization continues until the completion of the asset. The Group does not include the daily service expenses related to real estate in the book value of the investment property. Those costs are recognized in the statement of profit or loss to the extent that they are realized. "Maintenance and repair" expenses regarding the real estates relates to the income statement in the period they incur.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, and it can be adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as discounted cash flow projections.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

The Group measures the investment property under construction at fair value. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the stage of completion, comparability of the project in market, the level of reliability of cash inflows after completion, the development risk specific to the property, past experiences with similar constructions and status of construction permits.

The Group transfers its investment properties to inventory or fixed assets if and only if a change occurs in use of the investment property. The aforementioned change in use is to start development for the purpose of sale after the development. If the Group decides on disposal of the investment properties without any development, until the disposal date, it is continued to be classified as investment property. Likewise, if the Company re-develops an existing investment property to be used as an investment property in the future, the classification of the property remained as investment properly and cannot be reclassified to fixed assets during the course of development.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Business combinations and goodwill

Business combinations are considered as a merge of two different legal entities as a single reporting entity. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Acquisition method requires allocation of the acquisition cost to the assets acquired and liabilities assumed at their fair values on the date of acquisition. Accordingly, acquired assets and liabilities and contingent liabilities assumed are recognized at TFRS 3 fair values on the date of acquisition. Acquired company is included in income statement starting from the date of acquisition.

If the fair values of the acquired identifiable assets, liabilities and contingent liabilities or cost of the acquisition are determined temporarily, the Group recognizes the combination on these temporary values if there is a requirement for temporary recognition in the initial recognition of the combination at the end of the period. Temporarily determined business combination accounting has to be completed within twelve months following the combination date and adjustment entries have to be made beginning from combination date.

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of the acquired business, at the date of acquisition. Group does not amortize goodwill. Goodwill is reviewed for impairment in the terms and conditions when the value carried is not realized and at least once in a year.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors (Note 3).

Revenue

The Group recognizes revenue in the consolidated financial statements within the 5-step model below in accordance with TFRS 15 "Revenue from Contracts with Customers" standard that is effective as of 1 January 2018.

(a) Identification of customer contracts
(b) Identification of performance obligations
(c) Determination of transaction price in the contract
(d) Allocation of price to performance obligations
(e) Recognition of revenue when each performance obligation is fulfilled

Rental income from real estates

Rental income from real estates is recognized on an accrual basis using the straight-line method during the renting period. If the Group provides benefits to its lessees, these benefits are recognized by deducting the rental income during the renting period.

General expense reflection income (Common area expenses)

Invoices for common area expenses billed to Torunlar REIC related to the shopping malls the Group owns are charged to managers of malls and/or lessees in accordance with the agreements.

Sale of residences and offices

Revenue is recognized in the consolidated financial statements when real estates (residence or office) that are committed in accordance with the contract are transferred to the customer and the contractual performance obligation is realized. When the control is obtained to the customer, the real estate is considered as transferred.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Revenue (cont'd)

Dividend and interest income:

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Share premiums

Share premium refers to the difference arising from the sale of the Company's subsidiaries or investments accounted for using equity method, on a price higher than nominal amount, or refers to the difference between nominal amount and fair value of shares issued by the Company in relation to the acquired companies.

Treasury shares

The Company's own shares which are purchased by the Company itself from Borsa İstanbul are named as treasury shares and recorded on nominal value in equities. Purchase/sale of treasury stocks is not associated with comprehensive income statement, and recognition is made directly on equities.

Earnings per share

Earnings per share are determined by dividing net comprehensive income by the weighted average number of shares that have been outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of their shares "bonus shares" to existing shareholders funded from retained earnings or other reserves. For the purpose of earnings per share computations, such bonus share issuances are regarded as issued shares for all periods presented and accordingly the weighted average number of shares used in earnings per share computations in prior periods is adjusted retrospectively for the effects of these shares, issued without receiving cash or another consideration from shareholders.

Reporting of cash flows

The statement of cash flows includes cash and cash equivalents, cash with original maturity periods of less than three months and bank deposits (Note 4).

Offsetting

Each material class of similar items according to their nature or function is presented separately in the consolidated financial statements. If a line item is not individually material, it is aggregated with other similar items according to their nature or function. If the essence of the transaction and events requires offsetting, presentation of these transactions and events at their net values or following up of the assets at their amounts after the deduction of impairment, is not evaluated as a breach of the non-deductibility rule.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Subsequent events

Subsequent events cover any events which arise between the reporting date and the balance sheet date, even if they occurred after any declaration of the net profit for the period or specific financial information publicly disclosed. The Group adjusts its consolidated financial statements if such subsequent events arise which require an adjustment to the financial statements (Note 7 and Note 26).

2.7 Critical Accounting Estimates, Assumptions and Judgements

Inpairment of trade receivables

As of 31 December 2018, provision for doubtful receivables has been set aside for trade receivables amounting to TL 13,762 (31 December 2017: TL 10,224). An important part of the doubtful receivables belongs to the tenants, which unexpectedly falls into economic difficults. Provision for doubtful receivables reated to trade receivables is determined based on past default experience. Expected credit loss calculated under TFRS 9 is not a material amount therefore, no provision was made for expected credit losses in the consolidated financial statements.

The preparation of consolidated financial statements requires the use of assumptions and estimates that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the 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 management; the actual results might differ from them. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below:

Fair values of investment properties:

The fair value of the investment properties has been determined according to valuation carried out by an independent valuation company. The fair value of the investment property is determined according to the income approved and comparable transaction. Estimates and assumptions are determined by comparable or independent valuation experts, based on the income approach using appropriate discount rates, occupancy rates, annual rent increases, terminal value growth rates, etc. Differences between estimates and assumptions and actual results may cause significant impact on the Group's consolidated financial statements.

Principal assumptions found in the income reduction method are disclosed below:

In 2018, fair values of the investment properties are determined by independent valuation expert; Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş. The Group Management assumes that expenditure amount on investment property has an equivalent effect on fair value of related real estate.

In the consolidated financial statements, the following assumptions used by valuation experts; selection of the valuation method, the discount rate, the rent increase per annum terminal value growth rate, the capitalization rate and determination of the market comparable m² values are considered critical and thus disclosed below.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Critical Accounting Estimates, Assumptions and Judgements (cont'd)

Fair values of investment properties (cont'd)

Significant estimates and assumptions disclosed in the financial statements as of 31 December 2018 and 2017 are as follows:

31 December 2018	Valuation report date	Valuation method	Discount rate (*)	Rent increase rate p.a	Terminal growth rate	Comparable m² prices in full TL
Antalya Deepo Shopping Mall	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
Mall of Antalya	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
Antalya Kepez lands	8 January 2019	Sale comparison	-	-		263-1,858
Bursa Korupark Shopping Mall	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
Torium Shopping Mall	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
Bursa Zafer Plaza Shopping Mall	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
Mall of İstanbul Shopping Mall	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
Torun Tower	8 January 2019	Sale comparison	-	-		12,000-45,850
Paşabahçe project	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	-
İstanbul İkitelli Kayabaşı land	8 January 2019	Sale comparison	-	-	-	1,065
İstanbul Beyoğlu Kemankeş building	8 January 2019	Sale comparison	-	-	-	41,700
Bursa Korupark independent areas	8 January 2019	Sale comparison	-	-	-	500 - 4,790
Mall of İstanbul residents and offices	8 January 2019	Sale comparison	-	-	-	5,556-10,870
Mall of İstanbul hotel convention center and office project	8 January 2019	Discounted cash flow	16-25%	8-15%	8%	
Torun Center	8 January 2019	Sale comparison	-	-	-	19,565 - 27,397

(*) In accordance with the decree no. 32 that is effective as of 16 November 2018, monthly rental fees are denominated in Turkish Lira. Accordingly, in future projections, discount rates are calculated inTL due to from cash flows denominated in TL as a result of rental income in TL.

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

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Critical Accounting Estimates, Assumptions and Judgements (cont'd)

Fair values of investment properties (cont'd)

31 December 2017	Valuation report date	Valuation method	Discount rate (*)	Rent increase rate %	Terminal growth rate	Comparable m² prices in full TL
Antalya Deepo Shopping Mall	5 January 2018	Discounted cash flow	11%	3%	3%	-
Mall of Antalya	5 January 2018	Discounted cash flow	11%	3%	3%	-
Antalya Kepez lands	5 January 2018	Sale comparison	-	-	-	250-1,805
Bursa Korupark Shopping Mall	5 January 2018	Discounted cash flow	11%	3%	3%	-
Torium Shopping Mall	5 January 2018	Discounted cash flow	11%	3%	3%	-
Bursa Zafer Plaza Shopping Mall	5 January 2018	Discounted cash flow	11%	3%	3%	-
Mall of İstanbul Shopping Mall	5 January 2018	Discounted cash flow	11%	3%	3%	-
Torun Tower	5 January 2018	Sale comparison	-	-	-	8,120-26,440
Paşabahçe project	5 January 2018	Discounted cash flow	11%	4%	4%	3,010-10,100
İstanbul İkitelli Kayabaşı land	5 January 2018	Sale comparison	-	-	-	875
İstanbul Beyoğlu Kemankeş building	5 January 2018	Sale comparison	-	-	-	38,450-39,700
Bursa Korupark independent areas	5 January 2018	Sale comparison	-	-	-	500-4,340
Mall of İstanbul hotel residents and offices	5 January 2018	Sale comparison	-	-	-	5,127-10,000
Mall of İstanbul otel convention center and residence project	5 January 2018	Discounted cash flow	11%	3%	3%	-
Torun Center	5 January 2018	Sale comparison	-	-	-	10,165 - 25,715

Discount rates for the year ended 31 December 2017 are determined based on cash flows denominated in the foreign currency mostly used for each real estate. In Turkey, Euro and US Dollar are commonly used in rent agreements

If all the variables in the valuations of the real estates with the fair value of TL 6,986,844 (31 December 2017: TL 5,498,739) valued using the income approach as of 31 December 2018 were fixed and the discount rate used was more than 0.5% and less than 0.5%, the fair values would have been TL 349,342 lower and TL 349,342 higher (31 December 2017: TL 274,936 lower, TL 274,936 higher).

i. The Antalya Deepo Shopping Center and growth project (Mall of Antalya), which was established on an area of 84,503.61 m² on the territory of Antalya Province, Merkez District, Koyunlar Village, and which the Group classified under investment properties as of 31 December 2018 and 2017, was opened in April 2017, respectively. Leasing and management of shopping center is conducted by Torun Alışveriş Merkezleri Yatırım ve Yönetim A.Ş..

   Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, as at 8 January 2019 with the report number 2018-409 the aforementioned property's fair value is TL 900,000 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, as at 5 January 2018 with the report number 2017-581 the aforementioned property's fair value is TL 580,000 as at 31 December 2017).

ii. The Group has 57,680 m² of land in the province of Antalya, Merkez District, Koyunlar Village, which is classified under investment properties as of 31 December 2018 and 2017.

   Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, as at 8 January 2019 with the report number 2018-408 the aforementioned property's fair value is TL 62,235 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, as at 5 January 2018 with the report number 2017-579 the aforementioned property's fair value is TL 78,010 as at 31 December 2017).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.7 Critical Accounting Estimates, Assumptions and Judgements (cont’d)

Fair values of investment properties (cont’d)

iii. The Bursa Korupark Shopping Center, which was established on the area of 53,185.61 m² in Bursa Province, Osmangazi District, Emek Village, which is classified under investment properties as of 31 December 2018 and 2017, has been put into service on May 2007. The management of the shopping center is conducted by Torun Alışveriş Merkezleri Yatırım ve Yönetim A.Ş.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report with the number 2018-398, Capital Markets Board’s Serie: IV No:1 Communiqué, dated 8 January 2019, as of 31 December 2018, the aforementioned property’s fair value is TL 1,540,000 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report with the number 2017-575, Capital Markets Board’s Serie: IV No:1 Communiqué, dated 5 January 2018, at 31 December 2017, the aforementioned property’s fair value is TL 1,293,000).

iv. The Mall of İstanbul Shopping Center, which was established on the rentable area of 181,295 m2 in İstanbul Province, Başakşehir Disctrict, İkitelli – 2 Neighborhood, which is classified under invesment properties as of 31 December 2018 and 2017, has been put into service on 23 May 2014. The management of the shopping center is conducted by Torun Alışveriş Merkezleri Yatırım ve Yönetim A.Ş.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report in accordance with Capital Markets Board’s Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-391, the aforementioned property’s fair value is TL 2,590,000 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report in accordance with Capital Markets Board’s Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-566, the aforementioned property’s fair value is TL 1,860,000 as at 31 December 2017).

v. As of 31 December 2018 and 2017, the Group has completed the Torium Shopping Center project on an area of 44,571 m2 in Istanbul Province, Büyükçekmece District, Esenyurt Village which is classified under investment properties. The Torium AVM project has been completed and the shopping mall was opened on 30 October 2010.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report in accordance with Capital Markets Board’s Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-400, the aforementioned property’s fair value is TL 490,000 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report in accordance with Capital Markets Board’s Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-568, the aforementioned property’s fair value is TL 465,200 as at 31 December 2017).

vi. As of 31 December 2018 and 2017, the Group has an area of 70,644 m² in the Istanbul Province, Beykoz District which is classified as investment property and has 49 years of usage rights for a 3,935 m² pier and dock. It is planned to make a 5 star Hotel and Apart Hotel project on the land.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report in accordance with Capital Markets Board’s Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-404, the aforementioned property’s fair value is TL 801,100 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.’s valuation report in accordance with Capital Markets Board’s Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-570, the aforementioned property’s fair value is TL 754,600 as at 31 December 2017).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Critical Accounting Estimates, Assumptions and Judgements (cont'd)

Fair values of investment properties (cont'd)

vii. On the 11,099 m² land located in İstanbul - Şişli 2nd District - which is classified under investment property as of 31 December 2018 and 2017, the Group completed Torun Tower Project in 2014. The project has been completed in 2014 and a rent agreement has been signed with Denizbank A.Ş. for 60,023 m² of area (30 floors) on 6 February 2014.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-402, the aforementioned property's fair value is TL 1,724,000 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2017 with the report number 2017-563, the aforementioned property's fair value is TL 1,532,000 as at 31 December 2017).

viii. Bursa Zafer Plaza located on the 9,622 m² land in Bursa - Osmangazi Şehreküstü District - which is classified under investment property as of 31 December 2018 and 2017 has been opened in October 1999. Rental procedures and management of the Mall is conducted by Zafer Plaza İşletmecilik A.Ş.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-397, the aforementioned property's fair value is TL 352,400 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-574, the aforementioned property's fair value is TL 291,600 as at 31 December 2017).

ix. The Group owns 60,833 m² land located in İstanbul - Küçükçekmece Kayabaşı District - which is classified under investment property as of 31 December 2018 and 2017. The usage of this land has not been determined by the management as of balance sheet date and the land is retained for capital appreciation.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2017-569 the aforementioned property's fair value is TL 64,785 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-569 the aforementioned property's fair value is TL 53,230 as at 31 December 2017).

x. The Group owns a building located on 1,501 m² land in İstanbul - Beyoğlu Kemankeş District - which is classified under investment property as of 31 December 2018 and 2017. The building is planned to be renovated as a hotel.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-406 the aforementioned property's fair value is TL 61,660 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-571 the aforementioned property's fair value is TL 58,170 as at 31 December 2017).

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Critical Accounting Estimates, Assumptions and Judgements (cont'd)

Fair values of investment properties (cont'd)

xi. As at 31 December 2018 and 2017 separate unit of Bursa Korupark Shopping Mall located in Bursa - Osmangazi Emek district which is classified under investment properties includes a dolphin pool, social recreation areas, office and stores.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-399 the aforementioned property's fair value is TL 22,433 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-576 the aforementioned property's fair value is TL 20,613 as at 31 December 2017).

xii. The Group has started to Mall of Istanbul Hotel, Convention Center and Office Project on 18,209 m² land located in İstanbul-Başakşehir district which is classified under investment properties as of 31 December 2018 and 2017.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-394 the aforementioned property's fair value is TL 313,344 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-565 the aforementioned property's fair value is TL 256,339 as at 31 December 2017).

xiii. The Group has rented 22 units consisting of 20 offices and 2 residents with a rentable area of 2,177 m² which is located in Istanbul Province, Başakşehir-İkitelli-2 District and is classified under invesment properties as of 31 December 2018 and 2017.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No1 Communiqué, dated 8 January 2019 with the report number 2018-392, the aforementioned property's fair value is TL 13,550 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No1 Communiqué, dated 5 January 2018 with the report number 2017-564, the aforementioned property's fair value is TL 19,080 as at 31 December 2017).

xiv. In 2018, The Group leased out the rentable area of 68,673 m2 which consists of workplaces, offices and commercial units within the Torun Center project and in the address of İstanbul Province, Şişli-Dikilitaş District, as of 31 December 2018 and 2017.

Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 8 January 2019 with the report number 2018-403 the aforementioned property's fair value is TL 1,086,976 as at 31 December 2018 (Based on Lotus Gayrimenkul Değerleme ve Danışmanlık A.Ş.'s valuation report in accordance with Capital Markets Board's Serie: IV No:1 Communiqué, dated 5 January 2018 with the report number 2017-562 the aforementioned property's fair value is TL 1,022,687 as at 31 December 2017).

2.8 Compliance with the portfolio limitations

Presented information in Additional Note: control of compliance with the portfolio limitations are the condensed information which comprised of Serial: II, No: 14.1 "Financial Reporting in Capital Markets" Amendment No: 16 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 Capital Markets Board's Communiqué Serial: III, No: 48.1 a "Amendment on Real Estate Investment Company" published in the Official Gazette dated 23 January 2014 numbered 28891.

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

3. SEGMENT REPORTING

The reportable segments of Torunlar REIC have been organized by the management as a portfolio on a project-by-project basis and makes decisions about resources to be allocated to the properties on the same basis. Accounting policies applied by each operational segment of Torunlar REIC are the same as those are applied in Torunlar REIC's financial statements which are prepared in accordance with TFRS. The information about each segment is presented below. Management follows and evaluates the performance of its segments in the statement of profit or loss until the operating profit before the financing income/expense. Since all of the loans and deposits which are constituted the financing activities of the Group can not be matched with the projects and are generally related to mixed projects, the Management does not make an assessment by distributing the financing activities according to the departments. In addition, the Management does not make an assessment by distributing its total assets and liabilities according to the divisions. The segment information for the reportable segments as of and for the period ended 31 December 2018 is as follows:

	Total revenue from departments	Gross profit	Increase in fair value of investment properties (*)	Operating profit/ (loss)	Income / (expense) from subsidiaries	Finance expenses, net	Profit/(loss) from operations before tax	Investment expenditures (**)
Offices and shopping malls for rent								
Mall of İstanbul Shopping Mall	245,185	186,572	725,400	903,778	-	-	903,778	4,600
Korupark Shopping Mall	134,951	110,078	245,517	360,580	-	-	360,580	1,483
Torun Tower	83,696	75,729	192,000	273,757	-	-	273,757	-
Torium Shopping Mall	60,789	23,593	38,888	60,402	-	-	60,402	5,202
Zafer Plaza Shopping Mall	33,900	25,149	60,800	85,740	-	-	85,740	-
Antalya Deepo Shopping Mall	40,393	31,359	110,295	141,632			141,632	-
Mall of Antalya	43,370	28,392	198,860	226,920	-	-	226,920	12,740
Korupark independent areas	622	615		129	-	-	129	-
Torun Center	4,287	2,695	61,031	60,635	-	-	60,635	3,258
Subtotal	**647,193**	**484,182**	**1,632,791**	**2,113,573**	**-**	**-**	**2,113,573**	**27,283**
Residences and office projects								
Torun Center	32,289	23,987	-	11,552	-	-	11,552	
Korupark 3rd phase residences	2,771	2,047	1,809	3,753	-	-	3,753	-
Mall of İstanbul	-	-	(5,590)	(5,590)	-	-	(5,590)	60
Nishistanbul Project	97	123	-	16	-	-	16	-
5. Levent Project (***)	1,088	308	14,684	14,992	-	-	14,992	-
Subtotal	**36,245**	**26,465**	**10,903**	**24,723**	**-**	**-**	**24,723**	**60**
Projects under construction								
5. Levent Project (***)	1,270,845	373,996	-	361,096	-	-	361,096	438,305
Paşabahçe project	-	-	41,645	41,645	-	-	41,645	4,855
Mall of İstanbul hotel convention center and residence project	-	-	17,194	17,194	-	-	17,194	39,751
Properties held for new projects								
Antalya Kepez Lands	-	-	(15,775)	(15,775)	-	-	- 15,775	-
Kayabaşı land	-	-	11,555	11,555	-	-	11,555	-
Kemankeş building	-	252	3,238	3,490	-	-	3,490	252
Mall of İstanbul 3rd Phase (**)	-	-	(6,980)	(6,980)	-	-	(6,980)	-
Associates								
Ankamall ve Hotel (Yeni Gimat)	-	-	-	-	40,997	-	40,997	-
Netsel	-	-	-	-	9,715	-	9,715	-
TTA	-	-	-	-	3,652	-	3,652	-
Unallocated	-	194	-	52,437	-	(1,370,118)	(1,317,681)	-
Total	**1,954,283**	**885,089**	**1,694,571**	**2,602,958**	**54,364**	**(1,370,118)**	**1,287,204**	**510,506**

(*) Comprises of fair value increases / decreases arising from investment properties.

