

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

**Financial Statements As of and
For the Year Ended December 31, 2018
With Independent Auditors' Report Thereon**

*(Convenience Translation of Financial Statements And Related
Disclosures and Footnotes Originally Issued in Turkish)*

January 31, 2019

*This report includes 4 pages of Independent Auditors' Report and
70 pages financial statements and notes to the financial statements.*

İş Gayrimenkul Yatırım Ortaklığı
Anonim Şirketi

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi'nin ("Şirket"), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

2) Basis for Opinion

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

3) Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Presentation of investment properties in the financial statements and significant information disclosed	
As explained in note 2 and 10, the Company recognizes investment properties at their fair values, after initial recognition. As of December 31, 2018, fair value amount of the investment properties disclosed in the financial statements has been valued at TL 4.153.488.099 by independent appraisal firms and details of the valuation have been disclosed in note 10. Due to the fact that investment properties are significant part of the Company's assets and	We assessed the qualifications, competencies and independence of the professional appraisers engaged by the management. In our audit, we assessed whether the valuation methods as applied by appraisers are acceptable for valuation of the underlying investment property. We reconciled the appraised value for independent sections in the valuation report with disclosed amount in note

<p>applied valuation methods contain significant judgements and assumptions, we have considered the valuation of investment properties as a key audit matter.</p>	<p>10. In addition, we reconciled standing data included in the valuation report such as rental income, duration of lease contracts, occupancy rates and administration expenses to source documents.</p> <p>Among the other audit procedures we performed, we verified the assumptions used by the external appraisers in their valuations (including the discount rate, the market rent and the expected occupancy rates) against external data. For this assessment we involved valuation experts of a firm which is in our audit network to our audit procedures.</p> <p>Due to the high level of judgment in the valuation of investment property and the existence of alternative assumptions and valuation methods, we assessed if the result of the external valuation is within an acceptable range.</p> <p>We also examined the suitability of the information in the financial statements and explanatory note, given the importance of this information for users of the financial statements.</p>
<p>Inventories</p>	
<p>As of December 31, 2018, in the financial statements of the Company there has been inventories amounting to TL 516.387.334 in the current assets and TL 174.550.000 in the non-current assets. Inventories comprise of cost of land that is held to build housing projects for sale in the short-term and construction costs of housing units. Accounting policy regarding to inventories is disclosed in note 2, related inventory amounts are disclosed in note 11. Due to the fact that inventories are significant part of the Company's assets and matters such as accounting of purchase, conversion-capitalization and other necessary costs which are included to inventories, housing inventories to be sold are considered as key audit matter to our audit.</p>	<p>Within the scope of our audit procedures performed regarding to the subject stated above, it has been focused on the followings;</p> <ul style="list-style-type: none"> - Testing cost of development additions in the current year by comparing with documents such as invoice and progress payment - Review of borrowing costs capitalized to inventories in the current year and review the capitalization ceiling test - Testing of foreign currency differences capitalized and its verification with borrowing costs - Controlling of net realizable value of the inventories with valuation report and realized sales.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 standards on auditing as issued by the Capital Markets Board of Turkey and InAS 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

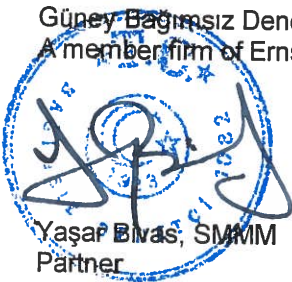
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation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

B) Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on January 31, 2019.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2018 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Yaşar Bivas.

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



January 31, 2019
Istanbul, Turkey

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İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

As of December 31, 2018 Statement of Financial Position (Balance Sheet)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

		<i>Audited</i>	<i>Audited</i>
	<i>Notes</i>	31 December 2018	31 December 2017
ASSETS			
Current assets		752.744.479	967.988.419
Cash and cash equivalents	5	54.236.749	83.117.592
Trade receivables	8	107.442.054	47.442.849
<i>Trade receivables from related parties</i>	24	4.680.762	1.600.761
<i>Trade receivables from third parties</i>		102.761.292	45.842.088
Other receivables	9	718.345	1.078.243
<i>Other receivables from related parties</i>	24	35.610	--
<i>Other receivables from third parties</i>		682.735	1.078.243
Derivatives	6	59.536.713	3.865.901
Inventories	11	516.387.334	757.111.894
Prepaid expenses	16	14.386.026	75.331.788
<i>Prepaid expenses to related parties</i>	24	2.788.312	65.354.311
<i>Prepaid expenses to third parties</i>		11.597.714	9.977.477
Other current assets	16	37.258	40.152
Non-current assets		4.469.588.445	4.343.958.837
Trade receivables	8	44.389.008	16.225.269
<i>Other trade receivables from third parties</i>		44.389.008	16.225.269
Inventories	11	174.550.000	344.153.094
Equity accounted investees	3	3.088.133	2.527.108
Investment properties	10	4.153.488.099	3.834.870.889
Tangible assets	12	33.814.159	31.005.753
Intangible assets	13	1.015.609	847.706
Prepaid expenses	16	5.982.425	4.240.543
<i>Prepaid expenses to third parties</i>		5.982.425	4.240.543
Other tangible assets	16	53.261.012	110.088.475
TOTAL ASSETS		5.222.332.924	5.311.947.256

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

As of December 31, 2018 Statement of Financial Position (Balance Sheet)

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

		<i>Audited</i>	<i>Audited</i>
		31 December 2018	31 December 2017
LIABILITIES			
Short-term liabilities			
		1.091.581.932	873.322.937
Current portion of long term borrowings	7	742.664.172	169.179.394
<i>Loans and borrowings to related parties</i>	24	235.002.422	154.258.179
<i>Loans and borrowings to third parties</i>		507.661.750	14.921.215
Current portion of long term financial leases	7	--	696.316
<i>Financial leasing to related parties</i>	24	--	696.316
Trade payables	8	34.901.072	89.527.218
<i>Trade payables to related parties</i>	24	16.360.219	45.355.703
<i>Trade payables to third parties</i>	8	18.540.853	44.171.515
Other payables	9	20.833.806	8.989.614
<i>Other payables to third parties</i>	9	20.833.806	8.989.614
Deferred income	16	286.719.461	597.513.536
<i>Deferred income from related parties</i>	24	257.870	493.827
<i>Deferred income from third parties</i>		286.461.591	597.019.709
Short-term provisions		5.205.156	3.921.968
<i>Provisions for employee benefits</i>	15	390.946	317.880
<i>Other short-term provisions</i>	14	4.814.210	3.604.088
Other short-term liabilities	16	1.258.265	3.494.891
Long-term liabilities			
		573.811.637	1.158.047.332
Loans and borrowings	7	572.183.948	1.015.606.839
<i>Loans and borrowings to related parties</i>	24	381.929.982	518.177.339
<i>Loans and borrowings to third parties</i>		190.253.966	497.429.500
Deferred revenue	16	--	140.667.466
Long term provisions		1.627.689	1.773.027
<i>Provisions for employee benefits</i>	15	1.627.689	1.773.027
EQUITY			
		3.556.939.355	3.280.576.987
Share capital	17	958.750.000	913.750.000
Inflation restatement difference on share capital	17	240.146.090	240.146.090
Share premium	17	423.981	423.981
Other comprehensive income that will never be reclassified to profit or loss		30.669.212	27.386.467
<i>Revaluation and classification of gains / losses</i>		31.053.049	27.610.009
<i>Other earnings/ losses</i>		(383.837)	(223.542)
Restricted reserves	17	59.561.684	46.188.875
Prior years' profits	17	1.925.777.515	1.872.724.737
Net profit for the period		341.610.873	179.956.837
TOTAL EQUITY AND LIABILITIES			
		5.222.332.924	5.311.947.256