(**) Investment expenditures include investments for items classified as inventory in financial statements and shopping malls classified as investment properties.

(**) Investment expenditures related to the 5.Levent project, consist of direct costs, indirect costs and other cost items that the Group management classified as related to the project.

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

3. SEGMENT REPORTING (cont'd)

The segment information for the reportable segments as of and for the period ended 31 December 2017 is as follows:

	Total revenue from departments	Gross profit	Increase in fair value of investment properties (*)	Operating profit/ (loss)	Income / (expense) from subsidiaries	Finance expenses, net	Profit/(loss) from operations before tax	Investment expenditures (**)
Offices and shopping malls for rent								
Mall of İstanbul Shopping Mall	188,677	146,072	210,551	352,487	-	-	352,487	8,535
Korupark Shopping Mall	107,503	87,826	90,474	178,447	-	-	178,447	728
Torun Tower	74,805	74,362	39,503	113,860	-	-	113,860	87
Torium Shopping Mall	49,596	22,981	(71,301)	(48,272)	-	-	(48,272)	11,311
Zafer Plaza Shopping Mall	28,800	21,003	(37,420)	(16,417)	-	-	(16,417)	-
Antalya Deepo Shopping Mall	25,178	16,980	12,516	29,496			29,496	262
Mall of Antalya Shopping Mall	17,631	4,550	(56,967)	(55,327)	-	-	(55,327)	108,819
Mall of İstanbul							-	
convention center and residence project	-	-	-	-	-	-	-	-
Antalya Kepez Lands	222	222	16,360	16,582	-	-	16,582	-
Korupark independent areas	398	368	(1,117)	(749)	-	-	(749)	-
Torun Center	156	156	(8,242)	(8,086)	-	-	(8,086)	2,736
Subtotal	**492,966**	**374,520**	**194,357**	**562,021**	**-**	**-**	**562,021**	**132,478**
Residences and office projects								
Torun Center	88,502	34,033	-	34,858	-	-	34,858	40,090
Korupark 3rd phase residences	12,066	7,579	-	6,188	-	-	6,188	-
Mall of İstanbul	-	-	(5,361)	(5,361)	-	-	(5,361)	115
Torium residences	-	-	-	-	-	-	-	-
Nishistanbul Project	2,246	1,560	-	1,393	-	-	1,393	-
Subtotal	**102,814**	**43,172**	**(5,361)**	**37,078**	**-**	**-**	**37,078**	**40,205**
Projects under construction								
5. Levent Project (***)	183,990	90,706	-	84,533	-	-	84,533	522,975
Torun Center	-	-	-	-	-	-	-	-
Mall of İstanbul hotel convention center and residence project	-	-	40,361	40,361	-	-	40,361	9,002
Properties held for new projects								
Paşabahçe land	-	-	134,270	134,270	-	-	134,270	13,000
Kayabaşı land	-	-	3,984	3,984	-	-	3,984	-
Kemankeş building	-	-	6,439	6,439	-	-	6,439	-
Associates								
Ankamall ve Hotel (Yeni Gimat)	-	-	-	-	28,172	-	28,172	-
Netsel	-	-	-	-	3,239	-	3,239	-
TTA	-	-	-	-	(1,250)	-	(1,250)	-
Torunlar Özyazıcı	-	-	-	-	-	-	-	-
Unallocated	370	256	-	(24,325)	30,161	(419,414)	(413,578)	-
Total	**780,140**	**508,654**	**374,050**	**844,361**	**60,321**	**(419,414)**	**485,269**	**717,660**

(*) Comprises of fair value increases / decreases arising from investment properties.

(**) Investment expenditures include investments for items classified as inventory in financial statements and shopping malls classified as investment properties.

(**) Investment expenditures related to the 5.Levent project, consist of direct costs, indirect costs and other cost items that the Group management classified as related to the project.

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

4. CASH AND CASH EQUIVALENTS

	31 December 2018	**31 December 2017**
Cash	-	1
Bank	203,925	602,340
Demand deposits	*2,928*	*829*
Time deposits up to 3 months maturity	*200,997*	*601,511*
Other cash equivalents	412	91
	204,337	**602,432**

As of 31 December 2018 and 2017, cash and cash equivalents in the statements of cash flows are as follows:

	31 December 2018	**31 December 2017**
Cash and cash equivalents	204,337	602,432
Less: Interest accrual of time deposits	(1,197)	(7,213)
Cash and cash equivalents in the statement of cash flows	**203,140**	**595,219**

Weighted average effective interest rate for time deposits (%):

	31 December 2018 (%)	**31 December 2017 (%)**
US Dollar	6.39%	4.05%
Euro	3.80%	2.12%
Turkish Lira	23.43%	14.76%

The breakdown of foreign currency denominated cash and cash equivalents in terms of TL is as follows:

	31 December 2018		**31 December 2017**	
	Original Amount	**TL Equivalent**	**Original Amount**	**TL Equivalent**
US Dollar	20,195	106,243	46,689	176,108
Euro	6,502	39,194	3,009	13,586
Other	1	8	1	5
		145,445		**189,699**

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

5. FINANCIAL LIABILITIES

	31 December 2018	31 December 2017
Financial borrowings		
Bank borrowings	258,038	469,671
Short term financial borrowings	**258,038**	**469,671**
Current portion of long-term borrowings	1,652,764	374,690
Finance leases	32,844	21,682
Short-term portions of long-term borrowings	**1,685,608**	**396,372**
Bank borrowings	2,187,695	2,669,391
Finance leases	62,694	71,042
Long-term borrowings	**2,250,389**	**2,740,433**
Total borrowings	**4,194,035**	**3,606,476**

As of 31 December 2018, there are mortgages amounting to TL 2,240,185 (31 December 2017: TL 1,438,978) given to the banks regarding the financial liabilitites amounting to TL 7,372,063 (31 December 2017: TL 4,885,676) on the investment properties.

a) Bank borrowings

	31 December 2018	31 December 2017
Short-term bank borrowings	258,038	469,671
Current portion of long-term borrowings	1,652,764	374,690
Long-term bank borrowings	2,187,695	2,669,391
Total borrowings	**4,098,497**	**3,513,752**

31 December 2018	**Weighted avg. effective interest (%)**	**Currency**	**Original amount**	**TL equivalent**
Short-term bank borrowings	19.34	TL	86,554	86,554
	4.90	US Dollar	16,172	85,079
	3.00	Euro	14,334	86,405
Current portion of long-term borrowings	19.21	TL	194,817	194,817
	6.61	US Dollar	246,680	1,297,759
	4.46	Euro	26,574	160,188
Long-term bank borrowings	22.01	TL	285,031	285,031
	5.76	US Dollar	197,989	1,041,606
	3.93	Euro	142,843	861,058
Total bank borrowings				**4,098,497**

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

5. FINANCIAL LIABILITIES (cont'd)

31 December 2017	**Weighted avg. effective interest (%)(*)**	**Currency**	**Original amount**	**TL equivalent**
Short-term bank borrowings	14.75	TL	312,123	312,123
	2	Euro	34,891	157,548
Current portion of long-term borrowings	14.75	TL	61,550	61,550
	5.84	US Dollar	58,902	222,173
	3.47	Euro	20,146	90,967
Long-term bank borrowings	15	TL	248,566	248,566
	5.47	US Dollar	515,037	1,942,667
	3.94	Euro	105,893	478,158
Total bank borrowings				**3,513,752**

(*) Weighted average effective interest rates consists of weighted average rate of fixed and floating loans.

The repayment schedule for long-term bank borrowings as of 31 December 2018 and 2017 is as follows:

	31 December 2018	**31 December 2017**
2019	-	1,585,968
2020	703,497	452,846
2021	190,334	452,846
2021 and beyond	1,293,864	630,577
	2,187,695	**3,122,237**

Finance leases

The maturities of obligations under finance lease is as follows.

	31 December 2018	**31 December 2017**
Up to 1 year	32,844	21,681
1 years - 5 years	62,694	71,043
	95,538	**92,724**

Finance leases consist of US Dollar and EUR. The Group has a finance leases obligation of 3.56% interest rate with original currency of EUR 1,527 and interest rate of 4.95% with original currency US Dollar 827 (31 December 2017: US Dollar 688 and EUR 20,891) as of 30 September 2018.

As of 31 December 2018, a significant part of the finance leases consists of financial lease obligations related to the shopping malls which are sold to Ak Finansal Kiralama A.Ş. regarding the sell and leaseback agreement that was made on 27 May 2016 and which are represented as the investment properties (Note 2).

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

6. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
Short-Term Prepaid Expenses		
Advances given	8,748	44,339
Prepaid expenses	5,527	8,216
	14,275	**52,555**

Long-Term Prepaid Expenses		
Advances given (*)	970	89,651
Prepaid expenses	3,033	3,351
	4,003	**93,002**

(*) As of 31 December 2017, advances given amounting to TL 88,680 is related with purchased land which is 12,131.79 m² and located near Mall Of İstanbul. The land has been purchased from Başakşehir Municipality for 75,100 TL + VAT on 10 January 2018 and presented as under investment properties in 2018.

	31 December 2018	31 December 2017
Short-Term Deferred Income		
Advances received (**)	97,584	1,164,658
Deferred income	-	11,852
	97,584	**1,176,510**

(**) As of 31 December 2018, advances received amounting to TL 85,881 consist of the sales commitments regarding the offices and residential units of 5.Levent Project, TL 4,270 for Mall of İstanbul project, TL 2,143 for Korupark 3rd Phase and remaining TL 5,190 consist of other advances (31 December 2017: TL 1,153,027 5. Levent Project, TL 6,578 Torun Center Project, 672 TL Korupark 1st-2nd-3rd Phase and remaining TL 4,679 other advances).