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Profit or Loss For the Year Ended December 31, 2018

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

		<i>Audited</i>	<i>Audited</i>
		1 January - 31 December 2018	1 January - 31 December 2017
	Notes		
Revenue	18	1.098.332.491	439.658.518
Cost of revenue (-)	18	(837.501.802)	(253.628.515)
Gross profit		260.830.689	186.030.003
General administrative expense (-)	19	(24.458.694)	(20.261.894)
Marketing expenses (-)	19	(22.287.736)	(23.754.981)
Other operating income	21	341.170.105	207.696.656
Other operating expense (-)	21	(75.436.309)	(123.919.259)
Operating profit		479.818.055	225.790.525
Share of profit of equity-accounted investees	3	1.311.025	1.363.515
Operating Profit Before Finance Expense		481.129.080	227.154.040
Financial income	22	60.395.502	3.829.974
Financial expenses (-)	22	(199.913.709)	(51.027.177)
Operating Profit before Tax From Continuing Operations		341.610.873	179.956.837
Tax Expense From Continuing Operations			
- Corporate tax charge		--	-
- Deferred tax benefit		--	-
Net profit for the period		341.610.873	179.956.837
Earnings per share	23	0,0036	0,0020

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Other Comprehensive Income For the Year Ended December 31, 2018

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

		<i>Audited</i>	<i>Audited</i>
		1 January - 31 December 2018	1 January - 31 December 2017
	Notes		
Net profit for the period		341.610.873	179.956.837
Other comprehensive income			
Other comprehensive income that will never be reclassified to profit or loss		3.282.745	3.024.494
Revaluation and classification of gains / losses	12	3.443.040	3.383.375
Actuarial gain/(loss) arising from defined benefit plans	15	(160.295)	(358.881)
Other comprehensive income		3.282.745	3.024.494
TOTAL COMPREHENSIVE INCOME		344.893.618	182.981.331

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Changes in Equity For the Year Ended December 31, 2018

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

				Other comprehensive income that will never be reclassified to profit or loss						
	Notes	Share capital	Inflation restatement difference on share capital	Share premium	Net change in remeasurements of defined benefit liability	Net change in revaluation of tangible assets	Legal reserves	Prior years' profits	Net profit for the period	Equity
Balances at January 1, 2017		850.000.000	240.146.090	423.981	135.339	24.226.634	36.305.282	1.589.596.928	420.511.402	3.161.345.656
Transfers		--	--	--	--	--	9.883.593	410.627.809	(420.511.402)	--
Total comprehensive income		--	--	--	(358.881)	3.383.375	--	--	179.956.837	182.981.331
Capital Increase (from internal sources)		63.750.000	--	--	--	--	--	(63.750.000)	--	--
Dividends		--	--	--	--	--	--	(63.750.000)	--	(63.750.000)
										--
Balances at December 31, 2017	17	913.750.000	240.146.090	423.981	(223.542)	27.610.009	46.188.875	1.872.724.737	179.956.837	3.280.576.987
Balances at January 1, 2018		913.750.000	240.146.090	423.981	(223.542)	27.610.009	46.188.875	1.872.724.737	179.956.837	3.280.576.987
Transfers		--	--	--	--	--	13.372.809	166.584.028	(179.956.837)	--
Total comprehensive income		--	--	--	(160.295)	3.443.040	--	--	341.610.873	344.893.618
Capital Increase (from internal sources)		45.000.000	--	--	--	--	--	(45.000.000)	--	--
Dividends		--	--	--	--	--	--	(68.531.250)	--	(68.531.250)
										--
Balances at December 31, 2018	17	958.750.000	240.146.090	423.981	(383.837)	31.053.049	59.561.684	1.925.777.515	341.610.873	3.556.939.355

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi
Statement of Cash Flow For the Year Ended December 31, 2018
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		<i>Audited</i>	<i>Audited</i>
		1 January -	1 January -
	Notes	31 December	31 December
		2018	2017
A. Cash flows from operating activities			
Net profit for the period		341.610.873	179.956.837
<i>Profit adjustments for:</i>			
Adjustments to depreciation and amortization	12, 13	1.754.156	1.731.040
Adjustments to impairment or cancelation		44.551.397	1.251.360
- Adjustments to impairment of receivables	8	1.246.896	1.251.360
- Adjustments to impairment of inventories	11	43.304.501	--
Adjustments for provisions	15	471.074	433.459
- Adjustments to provision for employee severance indemnity		471.074	433.459
Adjustments for (gain)/losses on fair value		(355.782.765)	(83.648.522)
- Adjustments to (gain)/losses on fair value of investment properties	10	(295.387.274)	(79.819.103)
- Adjustments to (gain)/losses on fair value of derivatives	21	(60.395.491)	(3.829.419)
Adjustments for retained earnings of investments valued by equity method		(1.311.025)	(1.363.515)
- Adjustments for retained earnings of subsidiaries	3	(1.311.025)	(1.363.515)
Adjustments for (gain)/losses on sales of non-current assets		4.275.408	(4.000.102)
- Adjustments for (gain)/losses on sales of tangible assets		--	(1.034)
- Adjustments for (gain)/losses on sales of investment property	18	4.275.408	(3.999.068)
Adjustments to interest income and expense		102.934.269	20.823.047
- Adjustments to interest income	18	(8.976.171)	(8.220.872)
- Adjustments to interest expense	21	111.910.440	29.043.919
Adjustments to foreign exchange differences		(471.671)	1.619.564
Operating profit from before the changes in working capital		138.031.716	116.803.168
<i>Changes in working capital</i>			
Changes in trade receivables		(89.409.840)	(36.149.177)
- Changes in trade receivables from related parties		(3.080.001)	(1.278.450)
- Changes in trade receivables from third parties		(86.329.839)	(34.870.727)
Changes in other receivables		1.109.898	533.574
- Changes in other receivables from related parties		714.390	400.000
- Changes in other receivables from third parties		395.508	133.574
Changes in inventories		367.023.153	(294.146.624)
Changes in derivatives		(119.447)	(35.916)
Changes in prepaid expenses		59.203.880	(5.505.173)
Changes in trade payables		(54.626.146)	55.328.465
- Changes in trade payables from related parties		(28.995.484)	40.085.238
- Changes in trade payables from third parties		(25.630.662)	15.243.227
Changes in other payables		11.844.192	(27.623.284)
- Changes in other payables from third parties		11.844.192	(27.623.284)
Changes in deferred revenue		(451.461.541)	154.301.467
Other changes in working capital		55.803.853	(14.551.333)
- Changes in other assets		56.830.357	(6.803.871)
- Changes in other liabilities		(1.026.504)	(7.747.462)
		37.399.718	(51.044.833)
Cash generated from operating activities			
Employee termination benefits paid	15	(703.641)	(177.756)
Interest received	5, 18	8.898.940	8.022.435
Net cash provided by / (used in) operating activities		45.595.017	(43.200.154)
B. Cash flows from investing activities			
Cash outflows arising from purchases of investment properties	10	(92.342.187)	(224.027.792)
Cash inflows arising from sales of investment properties		64.836.843	187.644.068
Cash outflows arising from purchases of tangible and intangible assets	12, 13	(1.287.425)	(1.167.509)
- Cash outflows arising from purchases of tangible assets		(582.426)	(438.622)
- Cash outflows arising from purchases of intangible assets		(704.999)	(728.887)
Net cash used in investing activities		(28.792.769)	(37.551.233)
C. Cash flows from financing activities			
Dividends paid	17	(68.531.250)	(63.750.000)
Cash inflows from derivatives		4.844.126	--
Borrowings received		398.356.624	227.620.696
Borrowings paid		(298.264.787)	(102.279.581)
Interest paid		(82.636.706)	(23.563.073)
Net cash provided by financing activities		(46.231.993)	38.028.042
Increase / (decrease) in cash and cash equivalents before effect of changes in foreign currency rates		(29.429.745)	(42.723.345)
Effect of changes in foreign currency rates over cash and cash equivalents		471.671	(1.619.564)
Net increase / (decrease) in cash and cash equivalents		(28.958.074)	(44.342.909)
Cash and cash equivalents at the beginning of the period	5	82.425.118	126.768.027
Cash and cash equivalents at the end of the period	5	53.467.044	82.425.118