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

7. TRADE RECEIVABLES AND PAYABLES

Current trade receivables	**31 December 2018**	**31 December 2017**
Trade receivables	75,589	48,174
Notes receivables (*)	81,011	122,252
Trade receivables from related parties (Note:23)	30,700	3,882
Checks received	613	8,567
Less: Allowance for doubtful receivables	(13,762)	(10,244)
	174,151	**172,631**

Non-current trade receivables	**31 December 2018**	**31 December 2017**
Notes receivables (*)	10,661	33,498
	10,661	**33,498**

(*) As of 31 December 2018, TL 55,369 of long-term and short-term notes receivable are related to 5. Levent project, TL 11,054 of Mall of Istanbul 2nd Phase Project, TL 6,471 of Korupark 3rd Phase resident project, TL 3,081 of Mall of Antalya, TL 2,079 of Torium project and the remaining TL 13,618 consist of other notes receivables (31 December 2017: 5.Levent Project TL 148,400, Mall of İstanbul TL 2,047, Korupark 3rd Phase TL 5,997).

Movement of the provision for the doubtful receivables is as follows:

Movement of provision for doubtful receivables

	31 December 2018	**31 December 2017**
Opening balance	**(10,244)**	**(6,732)**
Provision provided during the period	(3,864)	(5,044)
Provisions no longer required	346	1,532
Closing balance	**(13,762)**	**(10,244)**

Aging of provision for doubtful receivables is as follows:

	31 December 2018	**31 December 2017**
3 to 6 months	(262)	(3,128)
Over 6 months	(13,500)	(7,116)
	(13,762)	**(10,244)**

Short-term trade payables	**31 December 2018**	**31 December 2017**
Trade payables	68,518	103,553
Trade payables to related parties (Note:23)	30,078	11,172
Notes payable	650	4,499
	99,246	**119,224**

As of 31 December 2018 and 2017, majority of trade payables consist of payables to subcontractors relating to projects in progress.

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

8. INVESTMENT PROPERTIES

Movement schedule of investment properties as of 31 December 2018 and 2017:

	1 January 2018	Additions	Disposals	Transfers	Change in fair value	31 December 2018
Shopping Malls and Offices						
MOI Shopping Mall	1,860,000	4,600	-	-	725,400	2,590,000
Torun Tower	1,532,000	-	-	-	192,000	1,724,000
Bursa Korupark Shopping Mall	1,293,000	1,483	-	-	245,517	1,540,000
Torun Center	1,022,687	3,258	-	-	61,031	1,086,976
Torium Shopping Mall (***)	465,200	5,202	-	(19,290)	38,888	490,000
Antalya Deepo Shopping Mall	299,600	105			110,295	410,000
Mall of Antalya (*)	278,400	12,740	-	-	198,860	490,000
Bursa Zafer Plaza Shopping	291,600	-	-	-	60,800	352,400
Mall of İstanbul Residences and offices	19,080	60	-	-	(5,590)	13,550
Korupark independent areas	20,613	11	-	-	1,809	22,433
5. Levent (***)	-	-	-	38,246	14,684	52,930
Investment properties under construction						
Paşabahçe land (**)	754,600	4,855	-	-	41,645	801,100
Mall of İstanbul hotel, congress center and office project	256,339	39,811	-	-	17,194	313,344
Properties held for new-						
Antalya Kepez Lands	78,010	-	-	-	(15,775)	62,235
Kemankeş building	58,170	252	-	-	3,238	61,660
Kayabaşı land	53,230	-	-	-	11,555	64,785
Mall of İstanbul 3rd Phase	-	75,100	-	-	(6,980)	68,120
	8,282,529	**147,477**	**-**	**18,956**	**1,694,571**	**10,143,533**

(*) Mall of Antalya started operations on 28 April 2017.

(**) The Group has purchased a reall estate after a successful tender at a price of TL 355 million from R.T. Prime Ministry Privatization Administration. The aforementioned purchase contains real estates as follows: Block 195, Lot 7 as 54,870 m2; Block 209, Lot 3 as 16,212 m2; Block 200, lot 3 as 827 m2 and buildings on these real estates. Title deed processes of real estates have been completed as of 20 September 2012. Torunlar REIC is planning to develop a project on this land which will include a five-star hotel and apart hotel. The building license for the project was received on 7 September 2017.

(***) The land cost related to the dorm near the Torium Shopping Center are classified to property, plant and equipment, and the areas from which rent income is acquired related to the 5. Levent project are reclassified from inventories to investment properties.

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

8. INVESTMENT PROPERTIES (cont'd)

	1 January 2017	Additions	Disposals	Transfers	Change in fair value	31 December 2017
Shopping Malls and Offices						
MOI Shopping Mall	1,640,914	8,535	-	-	210,551	1,860,000
Torun Tower	1,492,410	87	-	-	39,503	1,532,000
Bursa Korupark Shopping Mall	1,201,798	728	-	-	90,474	1,293,000
Torun Center	1,028,193	2,736	-	-	(8,242)	1,022,687
Torium Shopping Mall	525,190	11,311	-	-	(71,301)	465,200
Antalya Deepo Shopping Mall Mall of Antalya (*)	513,370	109,081	-	-	(44,451)	578,000
Bursa Zafer Plaza Shopping	329,020	-	-	-	(37,420)	291,600
Mall of İstanbul Residences and Offices	24,441	-	-	-	(5,361)	19,080
Korupark independent areas	21,730	-	-	-	(1,117)	20,613
Investment properties under construction						
Paşabahçe project	607,330	13,000	-	-	134,270	754,600
Mall of İstanbul hotel congress center and office	206,861	9,117	-	-	40,361	256,339
projects						
Antalya Kepez Lands	61,650	-	-	-	16,360	78,010
Kemankeş building	51,731	-	-	-	6,439	58,170
Kayabaşı land	49,246	-	-	-	3,984	53,230
	7,753,884	**154,595**	**-**	**-**	**374,050**	**8,282,529**

(*) Mall of Antalya started operations on 28 April 2017.

(**) The Group has purchased a reall estate after a successful tender at a price of TL 355 million from R.T. Prime Ministry Privatization Administration. The aforementioned purchase contains real estates as follows: Block 195, Lot 7 as 54,870 m2; Block 209, Lot 3 as 16,212 m2; Block 200, lot 3 as 827 m2 and buildings on these real estates. Title deed processes of real estates have been completed as of 20 September 2012. Torunlar REIC is planning to develop a project on this land which will include a five-star hotel and apart hotel.

	31 December 2018 Original Amount	31 December 2017 Original Amount	Currency Type	31 December 2018	31 December 2017
Torun Tower	390,000	390,000	US Dollar	2,051,751	1,471,041
Paşabahçe Land	375,000	375,000	US Dollar	1,972,838	1,414,463
Mall of İstanbul Shopping Mall	150,000	150,000	US Dollar	789,135	565,785
Mall of İstanbul Shopping Mall	406,399	406,399	TL	406,399	406,399
Bursa Korupark Shopping Mall	225,000	225,000	Euro	1,356,301	1,015,989
Antalya Deepo Shopping Mall	130,000	-	Euro	783,641	-
Mall of İstanbul Additional Land	12,000	12,000	TL	12,000	12,000
				7,372,065	**4,885,677**

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

9. INVENTORIES

	31 December 2018	31 December 2017
Short-term inventories		
Residences and office projects		
Completed Projects		
- Torun Center project (*)	560,563	301,326
- Mall of İstanbul project (**)	25,965	30,558
- Nishistanbul (***)	12,088	12,495
- Korupark 3rd phase (****)	2,673	3,560
- Torium (*****)	438	438
Non-Completed Projects		
- 5.Levent project (******)	659,277	961,806
- Torun center project (*)	-	314,815
	1,261,004	**1,624,998**

Provision for impairment of inventories amounting to TL 67 has been recognised for Torium Residences (31 December 2017: TL 67); TL 1,398 (31 December 2017: 1,398) for Nishistanbul total of TL 1,465 (31 December 2017: TL 1,465) as of 31 December 2018.

(*) The Torun Center Project consists of sellable area with a total of 175,408 m², segregated as 45,776 m² Office Tower, 36,382 m² Horizontal Office, 77,988 m² Residence and 15,312 m² Commercial Area. The delivery of Office Tower and Horizontal Office has started as of 31 December 2016. 87 residences, 46 offices and 39 Horizontal offices have been delivered, and in this context, the Group has recognised revenue amounting to TL 573,522 as of 31 December 2018. (31 December 2017: 81 residences, 45 offices and 39 horizontal offices and in this context the Group has collected revenue TL 541,849). As of 31 December 2018, the Group did not capitalized any financial expense during Torun Center Project (31 December 2017: None).

(**) Construction license of Mall of İstanbul Project was taken on 18 March 2011. The Project with 656,528 m² construction area comprising 129,186 m² shopping mall, 97,700 m² residence, 8,433 m² office and 421,209 m² is mixed-use project. Project construction has started in March 2011. Residence and office transfers started on 24 December 2013 and the shopping mall opened its door to the visitors on 23 May 2014. Based on the valuation report numbered 2011/TGYO/10 and dated 31 March 2011, which was prepared by Prime Gayrimenkul Değerleme ve Danışmanlık A,Ş., the fair value of land including 146,039 m² sellable residences and offices was determined as TL 203,233 and the value of land belonging to residences and offices to be sold after Project completion has been transferred to inventories. The Group has started to deliver the projects on 24 December 2013 and has delivered 1,078 residences, 133 offices and 21 horizontal offices and in this context the Group has recognised revenue amounting TL 985 as of 31 December 2018. As of 31 December 2018, TL 361 final sales income is obtained (31 December 2017: 1,077 residences, 133 offices and 21 horizontal offices and in this context the Group has recognised revenue amounting TL 623,824).

(***) There are 1 offices (gross 260 m²) and 6 stores (gross 1,546 m²) registered in Nishistanbul project in İstanbul, Yenibosna, plate 243DS3A, Block 338, and Lot 1.

(****) In the context of 3rd phase of the Korupark project, there are 17 blocks, 678 residences and 2 offices where on 20 March 2011 construction and on 30 April 2011 pre-sales started. As of 31 December 2018, 667 residences were sold with 100,204 m² and transferred to buyers (31 December 2017: 99,532 m² 663 residences).

(*****) As of 31 December 2018, in Torium project, 51 residences from the total 53 sellable units (gross 5.534 m²) have been sold and 2 residential units have been remained with gross 189 m² in the Group inventories. There is no delivered real estate in 2018.

(******) As of 31 December 2018, 1,799 residences were sold and transferred to buyers in 5. Levent project (31 December 2017: 173).

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

10. OTHER ASSETS AND LIABILITIES

Other current assets	31 December 2018	31 December 2017
Value added tax ("VAT") receivables	11,561	139,036
Prepaid taxes and funds	1,669	4,636
Other	622	3,554
	13,852	**147,226**

Other short-term liabilities	31 December 2018	31 December 2017
Short-term liabilities for project costs (*)	171,213	-
Prepaid taxes and funds	4,591	5,172
Accrued expenses	169	-
	175,973	**5,172**

Other Long-Term Liabilities	31 December 2018	31 December 2017
Long-term liabilities for project costs (*)	52,304	-
	52,304	**-**

(*) It comprises liabilities from costs related to land share in 5. Levent project.

11. OTHER RECEIVABLES AND OTHER PAYABLES

Other payables	31 December 2018	31 December 2017
Deposits and warranties abtained	28,608	33,651
Other	164	1,627
	28,772	**35,278**

Other receivables	31 December 2018	31 December 2017
Deposits and warranties given	9,293	1,454
Other receivables	3,105	188
	12,398	**1,642**

12. INVESTMENTS ACCOUNTED BY EQUITY METHOD

	31 December 2018		31 December 2017	
	(%)	TL	(%)	TL
Yeni Gimat	14.83	308,370	14.83	286,891
TTA	40.00	25,902	40.00	22,250
Netsel	44.60	14,153	44.60	6,452
		348,425		**315,593**

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

12. INVESTMENTS ACCOUNTED BY EQUITY METHOD (cont'd)

	31 December 2018	31 December 2017
Opening balance	**315,593**	**328,158**
Income from associates, (net)	50,712	31,411
Dividends received from associates	(19,389)	(18,761)
Liquidation effect of Torunlar-Özyazıcı (*)	-	(23,965)
Treasury Shares (**)	(2,143)	-
Income and expenses from joint ventures, (net)	3,652	(1,250)
Closing balance	**348,425**	**315,593**

(*) Torunlar Özyazıcı project partnership, which used to be a joint venture of the Group, was terminated after the sale of all of the properties belonging to the project partnership on 30 May 2017. Profit amounting to TL 4,301 as a result of the liquidation of the project partnership has been accounted in the statement of profit or loss as of 31 December 2017.

(**) The Company's subsidiary, Yeni Gimat GYO, is a 100% subsidiary of the Anadolu Gayrimenkul Yönetimi A.Ş. As a result of the merger in 2017, the repurchase transaction which is held by the subsidiary in 2018, the shares of Yeni Gimat GYO A.Ş. amounting to 2,143 are classified as treasury shares.

Profit or losses from investments accounted for by the equity method:

	31 December 2018	31 December 2017
Yeni Gimat	40,997	28,172
Netsel	9,715	3,239
TTA	3,652	(1,250)
Total	**54,364**	**30,161**

13. PROVISIONS

Short-term provisions	31 December 2018	31 December 2017
Cost provisions	-	6,820
Provisions for legal cases (*)	9,807	3,707
	9,807	**10,527**

(*) In accordance with the opinions of the Group lawyers, as of 31 December 2018, provision for legal cases amounting to TL 9,806 was made (31 December 2017: 3,708 TL). There are 29 cases for pecuniary and non-pecuniary damages, 158 business cases and 29 other various cases against the Group as of 31 December 2018. The amount or risk arising from total probable cash outflows is TL 9,807, and the relevant cases are on progress. (31 December 2017: Provision for legal cases amounting to TL 1,422 consist of the working accident lawsuits, TL 962 consist of the cases for employee-employer dispute and remaining TL1,325 consist of the other various cases). In accordance with the opinions of the Group, no liability is expected except for the provision amount. There is no legal case that the shareholders of the Group is involved as a party.

Provisions for employee benefits

Long-term provisions	31 December 2018	31 December 2017
Provisions for employment termination benefits	1,182	1,200
	1,182	**1,200**

Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

13. PROVISIONS (cont’d)

Long-term provisions (cont’d)

Provisions for severance pay consist the present value of the future possible liabilities, which occurs from the employees retirements and it is calculated according to the Turkish Labor Law and accounted accrual basis. The calculation of severance payment provision is according to the price ceiling which is determined by the government. As of 1 January 2018, the effective price ceiling is TL 6,017.6 (1 January 2017: TL 5,001.76).

TAS 19 - Employee Benefits standard requires actuarial valuation methods on determining the severance payment liability. Due to the insignificance of actuarial (gain)/loss impact to the financial statements, related standard has not been applied. As at 31 December 2018, the estimations during the calculation of severance payment are; 4.72% of discount rate, 6.00% of salary/limit increase rate, and the voluntary leave rates are 8.57% for employees with 0-15 years of service and 0% for employees with more than 16 years of service (31 December 2017: the estimations during the calculation of severance payment are; 4.72% of discount rate, 6.00% of salary/limit increase rate and the voluntary leave rates are 6.2% for employees with 0-15 years of service and 0% for employees with more than 16 years of service).

14. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities:

	31 December 2018	31 December 2017
Collaterals received	217,344	201,867

Collaterals received usually consist of letters of guarantee received from subcontractors for projects which are developed by the Group.

In consideration with the present contract terms, the totals of expected minimum operational lease revenues as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Between 0-1 years	639,084	518,832
Between 1-5 years	3,613,637	1,594,887
Between 5-10 years	5,315,000	4,319,737

The minimum operational lease revenue represents lease revenue from Mall of İstanbul Shopping Mall, Korupark Shopping Center, Torium Shopping Mall, Zafer Plaza Shopping Mall and Deepo Shopping Mall and the lease revenues from Ankamall and Crowne Plaza Otel that are owned by Yeni Gimat-associate of the Group and Bulvar Samsun shopping mall that is owned by joint ventures are not included in minimum operational lease revenue.

Collaterals, Pledges and Mortgages (“CPM”)

Below are the amounts of collaterals, pledges and mortgages of the Group as of 31 December 2018 and 2017:

CPM’s given by the company	**31 December 2018**	**31 December 2017**
Collaterals, Pledges, Mortgages ("GPM")		
A.CPM’s Given for Its Own Legal Personality	7,574,196	4,995,799
	7,574,196	**4,995,799**

The ratio of the other CPMs issued by the entity to the Group’s own equity is 0% as of 31 December 2018.

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

14. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

Collaterals, Pledges and Mortgages ("CPM") (cont'd)

	31 December 2018		31 December 2017	
	Foreign Currency	**TL Equivalent**	**Foreign Currency**	**TL Equivalent**
US Dollar	915,000	4,813,724	915,000	3,451,289
Euro	355,000	2,139,942	225,000	1,015,989
TL	418,399	418,399	418,399	418,399
		7,372,065		**4,885,677**

As of 31 December 2018 mortgages on investment properties of the Group is TL 7,372,063 (31 December 2017: TL 4,885,676) (Note 8). Lease income from Korupark Shopping Mall, Mall of Istanbul Shopping Mall and Torun Tower is alienated regarding the loans used.

The Group also stands as the guarantor of the borrowings that will be used by the buyers of the residences until the completion of residences and transfer of deeds to the contracting parties in relation to sale of residences through loans.

15. EQUITY

The Group increased its issued capital from TL 176,100,000 to TL 224,000,000 through public offering. A total TL 56,352,942 nominal value of shares were offered to the public, consisting of TL 47,900,000 to be issued from the capital increase and additional shares TL 8,452,942 owned by current shareholders. The compulsory prospectus of the public offering was registered by the İstanbul Trade Registry Office on 7 October 2010 and announced in the Trade Registry no: 7669 on 14 October 2010 pages between 641-735 totally 95 pages. The Group's quoted shares are traded in the İstanbul Stock Exchange as from 21 October 2010.

The Board of Directors decided in its meeting dated 10 May 2012 to increase its paid-up capital of TL 224,000,000 to TL 500,000,000 within the cap of TL 1,000,000,000 registered capital, through a bonus issue by adding TL 276,000,000 out of a total of TL 301,770,000 share premium, transactions related to capital increase was completed on 16 August 2012.

On 23 May 2017, the General Assembly had a resolution on the payment of the dividend amounting to TL 50,000 from the net profit in 2016. The Group has increased its capital that is increased to TL 500,004, to TL 1,000,000 by providing all of it from the Extraordinary Shares within TL 1,000,000 registered equity ceiling, with capital increase through bonus issues by TL 499,996 on 22 December 2017.

Group's shareholders and capital structure as of 31 December 2018 and 2017 is as follows:

Shareholders	**(%)**	**A Group (thousand)**	**B Group (thousand)**	**C Group (thousand)**	**31 December 2018**	**31 December 2017**
Aziz Torun	37.41	200,328	-	173,740	374,068	374,068
Mehmet Torun	37.40	-	200,312	173,740	374,052	374,052
Torunlar Gıda San. Ve Tic. A.Ş.	0.02	142	142	-	284	284
Mahmut Karabıyık	less than 0.01	-	16	-	16	16
Other shareholders	less than 0.01	-	-	8	8	8
Other (Public quotation)	25.16	-	-	251,572	251,572	251,572
Nominal capital		**200,470**	**200,470**	**599,060**	**1,000,000**	**1,000,000**

The A and B group shares have nomination privilege to the Board of Directors according to Article 13 of association. The members of the Board of Directors are elected by the General Assembly among the two candidates nominated by the shareholders of Group B, two candidates nominated by the shareholders of the Group A and the other three members among the candidates nominated by the general assembly. The nomination and election of the independent board members, the regulations regarding the independent members of the Capital Markets Board are taken as basis.

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

15. EQUITY (cont'd)

Companies whose shares are quoted in Borsa İstanbul are subject to profit distribution rules of Capital Market Board as follows:

Dividend is distributed according to Communiqué Serial: IV, No: 27 on "Principles Regarding Distribution of Dividends for the quoted entities subjected to Capital Market Board Law", principles determined in the Articles of Association and dividend distribution policy which is declared by the Companies to the market.