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

1. Organization and operations of the Company

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (“the Company”) was established on August 6, 1999 by İş Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi taking over all assets and liabilities of İş Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi and Merkez Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi, both of which operated separately and were established in 1998. The Company is a subsidiary of Türkiye İş Bankası Anonim Şirketi (“İş Bankası”). The Company’s registered address is at İş Kuleleri Kule 2 Kat 10, 11 Levent İstanbul/Turkey.

The main objective and operations of the Company are to engage in activities regulated by the Capital Markets Board of Turkey (“CMB”) related with the Real Estate Investment Corporations such as; properties, property oriented capital market instruments, real estate projects and investing in capital market instruments. Compliance to the CMB’s regulations and related legislation are taken as a basis for the Company’s operations, portfolio investment policies and management limitations.

The Company’s shares have been traded on the Borsa İstanbul Anonim Şirketi (the former legal title “İstanbul Stock Exchange”) (“BİST”) since 1999.

The Company has 79 employees as of December 31, 2018 (December 31, 2017: 78).

Kanyon Yönetim İşletim ve Pazarlama Limited Şirketi (“Kanyon”) was established on October 6, 2004 by both 50% equal participations of the Company and Eczacıbaşı Holding Anonim Şirketi (“Eczacıbaşı Holding”). However, Kanyon is converted to Joint Stock Company status as at June 5, 2015. The main objective and operations of the jointly controlled entity are the management of the residences, offices and shops; providing cleaning, maintenance, security, basic environmental set up and similar activities as well as acting as an agent in the introduction and marketing of the projects of the complexes, including property letting and sale.

2. Basis of presentation of financial statements

2.1 Basis of presentation

Statement of compliance

The accompanying financial statements and explanatory notes have been prepared in accordance with Turkish Accounting Standards (“TAS”) promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) as set out in the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) of the Capital Markets Board of Turkey (“CMB”), which is published on June 13, 2013 at the Official Gazette numbered 28676. TAS include Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The financial statements as at December 31, 2018 have been approved for issue by the Board of Directors on January 31, 2019. The General Assembly and the legal authorities have the authority to amend the statutory financial statements and these financial statements.

Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries.

Preparation of financial statements

The accompanying financial statements have been prepared in accordance with the “Announcement on Financial Statements and Disclosure Formats” of CMB dated June 7, 2013. Additionally the accompanying financial statements have been presented in accordance with the TAS taxonomy of POA dated June 2, 2017 numbered 30.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.1 Basis of presentation (continued)

Functional and presentation currency

The financial position and the results of the Company’s operations have been expressed in Turkish Lira (“TL”) which is the functional currency of the Company and which is the presentation currency of the financial statements.

Basis of measurement

The financial statements are prepared on a historical cost basis except for the financial assets measured at fair value.

Preparation of financial statements in Hyperinflationary Periods

The CMB, with its resolution dated March 17, 2005, declared that companies operating in Turkey which prepare their financial statements in accordance with the CMB Financial Reporting Standards (including those adopted IAS/IFRS), would not be subject to the application of inflation accounting effective from January 1, 2005. Accordingly, IAS 29 “Financial Reporting in Hyperinflationary Economies” was not applied since January 1, 2005.

Interest in Joint Arrangements

Jointly controlled entities are those entities over whose activities one or more entities has joint control, established by contractual agreement and requiring unanimous consent for economic benefits.

Jointly controlled entity which is constituted as Kanyon is accounted for using the equity method in the accompanying financial statements. Under the equity method, investments in the jointly controlled entities are carried in the statement of financial position at cost plus post acquisition changes in the Company’s share of net assets of the jointly controlled entity and the comprehensive income reflects the share of the results of operations of the jointly controlled entities. Where there has been a change recognised directly in the equity of the jointly controlled entities, the Company recognises its share of any changes and discloses this based on IAS 28 “Investment in Associate and Joint Ventures”, when applicable, in the statement of changes in equity.

The financial statements of jointly controlled entity was prepared by using same accounting policies and periods to confirm with the Company’s financial statements.

Foreign currency transactions

Transactions in foreign currencies are translated to TL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to TL at the exchange rate at that date. Foreign currency differences arising on retranslation and gains and losses from foreign currency transactions are recognized in profit or loss.

The valuation principles applied and the presentation of accounting policies have been consistently applied in all period information. Significant changes in accounting policies and significant accounting errors identified are applied retrospectively and the prior period financial statements are restated.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.2 Changes in accounting policies and estimates

The changes in estimates of accounting are about only one period, when the change is made, are about future, prospectively applied by including future periods. There is no change in accounting estimates in the current period. Determined significant accounting estimates errors are applied retrospectively and restated prior financial statements. There is no significant accounting error that was discovered in the current period.

2.3 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2018. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs

i) The new standards, amendments and interpretations which are effective as at January 1, 2018 are as follows:

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard did not have a significant impact on the financial position or performance of the Company.