In addition, the decision also allows companies to compute their distributable profit amounts by considering the net profit for the period presented in the publicly disclosed consolidated financial statements prepared in accordance with the Communiqué Serial: XI, No: 29, if such distributable profits could be fully recovered from resources subject to profit distribution in the statutory records.

Resources that may be Involved in the Profit Distribution:

As of the balance sheet date, the loss for the period less accumulated losses in the Group's legal records is TL 4,167,363.22 (31 December 2017: TL 182,039,970.14), and the total amount of the other resources that may be involved in the profit distribution is TL 271,055,021 (31 December 2017: TL 325,222,384.30)

16. REVENUE AND COST OF SALES

	2018	**2017**
Sales income		
Rent income	526,116	411,150
Residence and office sales income	1,307,091	286,070
Common area income	114,196	81,816
Other	6,880	1,104
	1,954,283	**780,140**
Cost of sales		
Cost of residence and office sales	(911,233)	(150,946)
Common area expenses	(137,644)	(90,833)
Rent expenses and management fees of shopping malls	(18,486)	(27,613)
Other	(1,831)	(2,094)
	(1,069,194)	**(271,486)**
Gross profit	**885,089**	**508,654**

Operational lease revenues mainly consist of rent income from shopping malls and Torun Tower office building. Shopping malls in operation are Mall of İstanbul, Ankara ANKAmall, Bursa Korupark, Bursa Zafer Plaza, Antalya Deepo, Istanbul Torium and Samsun Bulvar Shopping Mall. Bulvar Samsun Shopping Mall started to operate on July 2012. Ankamall is owned by the Group's associate Yeni Gimat; Samsun Bulvar Shopping Mall, is owned by the Group's joint venture TTA. Mall of İstanbul, Istanbul Torium, Bursa Korupark and Antalya Deepo is managed by the related party Torun AVM Yatırım ve Yönetim A.Ş. ("Torun Shopping Mall"), the management of Bursa Zafer Plaza is conducted by Zafer Plaza İşletmeciliği A.Ş. (Note 23).

Common area expenses consist of electricity, water, security, cleaning, advertising and other common area expenses of the shopping malls. Common area income consists of expenses charged to tenants related to common areas.

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

17. MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses	**2018**	**2017**
Taxes, due and fees (*)	(14,428)	(15,106)
Provisions for legal cases and doubtful receivables	(9,964)	(5,044)
Personnel expenses	(8,162)	(9,139)
Donations	(643)	(3,284)
Property expenses	(12,122)	(4,699)
Consultancy expenses	(1,268)	(1,932)
Depreciation expenses	(1,241)	(1,312)
Transportation and travel expenses	(825)	(398)
Borsa İstanbul, CMB and CRA expenses	(338)	(1,719)
Other	(2,505)	(2,280)
	(51,496)	**(44,913)**

(*) A substantial part of the taxes and duties consist of estate taxes, and the estate tax is TL 14,163 for 2018 and TL 15,022 for 2017.

Marketing expenses	**2018**	**2017**
Advertising expenses (**)	(1,954)	(4,326)
Personnel expenses	(1,873)	(2,775)
Marketing expenses for residence sales	(103)	-
Depreciation expenses	(748)	(682)
Consultancy expenses	(60)	(2,148)
Other	(1,686)	(1,120)
	(6,424)	**(11,051)**

(**) As of 31 December 2018; TL 1,764 (31 December 2017: TL 3,235) of the advertising expenses are related to 5. Levent project, TL 35 (31 December 2017: TL 51) of it related to Mall of İstanbul, TL 9 (31 December 2017: TL 230) of it related to the advertising expenses of Torun Center project, TL 146 of it related to the advertising expenses of Korupark, and the remaining part is related to the Group's publicity expenses.

18. EXPENSES BY NATURE

	2018	**2017**
Cost of residence sales	(911,233)	(150,946)
Common area expenses	(137,644)	(90,833)
Provision for litigation and doubtful receivable expenses	(9,964)	(5,044)
Taxes, due and fees	(14,428)	(15,106)
Rent expenses and management fees of shopping malls	(18,486)	(27,613)
Personnel expenses	(10,035)	(11,914)
Advertising expenses	(1,954)	(4,326)
Donations	(643)	(3,284)
Property expenses	(12,122)	(4,699)
Consultancy expenses	(1,328)	(4,080)
Depreciation expenses	(1,989)	(1,994)
Transportation and travel expenses	(825)	(398)
Borsa İstanbul expenses	(338)	(1,719)
Other	(6,125)	(5,494)
	(1,127,114)	**(327,450)**

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

19. OTHER INCOME/EXPENSES FROM OPERATING ACTIVITIES

	2018	2017
Other income from operating activities		
Net gain from fair value adjustments on investment properties (Note 8)	1,694,571	374,050
Other income from construction site (*)	5,577	5,126
Provisions no longer required (Note 7)	346	1,532
Foreign exchange income, net	68,967	2,212
Other	7,722	10,505
	1,777,183	**393,425**

Other expenses from operating activities	**2018**	**2017**
Other expenses from construction site (*)	(1,394)	(1,579)
Other	-	(175)
	(1,394)	**(1,754)**

(*) As of 31 December 2018, the major part of the construction income/expenses occur from the usage of construction services by the subcontractors of 5. Levent and Torun Center projects (31 December 2017: 5. Levent and Torun Center project) and construction income generated from punishments to subcontractors.

20. FINANCE INCOME / (EXPENSES)

	2018	2017
Finance income		
Interest income on time deposits	64,665	63,220
Gains on derivative financial instruments	-	4,009
	64,665	**67,229**

Finance expenses	**2018**	**2017**
Foreign exchange losses, net	(1,106,380)	(295,092)
Interest expense	(315,102)	(191,551)
Losses on derivative financial instruments	(13,301)	-
	(1,434,783)	**(486,643)**

(*) Foreign exchange gains are disclosed after being offset with foreign exchange losses since the Group discloses the foreign exchange gains and losses as net balance.

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

21. EARNINGS PER SHARE

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus. The issue of such shares is treated as the issuance of ordinary shares in the calculation of earnings per share.

Earnings per share disclosed in the income statement is determined by dividing net income attributable to ordinary shareholders by the weighted average number of shares existing during the period concerned.

	31 December 2018	31 December 2017
Net profit of shareholders	1,287,204	455,108
Weighted average number of ordinary shares (Full TL)	1,000,000,000	1,000,000,000
Earnings per share (Full TL)	**1.29**	**0.46**

As stated in Note 2.6, the Group's weighted average number of shares are calculated by including retrospective effects of capital increase by bonus issue.

22. TAX ASSETS AND LIABILITIES

The Company is exempt from corporate income tax in accordance with paragraph d-4 of Article 5 of the Corporate Income Tax Law and 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, according to the Council of Ministers decision, No: 93/5148, the withholding tax rate is determined as "0". Therefore, the Company has no corporate tax obligation. The current period corporate tax is composed of the taxes calculated on the profits of the associates and subsidiaries of the Company.

Tax charges recognized in the statement of comprehensive income for the period ended at 31 December 2018 and 2017 are summarized as follows:

	31 December 2018	31 December 2017
Current period tax	-	-
	-	-

23. RELATED PARTY DISCLOSURES

Balances with related parties at 31 December 2018 and 2017 are as follows:

Receivables from related parties	**2018**	**2017**
Torun Shopping Mall (*)	27,076	2,708
Zafer Plaza İşletmeciliği A.Ş.	3,591	1,174
Prn Perakende Mağ.ve Tic.A.Ş	33	-
	30,700	**3,882**

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

23. RELATED PARTY DISCLOSURES (cont'd)

Payables to related parties	**2018**	**2017**
Torun Yapı San. Ve Tic. A.Ş. (***)	17,981	104
Torun Shopping Mall (*)	4,011	-
Torunlar Gıda	24	-
Torun Family (**)	8,062	11,068
	30,078	**11,172**

(*) Torun Shopping Mall provides management and administration services to Mall of İstanbul, Mall of Antalya, Deepo Shopping Mall, İstanbul Torium Shopping Mall and Bursa Korupark Shopping Mall which are owned by the Company. In accordance with the management agreement signed for the malls, management fee is paid for malls which is 2% (VAT excluding) of the sum of monthly TL rent bills charged to tenants. The payable and receivable balances of Torun Shopping Mall are recognized as offset. The transactions with Torun AVM have been conducted through normal market conditions and market prices.

(**) Payables to the Torun Family consist of order advances received within the scope of the sales of the apartment and offices.

(***) Torun Yapı undertakes the Group's construction works

As of 31 December 2018 and 2017, related to sales to related parties and commission paid, service expenses are as follows:

Sales to related parties	**2018**	**2017**
Torun Shopping Mall	28,345	34,717
Zafer Plaza İşletmeciliği A.Ş.	33,900	28,820
Other	8,077	368
	70,322	**63,905**

Zafer Plaza İşletmeciliği A.Ş. is providing management and administration services to Zafer Plaza Shopping Mall which is owned by the Company. In accordance with the management agreement signed for Zafer Plaza Shopping Mall, Torunlar REIC has a rent income amounting to TL 33,900 for the period ended 31 December 2018 and TL 28,820 for the period ended 31 December 2017. The transactions with Zafer Plaza İşletmeciliği A.S. have been conducted through normal conditions and market prices.

Purchases from related parties	**2018**	**2017**
Torun Shopping Mall	77,255	81,723
Torun Yapı San. Ve Tic. A.Ş. (***)	-	785
PRN Parakende Mağazacılık ve Tic. A.Ş.	2	110
Torunlar Gıda	-	886
Other	-	105
	77,257	**83,609**

Balances with related parties as of 31 December 2018 and 2017 interest income and interest expenses regarding the related parties are as follows:

Interest income:	**2018**	**2017**
Torun Shopping Mall	1,001	-
Other	-	74
	1,001	**74**

Interest expenses:	**2018**	**2017**
Torun Shopping Mall	454	933
Torun Yapı	121	2
Torunlar Gıda	3	53
Zafer Plaza	104	42
	682	**1,030**

23. RELATED PARTY DISCLOSURES (cont'd)

Compensation to Key Management

	2018	**2017**
Salaries and premium	2,611	2,571

The remuneration of top management consists of short-term salaries and other short-term benefits, they are and free from long-term benefits.

24. FAIR VALUE DISCLOSURES ON FINANCIAL INSTRUMENTS

Financial assets

It is assumed that the carrying values of the cash and cash equivalents approximate their fair values since classified under short term.

Appraiser report values are used to determine the fair values of the investment properties, which are recognized at their fair values in the balance sheet (Note 8).

It is assumed that the carrying values of the trade receivables approximate the fair values.

It is assumed that the revaluations of foreign currency denominated balances with the period end foreign exchange rates approximate their carrying values.

Financial liabilities

It is assumed that the carrying values of trade payables approximate their fair values since they are classified under short term.

It is assumed that the fair values of liabilities from finance leases approximate their fair values since classified under short term.

Derivative financial instruments are carried at their fair values.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from directly or indirectly observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data.

Classifications of the assets and liabilities which are measured at fair values are as follows.

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

24. FAIR VALUE DISCLOSURES ON FINANCIAL INSTRUMENTS (cont'd)

	31 Dcecember 2018 Fair Value Levels		
Financial assets measured at the fair value	**1. Level TL**	**2. Level TL**	**3. Level TL**
Investment properties	-	-	-

	31 Dcecember 2018 Fair Value Levels		
Financial liabilities	**1. Level TL**	**2. Level TL**	**3. Level TL**
Derivative instruments	-	-	-

	31 Dcecember 2017 Fair Value Levels		
Financial assets measured at the fair value	**1. Level TL**	**2. Level TL**	**3. Level TL**
Investment properties	-	-	-
Derivative instruments	-	-	-

	31 Dcecember 2017 Fair Value Levels		
Financial liabilities	**1. Level TL**	**2. Level TL**	**3. Level TL**
Derivative instruments	-	277	-

The fair value of the financial liabilities is determined as the second level.

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Liquidity risk

Liquidity risk is the inability of the Group to match the net funding requirements with sufficient liquidity. The Group management tries to avoid liquidity risk from daily operations by trying to keep sufficient levels of cash and to have open credit lines with creditors. Management also tries to align the repayment of borrowings obtained for the construction and acquisition of investment properties with the rental revenue streams from such properties to the extent possible. For the construction of residential units the Group obtains cash advances from customers by engaging in pre-sales agreements to minimize the funding requirement in such projects.

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk (cont'd)

The analysis of the Group's financial liabilities with respect to their maturities as of 31 December 2018 and 2017 is as follows:

31 December 2018	**Carrying value**	**Contractual cash flow**	**Up to 3 months**	**3 months to 1 year**	**1 year - to 5 years**	**Over 5 years**
Short-term financial liabilities (Non-derivative):						
Short term liabilities	258,038	307,708	93,714	213,994	-	-
Short term portion of long term liabilities	1,685,608	1,856,652	408,423	1,448,229	-	-
Other payables	28,772	28,772	-	28,772	-	-
Trade payables	99,246	99,246	99,246	-	-	-
	2,071,664	**2,292,378**	**601,383**	**1,690,995**	**-**	**-**
Long-term financial liabilities (Non-derivative):						
Long term liabilities	2,250,389	2,573,077	-	-	2,387,671	185,406
	2,250,389	**2,573,077**	**-**	**-**	**2,387,671**	**185,406**
No-derivative financial liabilities, total	**4,322,053**	**4,865,455**	**601,383**	**1,690,995**	**2,387,671**	**185,406**
Derivative financial liabilities, net	-	-	-	-	-	-
Derivative cash inflows						
Derivative cash outflows	-	-	-	-	-	-

31 December 2017	**Carrying value**	**Contractual cash flow**	**Up to 3 months**	**3 months to 1 year**	**1 year - to 5 years**	**Over 5 years**
Short-term financial liabilities (Non-derivative):						
Short term liabilities	469,671	485,293	145,383	339,910	-	-
Short term portion of long term liabilities	396,372	408,033	102,008	306,025	-	-
Other payables	35,278	35,278	-	35,278	-	-
Trade payables	119,224	119,224	119,224	-	-	-
	1,020,545	**1,047,828**	**366,615**	**681,213**	**-**	**-**
Long-term financial liabilities (Non-derivative):						
Long term liabilities	2,740,433	3,015,374	-	-	3,015,374	-
	2,740,433	**3,015,374**	**-**	**-**	**3,015,374**	**-**
No-derivative financial liabilities, total	**3,760,978**	**4,063,202**	**366,615**	**681,213**	**3,015,374**	**-**
Derivative financial liabilities, net	-	-	-	-	-	-
Derivative cash inflows						
Derivative cash outflows	**277**	**277**	-	**277**	-	-

The analysis of the Group's assets and liabilities with respect to their maturities as of 31 December 2018 and 2017 is as follows:

	31 December 2018				
	Up to 3 months	**3 months to 1 year**	**More than 1 year**	**Non-interest bearing**	**Total**
Cash and cash equivalents	200,997	-	-	3,340	204,337
Trade receivables	-	143,451	10,661	-	154,112
Due from related parties	30,700	-	-	-	30,700
Total assets	**231,697**	**143,451**	**10,661**	**3,340**	**389,149**
Financial liabilities	434,697	1,508,949	2,250,389	-	4,194,035
Trade payables	99,246	-	-	-	99,246
Total liabilities	**533,943**	**1,508,949**	**2,250,389**	**-**	**4,293,281**
Net repricing position	**(302,246)**	**(1,365,498)**	**(2,239,728)**	**3,340**	**(3,904,132)**

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk (cont'd)

	31 December 2017				
	Up to 3 months	**3 months to 1 year**	**More than 1 year**	**Non-interest bearing**	**Total**
Cash and cash equivalents	601,512	-	-	920	602,432
Trade receivables	-	168,749	33,498	-	202,247
Due from related parties	3,882	-	-	-	3,882
Other financial assets	-	-	-	-	-
Total assets	**605,394**	**168,749**	**33,498**	**920**	**808,561**
Financial liabilities	380,266	485,777	2,740,433	-	3,606,476
Trade payables	119,225	-	-	-	119,225
Other financial liabilities	-	277	-	-	277
Total liabilities	**499,491**	**486,054**	**2,740,433**	**-**	**3,725,978**
Net repricing position	**105,903**	**(317,305)**	**(2,706,935)**	**920**	**(2,917,417)**

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities. These exposures are managed by offsetting interest rate sensitive assets and liabilities and using derivative instruments when considered necessary. In this context, matching of not only maturities of receivables and payables but also contractual repricing dates are crucial. In order to keep the exposure of financial liabilities to interest rate changes at a minimum, "fixed interest/floating interest", "short-term/long-term", "TL/foreign currency" balance should be structured consistent within and with assets in the balance sheet.

Borrowings with floating interest rate which have been classified as financial liabilities in the Group's balance sheet have been exposed to the interest risk as a result of change in interest rates. As of 31 December 2018, if the interest denominated in US Dollar and Euro is 1% higher/lower while all other variables were held constant, profit before tax would decrease/increase by TL 19,614 (31 December 2017: TL 28,065)

Interest Position Table

	31 December 2018	31 December 2017
Fixed interest rate instruments		
Financial liabilities	2,078,471	3,288,247
Variable interest rate instruments		
Financial liabilities	2,115,564	318,229
Total financial liabilities	**4,194,035**	**3,606,476**

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Credit risk disclosures

The Group is subject to credit risk arising from trade receivables related to credit sales and deposits at banks.

The Group keeps majority of its deposits with top 10 retail banks established in Turkey, with which the Group had standing relations.

Credit risk mainly consists of receivables from related parties. Credit risk of receivables from third parties is managed by securing receivables with collaterals covering receivables at the highest possible proportion. Methods used are as follows:

- Bank guarantees (letter of guarantee, letter of credit, etc.)
- Mortgage on real estate
- Cheques and notes

In credit risk control, the credit quality of each customer is assessed; taking into account its financial position, past experience and other factors, individual risk limits are set in accordance and the utilization of credit limits is regularly monitored.

Credit risk details as of 31 December 2018 are as follows:

	Trade receivables		Deposits
31 December 2018	**Related party**	**Other party**	**in banks**
Maximum exposed credit risk as of reporting date	**30,700**	**154,112**	**204,337**
Secured portion of the maximum credit risk by guarantees, etc.	-	217,344	-
A. Net book value of financial assets that are either not due or not impaired	30,700	140,077	204,337
B. Net book value of the expired but not impaired financial assets	-	14,035	-
C. Net book value of impaired assets net defter değeri	-	-	-
- Over due (Gross book value)	-	13,762	-
- Impairment (-)	-	(13,762)	-
- Not over due (Gross book value)	-	-	-
- Impairment (-)	-	-	-
- Secured portion of the net value by guarantees, etc.	-	-	-
D. Off balance sheet items with credit risks	-	-	-

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Credit risk details as of 31 December 2017 are as follows:

	Trade receivables		Deposits
31 December 2017	**Related party**	**Other party**	**in banks**
Maximum exposed credit risk as of reporting date	**3,882**	**202,247**	**602,432**
Secured portion of the maximum credit risk by guarantees, etc.	-	201,867	-
A. Net book value of financial assets that are either not due or not impaired	3,882	194,755	602,432
B. Net book value of the expired but not impaired financial assets	-	17,736	-
C. Net book value of impaired assets net defter değeri	-	-	-
- Over due (Gross book value)	-	10,244	-
- Impairment (-)	-	(10,244)	-
- Not over due (Gross book value)	-	-	-
- Impairment (-)	-	-	-
- Secured portion of the net value by guarantees, etc.	-	-	-
D. Off balance sheet items with credit risks	-	-	-

While determining the above-mentioned amounts, the factors that increase the credibility such as guarantees received are not considered. In the financial assets of the Group which are subject to credit risk, no impairment risk has been identified. Additionally, Group does not have off balance sheet items which are subject to credit risk and assets overdue but not impaired assets.

Foreign exchange risk

The Group is exposed to foreign exchange rate risk through operations it has made in multiple currencies. The main principle in the management of this foreign currency risk is maintaining foreign exchange position in a way to be affected least by the fluctuations in foreign exchange rates, in other words, maintaining foreign exchange position close to zero.

For this reason, the proportion of the positions of these currencies among each other or against Turkish Lira to total equity amount is aimed to be controlled under certain limits. The Group is exposed to foreign exchange rate risk mainly for EUR and USD.