TFRS 9 Financial Instruments

In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018. The standard did not have a significant impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

TFRS 4 Insurance Contracts (Amendments)

In December 2017, POA issued amendments to TFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

TFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on 19 December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

TFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

In December 2017, POA issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

TAS 40 Investment Property: Transfers of Investment Property (Amendments)

In December 2017, POA issued amendments to TAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

Annual Improvements to TFRSs - 2014-2016 Cycle

In December 2017, POA issued Annual Improvements to TFRS Standards 2014–2016 Cycle, amending the following standards:

TAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying TFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018.

The amendments did not have a significant impact on the financial position or performance of the Company.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

TFRS 16 Leases (continued)

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. The amendments did not have a significant impact on the financial position or performance of the Company.

Amendments to TAS 28 Investments in Associates and Joint Ventures (Amendments)

In December 2017, POA issued amendments to TAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a company 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.

TFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with TAS 28 Investments in Associates and Joint Ventures. In this amendment, POA clarified that the exclusion in TFRS 9 applies only to interests a company accounts for using the equity method. A company applies TFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

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

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

TFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “TAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Annual Improvements – 2015–2017 Cycle

In January 2019, POA issued Annual Improvements to TFRS Standards 2015–2017 Cycle, amending the following standards:

- *TFRS 3 Business Combinations and TFRS 11 Joint Arrangements* — The amendments to TFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to TFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- *TAS 12 Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- *TAS 23 Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

Plan Amendment, Curtailment or Settlement” (Amendments to TAS 19)

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019, early application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Company is in the process of assessing the impact of the interpretation on financial position or performance of the Company.

Prepayment Features with Negative Compensation (Amendments to TFRS 9)

The POA issued minor amendments to TFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying TFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The amendment are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 The new standards, amendments and interpretations (continued)

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The standard is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. Overall, the Company expects no significant impact on its balance sheet and equity.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies

Significant accounting policies applied for the preparation of the accompanying financial statements are as follows:

2.4.1 Accounting of income and expense

Revenue

Revenue include rent income, revenue from sale of investment properties and income from expenses made for investment properties invoiced to tenants, interests received from banks, income from capital market instruments.

Rent income from investment properties under operating leases

Rent income generated during the period from investment properties is recognized on an accrual basis. Revenue can only be realized if the amount is reliably measured and the inflow of the economic benefits related with the transaction to the Company is probable. Revenue is recognized as the fair value of the consideration amount received or receivable.

Income from expenses made for investment properties invoiced to tenants is recognized in the period when the service is provided by the Company.

Revenue from sale of investment property

Revenue is recognized when the significant risks and rewards of ownership of the investment property are transferred to the buyer and the amount is reliably measured. Revenue is recognized when and only when the Company transfers the significant risks and rewards of ownership of the goods to the buyer, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue and cost of sales are recognized once the sales contracts of the projects are in line with the above stated criteria.

Interest income and expense

Interest income is recognized through profit or loss on accrual basis by using the effective interest method.

If borrowing costs are totally related with an investment property in progress, these borrowing costs are included in the cost of mentioned investment property. Other borrowing costs are recognized through profit or loss by using the effective interest rate.

Other income and expense

Other income and expense are recognized through profit or loss on accrual basis.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.2 Investment property

The investment properties that the Company owns are measured by fair value in accordance with TMS 40 “Investment Property”.

Terrains and buildings which hired to use for production of goods and services or administrative use or to be sold or rented in the ordinary course of business or in the purpose of appreciation, or for both are classified as investment properties and are evaluated by fair value measurement. Profit or loss that inflicting by a change in the fair value of an investment property, is included to the comprehensive income statement in its consisting time. (Note 21)

Investment properties are registered as asset if and only the economic benefits in the future are likely to enter the firm and the cost of investment properties are dependably measurable.

Management considers level of completion of construction, comparability of constructional project in market, identifiability of cash flows credibly which are following completion of construction, risks of real estate property, backgrounds and reconstruction permits of other construction which has same qualifications for faithfully evaluation of fair value of real estate properties which are under construction.

2.4.3 Tangible assets

As of December 31 2004 the Company were reflecting tangible assets purchased before January 1 2005 on cost restated for the effects of inflation. In the following period were reflecting purchase cost, after allocating accumulated depreciation and permanent impairment provisions to the financial statements. Due to the changes in accounting policies since the third quarter of the current year valuation of Real estate in use recorded under tangible fixed assets within the “TAS 16- Tangible Assets” was amended from cost model to the revaluation model. The impact of the amended to the revaluation model has been reflected under equity as TL 24.226.634.

Cost of a tangible asset represents all cash outflows directly attributable to purchase of an asset and includes capitalized borrowing costs if any.

If the components of a tangible asset have different useful lives, these components (essential parts) must be recognized separately.

Gains and losses of sale of a tangible asset is determined by offsetting the carrying value with recovered amount and recognized through profit or loss in the other operating income / loss account.

Depreciation

Tangible assets are depreciated principally on a straight-line basis considering estimated useful lives, acquisition and assembly dates. Estimated useful lives are summarized below:

Buildings	50 years
Machinery and equipment	4-5 years
Vehicles	4-5 years
Furniture and fixtures	3-5 years

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.3 Tangible assets (continued)

Subsequent costs

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

2.4.4 Intangible assets

Intangible assets acquired before 1 January 2005 are carried at restated cost; and subsequent purchases are carried at cost, less accumulated amortization and impairment.

Amortization

Intangible assets are amortized principally on a straight-line basis considering the estimated useful lives. Related intangible assets are amortized when they are ready to use. The expected useful lives of intangible assets are 5 years.

2.4.5 Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

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

If an asset’s or cash generating unit’s recoverable amount is less than its carrying value the value of this asset or cash generating unit is discounted to recoverable amount. Impairments are recognized through profit or loss.

2.4.6 Inventories

Inventories are measured at the lower of cost or net realizable value. Inventories comprise of construction costs of housing units (completed and in-progress) and the costs of land used for these housing projects. Cost elements included in inventory are purchase costs, conversion costs and other costs necessary to prepare the asset for its intended use. Unit costs of the inventories are valued at the lower of cost or net realizable value. Housing units which are completed and ready for delivery to customers together with work-in progress costs for housing units which will be completed within a year are classified as short term inventories, and which will not be completed within a year are classified as long term inventories in the financial statements.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments

i) Financial assets

Classification

The Company classifies its financial assets in three categories of financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit of loss. The classification of financial assets is determined considering the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The appropriate classification of financial assets is determined at the time of the purchase.

Recognition and Measurement

“Financial assets measured at amortized cost”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Company’s financial assets measured at amortized cost comprise “cash and cash equivalents”, “trade receivables” and “other receivables”. Financial assets carried at amortized cost are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements. Gains and losses on valuation of non-derivative financial assets measured at amortized cost are accounted for under the statement of income.

“Financial assets measured at fair value through other comprehensive income”, are non-derivative assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling 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. Gains or losses on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognized or reclassified. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified to retained earnings. The Company may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income. In such cases, dividends from those investments are accounted for under statement of income.

“Financial assets measured at fair value through profit or loss”, are assets that are not measured at amortized cost or at fair value through other comprehensive income. Gains and losses on valuation of these financial assets are accounted for under the statement of income.

Derecognition

The Company derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Company was recognized as a separate asset or liability.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments (continued)

i) Financial assets (continued)

Impairment

Impairment of the financial and contractual assets measured by using “Expected credit loss model” (ECL). The impairment model applies for amortized financial and contractual assets. Provision for loss measured as below;

- 12- Month ECL: results from default events that are possible within 12 months after reporting date.
- Lifetime ECL: results from all possible default events over the expected life of financial instrument. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since 12 month ECL measurement if it has not.

The Company may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date. However lifetime ECL measurement (simplified approach) always apply for trade receivables and contract assets without a significant financing

Trade receivable

Trade receivables are carried at amortized rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

The Company has preferred to apply “simplified approach” for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, the Company measures the loss allowances regarding its trade receivables at an amount equal to “lifetime expected credit losses” except incurred credit losses in which trade receivables are already impaired for a specific reason.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other operating income.

Unearned finance income/expense due to commercial transactions are accounted for under “Other Operating Income/Expenses” in the statement of income or loss.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash, bank deposits with maturity periods of less than three-months and other highly liquid short-term investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. The carrying values of these assets are close to their fair values.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments (continued)

i) Financial assets (continued)

Reverse repurchase agreements

Marketable securities held as part of resale agreement commitments (“reverse repo”) are accounted for under cash and cash equivalents in the statement of financial position. The difference between purchase and resale prices is accounted for as interest and amortized during the period of the agreement.

ii) Financial liabilities

Financial liabilities are recognized with fair values in initial registration date. Financial liabilities are recognized with their acquisition costs including transaction costs and evaluated through amortized costs depending on the method of active interest rate. In case of enforcing, cancelling or abolishing the obligations based on the agreement; the Company deducts aforesaid financial obligations from registrations.

iii) Non-derivative financial liabilities

Trade and other payables

Trade and other payables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. In case of cancellation or termination of contractual obligations; The Company removes the financial liability from its records.

iv) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. In accordance with its treasury policy, the Company engages in swap contracts. If these derivatives do not qualify for hedge accounting and are accounted for as trading instruments, changes in their fair value are accounted in profit or loss.

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit or loss.

iv) Paid-in capital

Ordinary shares

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

2.4.8 Offsetting

Financial assets and liabilities are offset when the Company has a legally enforceable right to set off, and when the Company has the intention of collecting or paying the net amount of related assets and liabilities or when the Company has the right to offset the assets and liabilities simultaneously.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.9 Effects of foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates on the dates of the transactions. The Company’s financial statements and operation results are presented in TL which is effective currency and presentation currency of the Company.

The Company uses the Central Bank buying rates of exchange that is valid at the transaction date, when converting the transactions made by foreign currency Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognized in profit or loss.

2.4.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, such as investment property, are capitalized as part of the cost of that asset.

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

2.4.11 Earnings per share

Earnings per share is calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (Note 23).

In Turkey, companies can raise their share capital by distributing “bonus shares” to shareholders from retained earnings. In computing earnings per share, such “bonus share” distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

2.4.12 Events after the reporting period

Events after the reporting period represent the events that occur against or on behalf of the Company between the reporting date and the date when statement of financial position was authorized for the issue. There are two types of events after the reporting period:

- those that provide evidence of conditions that existed as of the reporting period (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting date).

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.13 Provisions, contingent asset and liabilities

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. If the related criteria not met, obligations must be disclosed in the notes to the financial statements.

If there is a probable cash inflow for an economic benefit, contingent asset must be disclosed in the notes to the financial statements. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.4.14 Taxes calculated on the basis of the company’s earnings

The Company

According to Article 5/1(d) (4) of the New Corporate Tax Law No: 5220, the income of Real Estate Investment Trusts (“REIT”) is exempt from Corporate Income Tax in Turkey. This exemption is also applicable to Quarterly Advance Corporate Tax.

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

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

Based on the resolution of the Council of Ministers related to the withholding tax rates which were determined as 15% according to the New Corporate Tax Law Article 15/(3) published in the Official Gazette dated 3 February 2009 numbered 27130, the withholding tax rate is determined as 0% and this resolution is effective on the same date. Thereof, in accordance with the Article 5/1(d) (4) of the New Corporate Tax Law, real estate investment company earnings, regardless of the fact they are distributed or not, will be subject to 0% withholding.

Since the Company is exempt from Corporate Income Tax in Turkey in accordance with Article 5 of the Corporate Tax Law, deferred tax is not recognized.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.15 Employee benefits / Retirement pay provisions

In accordance with TAS 19 all actuarial gains and losses are recognized in other comprehensive income. The most important change in new TAS 19 is related to the accounting for the defined benefit obligations effective from 31 December 2012.

Under the Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan as per IAS 19 *Employee Benefits*.

The retirement benefit obligation recognized in the financial statements represents the present value of the defined benefit obligation. All actuarial gains and losses have been recognized in the statement of other comprehensive income.

2.4.16 Share capital and dividends

Common shares are classified as equity. Expenses directly attributable to the issuance of common shares and share options are recognized in equity with net of tax. Dividends on common shares are recognized in equity in the period in which they are approved and announced.

2.4.17 Related parties

For the purpose of the accompanying financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and investments are considered and referred to as the related parties. Shareholders and the Company’s management are also included in the related parties. Related party transactions include the transfer of the assets and liabilities between institutions with or without a charge.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.18 Leasing

Finance leasing is a leasing method which most of the risks and rewards transferred to lessee. All other leasing activities are classified as operational leasing.

The Company, as lessor in the operational lease transactions

Operational lease income is recognized in the profit or loss on a straight-line basis for the whole lease period in the agreement.

The Company, as lessee in the operational lease transactions

Operational lease expense is recognized in the

profit or loss on a straight-line basis for the whole lease period in the agreement. Start-up costs for the realization and optimization of the operational lease agreement are added to the cost of the leased asset and amortized through the leased time on a straight line basis method.

The Company, as lessee in the finance lease transactions

Tangible assets acquired by finance leasing are recognized both as an asset and liability in the statement of financial position of the Company. The value of these assets is determined as lower of fair value or present value of future lease payments. Financial costs arising from leasing transactions are distributed in a fixed rate through the lease agreement period.

2.4.19 Statement of cash flows

The Company presents statement of cash flows as an integral part of other financial statements to inform the users of financial statements about the changes in its net assets, its financial structure and its ability to manage the amount and timing of its cash flows under new conditions. Cash and cash equivalents are comprised of cash, receivables from reverse repos and time deposits with maturity shorter than three months.