Foreign currency position

Foreign currency denominated assets, liabilities and off-balance sheet accounts give rise to foreign exchange exposure.

The Group does not have any export or import activity in 31 December 2018 and 2017.

Foreign currency denominated assets and liabilities held by the Group are as follows:

	31 December 2018	**31 December 2017**
Assets	156,175	209,710
Liabilities	(3,657,437)	(2,916,196)
Net balance sheet position	**(3,501,262)**	**(2,706,486)**

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

The table below summaries foreign currency position risk of the Group as of 31 December 2018. The original currency amounts of assets and liabilities denominated in foreign currencies and the total TL equivalent are as follows:

31 December 2018	**Euro**	**US Dollar**	**TL Amount**
Current Assets			
Monetary financial assets	6,502	20,195	145,438
Other assets	873	497	7,877
Trade receivables	100	429	2,860
Total assets	**7,475**	**21,121**	**156,175**
Short term liabilities			
Trade payables	(2,013)	(1,661)	(20,873)
Financial liabilities	(40,250)	(262,852)	(1,589,854)
Other short term liabilities	(2,954)	(11,026)	(75,813)
Long Term Liabilities			
Financial liabilities	(142,843)	(197,989)	(1,970,897)
Total liabilities	**(188,060)**	**(473,528)**	**(3,657,437)**
Net balance sheet position	**(180,585)**	**(452,407)**	**(3,501,262)**
Assets from off balance sheet derivative instruments	-	-	-
Liabilities from off balance sheet derivative instruments	-	-	-
Net foreign currency liability position	**(180,585)**	**(452,407)**	**(3,501,262)**

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

The table below summaries foreign currency position risk of the Group as of 31 December 2017. The original currency amounts of assets and liabilities denominated in foreign currencies and the total TL equivalent are as follows:

31 December 2017	**Euro**	**US Dollar**	**TL Amount**
Current Assets			
Monetary financial assets	3,009	46,689	189,699
Other assets	2,933	1,269	18,031
Trade receivables	-	525	1,980
Total assets	**5,942**	**48,483**	**209,710**
Short term liabilities			
Trade payables	(3,622)	(2,207)	(24,680)
Financial liabilities	(55,037)	(58,902)	(470,688)
Long Term Liabilities			
Financial liabilities	(105,893)	(515,037)	(2,420,828)
Total liabilities	**(164,552)**	**(576,146)**	**(2,916,196)**
Net balance sheet position	**(158,610)**	**(527,663)**	**(2,706,486)**
Assets from off balance sheet derivative	-	-	-
off balance sheet derivative instruments	-	-	-
Foregn currency balance sheet net position derivatives	(277)	-	(1,251)
Net foreign currency liability position	**(158,887)**	**(527,663)**	**(2,707,737)**

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

The table below shows the Group's sensitivity for 10% fluctuation of USD and EUR. These amounts represent the effect on the statement of comprehensive income of 10% fluctuation of USD and EUR against TL. During this analysis all other variables especially interest rate are assumed to remain constant.

Foreign currency sensitivity analysis as of 31 December 2018 and 2017 are as follows:

	Gain / Loss		**Equity**	
31 December 2018	**Appreciation**	**Depreciation**	**Appreciation**	**Depreciation**
%10 fluctuation in USD rate				
USD net asset/liability	(238,007)	238,007	(238,007)	238,007
Secured portion from USD risk				
USD net effect	**(238,007)**	**238,007**	**(238,007)**	**238,007**
%10 fluctuation in EUR rate				
EUR net asset/liability	(108,857)	108,857	(108,857)	108,857
Secured portion from EUR risk				
EUR net effect	**(108,857)**	**108,857**	**(108,857)**	**108,857**

	Gain / Loss		**Equity**	
31 December 2017	**Appreciation**	**Depreciation**	**Appreciation**	**Depreciation**
%10 fluctuation in USD rate				
USD net asset/liability	(199,478)	(199,478)	(199,478)	(199,478)
Secured portion from USD risk				
USD net effect	**(199,478)**	**(199,478)**	**(199,478)**	**(199,478)**
%10 fluctuation in EUR rate				
EUR net asset/liability	(81,182)	(81,182)	(81,182)	(81,182)
Secured portion from EUR risk				
EUR net effect	**(81,182)**	**(81,182)**	**(81,182)**	**(81,182)**

Capital management

The Group attempts to manage its capital by minimizing the investment risk with portfolio diversification. The Group's objectives are to safeguard the Group's sustainability as a going concern to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to keep a gearing ratio that is in-line with industry averages.

When the Group manages the capital, it aims to provide returns to shareholders and to reduce cost of capital, to maintain optimal capital structure by protecting the Group's operation ability.

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

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

25. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

Gearing ratios as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total liabilities	4,194,035	3,606,476
Cash and cash equivalents	(204,337)	(602,432)
Net liabilities	3,989,698	4,354,728
Equity	7,613,718	6,378,657
Invested capital	1,000,000	1,000,000
Gearing ratio	**52%**	**68%**

26. SUBSEQUENT EVENTS

None.

27. ADDITIONAL NOTES: CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS

The information below, control of compliance with the portfolio limitations are the condensed information which comprised of Serial: II, No: 14.1 "Financial Reporting in Capital Markets" Amendment No: 16 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 Capital Markets Board's Communiqué Serial: III, No: 48.1 a "Amendment on Real Estate Investment Company" published in the Official Gazette dated 23 January 2014 numbered 28891.

Financial Statements Main Account Items	Related Regulations	31 December 2018	31 December 2017
A Money and capital markets instruments	Series:III, No:48.1, Art.24/(b)	204,337	602,432
B Properties, projects based on properties and rights based on properties	Series:III, No:48.1, Art.24/(a)	11,404,537	9,907,527
C Subsidiaries	Series:III, No:48.1, Art.24/(b)	348,425	315,593
Due to related parties (non trade)	Series:III, No:48.1, Art.23/(f)	-	-
Other assets		**317,140**	**510,265**
D Total assets	Series:III, No:48.1, Art.3/(p)	**12,274,439**	**11,335,817**
E Financial liabilities	Series:III, No:48.1.1, Art.31	4,098,497	3,513,752
F Other financial liabilities	Series:III, No:48.1.1, Art.31	-	-
G Finance leases	Series:III, No:48.1.1, Art.31	95,538	92,724
H Due from related parties(non trade)	Series:III, No:48.1, Art.23(f)	-	-
I Shareholders Equity	Series:III, No:48.1, Art.31	7,613,718	6,378,657
Other liabilities		**466,686**	**1,350,684**
D Total liabilities	Series:III, No:48.1, Art.3/(p)	**12,274,439**	**11,335,817**

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

27. ADDITIONAL NOTES: CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS (cont'd)

Financial Information	Related Regulations	31 December 2018	31 December 2017
A1 The portion of money and capital market instruments held for payment of properties for the following 3 years	Series:III, No:48.1, Art.24/(b)	204,337	602,432
A2 TL and foreign currency time and demand deposits	Series:III, No:48.1, Art.24/(b)	204,337	602,432
A3 Foreign capital market instruments	Series:III, No:48.1, Art.24/(d)	-	-
B1 Foreign properties, projects based on properties and rights based on properties	Series:III, No:48.1, Art.24/(d)	-	-
B2 Idle lands	Series:III, No:48.1, Art.24/(c)	-	-
C1 Foreign affiliates	Series:III, No:48.1, Art.24/(d)	-	-
C2 Investments in affiliated operating companies	Series:III, No:48.1, Art.28/1(a)	-	-
J Non-cash loans	Series:III, No:48.1, Art.31	202,131	110,122
K Mortgage amount on non-owned land to be developed	Series:III, No:48.1, Art.28(e)	-	-
L Total investments for money and capital market instruments in a single entity	Series:III, No:48.1, Art.22(ı)	-	-

Portfolio Restrictions	Related Regulations	31 December 2018	31 December 2017	Minimum Rate
1 Mortgage amount on non-owed land to be developed (K/D)	Series:III, No:48.1a, Art.22/(e)	0%	0%	<10%
2 Properties, projects based on properties and rights based on properties (B+A1)/D)	Series:III, No:48.1a, Art.24/(a),(b)	95%	93%	>50%
3 Money and capital market instruments and affiliates (A+C-A1)/D)	Series:III, No:48.1a, Art.24/(b)	3%	3%	<50%
4 Foreign properties, projects based on properties rights based on properties affiliates capital, market instruments (A3+B1+C1/D)	Series:III, No:48.1a, Art.24/(d)	0%	0%	<49%
5 Idle lands(B2/D)	Series:III, No:48.1a, Art.24/(c)	0%	0%	<20%
6 Investment in affiliated operating companies (C2/D)	Series:III, No:48.1a, Art.28/1/(a)	0%	0%	<10%
7 Borrowing limit (E+F+G+H+J)/I	Series:III, No:48.1, Art.31	58%	58%	<500%
8 TL and foreign currency time and demand deposits (A2-A1)/D	Series:III, No:48.1, Art.24/(b)	0%	0%	<10%
9 Total investments for money and capital market instruments in a single entity	Series:III, No:48.1, Art.22/(1)	0%	0%	<10%

	Participation rate	Participation amount	
Associate	**(%)**	**31 December 2018**	**31 December 2017**
Yeni Gimat	14.83	308,370	286,891
TTA	40.00	25,902	22,250
Netsel	44.60	14,153	6,452
		348,425	**315,593**

27. ADDITIONAL NOTES: CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS (cont’d)

Yeni Gimat, Netsel and TTA which are associates and joint ventures of the Company (all together “Subsidiaries”) do not have valuation reports as of 31 December 2018. For the purposes of the control of compliance with the portfolio limitations, net asset values of associates are used. In this respect, Yeni Gimat and TTA’s stand-alone financial statements, which are prepared in accordance with financial reporting standards of the Company, are multiplied with the Company’s ownership rate in the related subsidiary. Thus, it is assumed that net values which are determined by adding and deducting net receivables/liabilities as of balance sheet date from the investment properties that are owned by associates and followed in stand-alone financial statements with fair values, approximate to the fair value of the associates. Investment properties which are owned by associates are explained in Note 1 in detail. Since, there are no valuation reports of Netsel, net asset values of the subsidiaries based on their stand-alone financial statements are taken into account and they are multiplied with Company’s share in these subsidiaries.