2.4.20 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company’s other components. All operating segments’ operating results are regularly reviewed by the Company Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

2. Basis of presentation of financial statements (continued)

2.5 Restrictions on the investment portfolio of real estate investment trusts

The information that is given in the note "Control of Compliance with Restrictions on the Investment Portfolio" derived from the financial statements in accordance with the Capital Market Board's II-14.1 "Principles Regarding Financial Reporting in the Capital Markets Communiqué" and as of January 23, 2014 it is created within the scope of control of compliance with restrictions on the investment portfolio of III-48.1.a; "Communiqué on Principles Regarding Real Estate Investment Trusts" which was published in the official gazette number 28891 of Capital Market Board.

2.6 Accounting estimates

Preparation of financial statements requires the use of assumptions and estimates that might affect the amounts of assets and liabilities reported as of balance sheet date, explanation of the conditional assets and liabilities and amounts of the income and expenses reported throughout the accounting period. Accounting evaluations, estimates and assumptions are evaluated taking into consideration past experience, other factors, current conditions and reasonable expectations for future events. Such evaluations and estimates might differ from actual consequences, even though they are based on the best knowledge of the management about current events and transactions. The main notes on which estimates are used are as follows:

- *Note 10 Investment property*
- *Note 11 Inventories*
- *Note 15 Provision for employee benefits*

Working capital ratio

As of 31 December 2018, current assets of the Company are amount to TL 752.744.479 and short term liabilities of the Company are amount to 1.091.581.932. Short term liabilities exceeded current assets TL 338.837.453. In addition, there are advances received are amount to TL 279.436.381 arising from house sales are included to short term liabilities.

The Company does not foresee any shortcomings regarding the fulfillment of these short term liabilities.

The Company anticipates that approximately 240 million TL of rental income will be collected from the investment properties in the following year.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

3. Equity accounted investees

The investments that are valued using equity method are shown in the financial statements of the Company by using equity method. Company’s business partnerships that valued according to equity method are listed below:

	Ownership (%)	December 31, 2018	Ownership (%)	December 31, 2017
Kanyon	50	3.088.133	50	2.527.108
		3.088.133		2.527.108

The summarized financial statements information of the jointly control entities under the equity method are listed below:

Kanyon	December 31, 2018	December 31, 2017
Current assets	24.125.281	24.835.674
Non-current assets	1.753.880	1.865.027
Short-term liabilities	(18.945.317)	(20.582.289)
Long-term liabilities	(757.578)	(1.064.197)
Net assets	6.176.266	5.054.215

Kanyon	January 1 – December 31, 2018	January 1 – December 31, 2017
Income for the period	130.005.926	112.688.800
Expense for the period (-)	(127.383.876)	(109.961.770)

The Company recognized profit amounting to TL 1.311.025 TL resulting from consolidation of Kanyon with equity method for the year ended December 31, 2018 (December 31, 2017: TL 1.363.515) in the accompanying statement of profit and loss.

4. Operating segments

Each segment of the Company is managed by the Company’s management on project basis. Allocation of the resources to the segments is also managed on project basis.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

4. Operating segments (continued)

	Ankara İş Kule Building	Istanbul İş Kuleleri Complex	Maslak Office Building	Mugla Marmaris Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	Istanbul Kanyon Shopping Mall	Istanbul Marmara Park Shopping Mall	Nevşehir Kapadokya Lodge Hotel	Taksim Office Lamartine	Tuzla Technology and Operating Center	Istanbul Tuzla Combined	İzmir Ege Perla Shpping Mall	İzmir Ege Perla Residence/ Office	Kartal Manzara Adalar	Topkapı İstanbul	Other Real Estates	Total
December 31, 2018																	
Sales Revenue																	
Rent income	973.877	38.283.533	5.818.977	911.708	1.843.090	38.835.859	--	2.181.787	1.820.594	76.379.761	18.597.188	7.380.222	246.008	332.982	--	1.987.914	195.593.500
Income from right of construction	--	--	--	--	--	--	21.808.806	--	--	--	--	--	--	--	--	--	21.808.806
Income from sales of real estate	--	--	--	--	--	--	--	--	--	--	--	--	24.056.794	368.091.354	397.133.626	--	789.281.774
Sales income from investment property	--	--	--	--	49.885.000	--	--	--	--	--	--	--	--	30.300.000	--	--	80.185.000
Income fees and service	--	91.554	--	--	--	136.756	--	--	224.583	--	206.527	678.418	--	--	--	--	1.337.838
Other income	--	203.060	--	--	--	133.132	--	--	--	--	--	--	147.064	55.608	--	358	539.222
Total Revenue	973.877	38.578.147	5.818.977	911.708	51.728.090	39.105.747	21.808.806	2.181.787	2.045.177	76.379.761	18.803.715	8.058.640	24.449.866	398.779.944	397.133.626	1.988.272	1.088.746.140
Insurance expense	24.780	730.124	20.636	23.573	4.229	332.050	--	20.613	13.140	925.024	519.102	497.195	3.579	--	--	2.414	3.116.459
Administrative expense	852.541	8.149.426	--	--	--	7.424.383	--	--	189.903	--	917.871	11.367.278	1.161.944	--	--	28.050	30.091.396
Cost of sales of real estate	--	--	--	--	--	--	--	--	--	--	--	--	19.302.835	336.858.745	345.179.249	--	701.340.829
Cost of sales of investment property	--	--	--	--	49.860.000	--	--	--	--	--	--	--	--	34.600.408	--	--	84.460.408
Tax and duty and other charges	303.186	2.196.703	219.764	24.985	3.709	1.858.862	2.485.279	36.463	110.239	1.109.430	582.740	947.519	137.983	7.549.071	--	5.619	17.571.552
Other	85.790	158.094	--	--	80.000	135.025	24.144	14.752	6.534	13.374	20.041	258.391	--	119.693	--	5.320	921.158
Cost of Sales	1.266.297	11.234.347	240.400	48.558	49.947.938	9.750.320	2,509.423	71.828	319.816	2,047.828	2,039.754	13,070.383	20,606.341	379,127.917	345,179,249	41,403	837,501,802
Gross Profit	(292.420)	27,343,800	5,578,577	863,150	1,780,152	29,355,427	19,299,383	2,109,959	1,725,361	74,331,933	16,763,961	(5,011,743)	3,843,525	19,652,027	51,954,377	1,946,869	251,244,338
Prepared based on IFRS 8 “Operating Segments”																	
Capital investments	38,653,848	841,469	350,207	--	100,000	5,465,836	--	742,936	351,024	79,858	16,473	9,339,552	--	199,830,746	136,053,057	30,178,485	422,003,491

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4. Operating segments (continued)

	Ankara İş Kule Building	Istanbul İş Kuleleri Complex	Maslak Office Building	Mugla Marmaris Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Building	İş Bankası Antalya Merkez Building	Istanbul Kanyon Shopping Mall	Real Hipermerket	Istanbul Marmara Park Shopping Mall	Neveşir Kapadokya Lodge Hotel	Taksim Office Lamartine	Tuzla Çarlıbahçe	Tuzla Technology and Operating Center	Istanbul Tuzla Combined	İzmir Ege Perla	Other Real Estates	Total
December 31, 2017																		
Sales Revenue																		
Rent income	732.821	30.348.612	5.133.387	731.341	4.267.850	2.166.251	1.152.880	36.581.502	9.316.288	--	82.943	1.764.737	100.156	67.179.525	16.561.286	2.778.090	--	178.897.669
Income from right of construction	--	--	--	--	--	--	--	--	--	18.274.776	--	--	--	--	--	--	--	18.274.776
Income from sales of real estate	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	41.674.317	--	41.674.317
Sales income from investment property	--	--	--	--	--	45.000.000	24.000.000	--	118.644.068	--	--	--	--	--	--	--	--	187.644.068
Income fees and service	--	299.733	--	--	--	--	--	147.419	--	--	--	319.256	--	--	295.464	--	--	1.061.872
Other income	--	130.416	11.765	--	--	--	--	39.631	77.766	--	--	1.527	3.184	--	--	--	--	264.289
Total Revenue	732.821	30.778.761	5.145.152	731.341	4.267.850	47.166.251	25.152.880	36.768.552	128.038.122	18.274.776	82.943	2.085.520	103.340	67.179.525	16.856.750	44.452.407	--	427.816.991
Insurance expense	66.242	905.559	29.856	25.470	20.577	6.765	5.555	357.178	95.078	--	62.916	14.376	1.542	534.004	283.433	192.943	--	2.601.494
Administrative expense	830.506	8.516.219	--	2.806	--	--	--	13.218.499	--	--	99.790	225.129	56.931	--	2.480.799	9.620.560	--	35.051.239
Cost of sales of real estate	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	30.913.903	--	30.913.903
Cost of sales of investment property	--	--	--	--	--	45.335.257	24.345.257	--	116.779.887	--	--	--	--	--	--	--	--	186.460.401
Tax and duty and other charges	283.457	1.639.995	170.142	23.472	11.484	50.569	29.814	1.720.989	396.708	351.724	32.498	78.783	4.655	960.467	506.411	141.235	--	6.402.403
Other	29.000	169.923	42.500	--	20.500	12.800	--	--	--	--	8.750	--	--	30.209	65.930	14.822	--	394.434
Cost of Sales	1.209.205	11.231.696	242.498	51.748	52.561	45.405.391	24.380.626	15.296.666	117.271.673	351.724	203.954	318.288	63.128	1.524.680	3.336.573	40.883.463	--	261.823.874
Gross Profit	(476.384)	19.547.065	4.902.654	679.593	4.215.289	1.760.860	772.254	21.471.886	10.766.449	17.923.052	(121.011)	1.767.232	40.212	65.654.845	13.520.177	3.568.944	--	165.993.117
Prepared based on IFRS 8 “Operating Segments”																		
Capital investments	--	12.888.829	--	--	44.819	--	--	1.664.843	--	--	527.591	--	--	24.709.675	2.924.504	80.206.834	420.487.592	543.454.687

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Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

4. Operating segments (continued)

Reconciliation of income, assets and liabilities

Sales Revenue	January 1 – December 31, 2018	January 1 – December 31, 2017
Segment revenue	1.088.746.140	427.816.991
Undistributed revenue	9.586.351	11.841.527
Total Revenue	1.098.332.491	439.658.518

Cost of Sales	January 1 – December 31, 2018	January 1 – December 31, 2017
Segment Costs	837.501.802	261.823.874
Total cost of sales	837.501.802	261.823.874

Assets	December 31, 2018	December 31, 2017
Segment assets	4.844.425.433	4.936.135.877
Other assets	151.831.062	63.668.118
Non-segment related assets	226.076.429	312.143.261
Total assets	5.222.332.924	5.311.947.256

Liabilities	December 31, 2018	December 31, 2017
Segment liabilities	1.627.629.732	1.980.695.660
Other liabilities	37.763.837	50.674.609
Total liabilities	1.665.393.569	2.031.370.269

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Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

5. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Demand deposits	4.776.633	9.647.133
Time deposits	45.406.340	59.381.733
Mutual funds	3.951.277	13.793.590
Receivables from reverse repos	--	85.786
Other cash equivalents	102.499	209.350
	54.236.749	83.117.592
Interest accrued on cash and cash equivalents	(769.705)	(692.474)
Total cash and cash equivalents in the statement of cash flows	53.467.044	82.425.118

<u>Time deposits::</u>			December 31, 2018
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	
US Dollar	3,30-3,45%	January-February 2019	2.640.922
TL	18-23,5%	January 2019	42.765.418
			45.406.340

			December 31, 2018
	<u>Cost</u>	<u>Fair Value</u>	
Mutual Funds	3.950.930	3.951.277	
Total	3.950.930	3.951.277	

<u>Time deposits:</u>			December 31, 2017
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	
US Dollar	2,65%	April 2018	22.848.285
Euro	1,10%	June 2018	1.813.383
TL	11,20%	January 2018	34.720.065
Total			59.381.733

			December 31, 2017
	<u>Cost</u>	<u>Fair Value</u>	
Mutual funds	13.370.079	13.793.590	
	13.370.079	13.793.590	

<u>Receivables from reverse repos</u>			December 31, 2017
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	
TL	11,68%	January 2018	85.786
			85.786

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

*(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)***6. Financial investments / Derivatives**

	December 31, 2018	December 31, 2017
Derivative instruments		
Derivative assets held for trading	59.536.713	3.865.901
Total	59.536.713	3.865.901

7. Loans and borrowings

The details of financial borrowings and financial leasing as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Short-term borrowings		
Current portion of long term borrowings	234.092.940	169.179.394
Bonds issued	508.571.232	--
Total	742.664.172	169.179.394

	December 31, 2018	December 31, 2017
Long-term borrowings:		
Long-term bank borrowings	471.899.456	612.773.620
Bonds issued	100.284.492	402.833.219
Total	572.183.948	1.015.606.839

	December 31, 2018	December 31, 2017
Leasings		
Current portion of long term financial leases	--	696.316
Total	--	696.316

The details of loans and borrowings as of December 31, 2018 and 2017 are as follows:

			December 31, 2018	
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	4.850.471	14.620.742	14.617.900
US Dollar	Libor + 4,25	44.865.531	50.354.247	185.678.825
TL	11,75-15,10	440.720.683	169.117.951	271.602.731
Total			234.092.940	471.899.456

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

7. Loans and borrowings (continued)

December 31, 2017				
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	7.277.122	10.959.669	21.900.175
US Dollar	Libor + 4,25	53.694.971	36.124.709	166.407.353
TL	11,75-14,50	546.561.108	122.095.016	424.466.092
Total			169.179.394	612.773.620

As of reporting period, the investment properties are pledged in favour of İş Bankası amounting to USD 136.000.000 and TL 685.000.000 within the scope of the allocation of the loan.

As of December 31, 2018 and 2017 details of issued bonds are as follows:

December 31, 2018					
ISIN CODE	Interest rate (%)	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Net Book Value
TRSISGYE1915	Benchmark+2.50	87.000.000	October 11, 2016	October 10, 2019	92.241.098
TRSISGY61912	Benchmark+2.50	100.000.000	June 29, 2016	June 28, 2019	100.103.723
TRSISGY31915	Benchmark+2.50	213.000.000	April 5, 2016	March 29, 2019	213.220.930
TRSISGY32111	Benchmark+2.50	100.000.000	March 23, 2018	March 23, 2021	100.284.492
TRSISGYK1917	TRLIBOR + 2.50	100.000.000	November 20, 2018	November 25, 2019	103.005.481
Total					608.855.724

December 31, 2017					
ISIN CODE	Interest rate (%)	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Net Book Value
TRSISGYE1915	Benchmark+2.50	87.000.000	October 11, 2016	October 10, 2019	89.734.143
TRSISGY61912	Benchmark+2.50	100.000.000	June 29, 2016	June 28, 2019	100.031.654
TRSISGY31915	Benchmark+2.50	213.000.000	April 5, 2016	March 29, 2019	213.067.422
Total					402.833.219

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bond amounting to TL 100.000.000 to the qualified investors through İş Yatırım Menkul Değerler Anonim Şirketi on March 23, 2018. In addition, the Company has issued 6-month maturity 2 discounted commercial papers amounting to TL 50.000.000 to the qualified investors through İş Yatırım Menkul Değerler Anonim Şirketi on January 24, 2018 and March 6, 2018. Together with these issues, a total of TL 200.000.000 of debt instruments has issued within scope of issue ceiling is amounting to TL 400.000.000. These discounted commercial papers has amortized on July 24, 2018 and September 3, 2018. In addition, the Company has issued 368-day maturity, variable rate, 3-month coupon payment bond amounting to TL 100.000.000 to the qualified investors through İş Yatırım Menkul Değerler Anonim Şirketi on November 20, 2018.

The Company has obtained 6-month maturity loan amounting to TL 50.000.000 from T. İş Bankası on September 28, 2018. The loan has paid early on November 16, 2018.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

8. Trade receivables and payables

Short-term trade receivables and payables

	December 31, 2018	December 31, 2017
<u>Trade receivables</u>		
Notes receivable	2.012.483	487.653
Rediscount of notes receivables (-)	(9.466)	(5.615)
Income accruals	40.249.157	29.505.146
Receivables from customers	60.509.118	15.854.904
Doubtful receivables	3.814.164	2.567.268
Provision for doubtful receivables (-)	(3.814.164)	(2.567.268)
Due from related parties (Note 24)	4.680.762	1.600.761
Total	107.442.054	47.442.849
<u>Trade payables</u>		
Payables to suppliers	18.540.853	44.171.515
Due to related parties (Note 24)	16.360.219	45.355.703
Total	34.901.072	89.527.218

As of December 31, 2018, provision for doubtful trade receivables is TL 3.814.164 (December 31, 2017: TL 2.567.268). Provision for doubtful receivables is determined based on the historical collection performance.

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

	December 31, 2018	December 31, 2017
Opening balance, 1 January	(2.567.268)	(1.315.908)
Charge for the period	(3.385.835)	(2.921.896)
Provisions released	2.138.939	1.670.536
Closing balance	(3.814.164)	(2.567.268)

Long Term Trade Receivables

	December 31, 2018	December 31, 2017
<u>Trade receivables</u>		
Income accruals	6.448.884	1.811.662
Receivables from customers	37.940.124	14.413.607
Closing balance	44.389.008	16.225.269

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

9. Other receivables and payables

	December 31, 2018	December 31, 2017
Other short-term receivables	718.345	1.078.243
Total	718.345	1.078.243

	December 31, 2018	December 31, 2017
<u>Other payables – short-term</u>		
Deposits and guarantees given	17.013.919	8.989.614
Other short-term payables (*)	3.819.887	--
Total	20.833.806	8.989.614

(*) The amount is consist of title deed fees which will be repaid to the customers of Inistanbul Project.

10. Investment property

As of December 31, 2018 and 2017, details of investment properties are as follows:

	December 31, 2018	December 31, 2017
Investment property under operating lease	3.679.192.500	3.381.163.000
Investment property under construction and other	474.295.599	453.707.889
Total	4.153.488.099	3.834.870.889

As of December 31, 2018, total insurance amount on investment properties is TL 2.576.267.652 (December 31, 2017: TL 1.889.917.765).

As of December 31, 2018 there are TL 359.810.249 capitalized financing expenses on the Company's investment properties (December 31, 2017: TL 291.993.361).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

10. Investment property (continued)

	January 1, 2018 opening balance	Purchases	Disposals	Fair value difference	December 31, 2018 closing balance
Investment property under operating lease					
Ankara İş Kule Building	135.420.000	38.653.848	--	(24.443.848)	149.630.000
Istanbul Marmara Park Shopping Mall	162.020.000	--	--	23.655.000	185.675.000
Istanbul İş Kuleleri Complex	869.905.000	841.469	--	68.138.531	938.885.000
İş Bankası Ankara Merkez Building (*)	47.755.000	100.000	(49.860.000)	2.005.000	--
Izmir Ege Perla Sopping Mall	245.050.000	9.339.552	--	(1.709.552)	252.680.000
Kapadokya Lodge Hotel	25.388.000	742.936	--	869.064	27.000.000
Mugla Marmaris Mallmarine Shopping Mall	13.030.000	--	--	1.945.000	14.975.000
Maslak Office Building	107.635.000	350.207	--	4.554.793	112.540.000
Taksim Office Lamartine	50.543.000	351.024	--	2.140.976	53.035.000
Tuzla Çınarlı Bahçe	2.600.000	--	--	--	2.600.000
Kanyon Shopping Mall	510.090.000	5.465.836	--	59.956.664	575.512.500
Istanbul Tuzla Combined	270.382.000	16.473	--	19.761.527	290.160.000
Tuzla Technology and Operation Center	941.345.000	79.858	--	135.075.142	1.076.500.000
	3.381.163.000	55.941.203	(49.860.000)	291.948.297	3.679.192.500
Investment property under construction					
Istanbul Finance Center Project	191.917.000	13.245.466	--	(5.059.466)	200.103.000
Kartal Manzara Adalar	214.212.972	22.397.942	(19.252.251)	5.519.557	222.878.220
Levent Land	4.267.917	18.588	--	2.115.374	6.401.879
Üsküdar Land	43.310.000	738.988	--	863.512	44.912.500
	453.707.889	36.400.984	(19.252.251)	3.438.977	474.295.599
Total	3.834.870.889	92.342.187	(69.112.251)	295.387.274	4.153.488.099

(*) In 2018, among the buildings included in the portfolio of the Company, İş Bankası Ankara Merkez Bulding is sold amounting to TL 49.885.000 + VAT, 18 single space at "Manzara Adalar Office Building Block E" is sold amounting to TL 25.800.000 + VAT and 395 parcel of Kartal Land is sold amounting to TL 5.310.000 + VAT.

The fair values of the Company's investment properties at December 31, 2018 have been arrived at on the basis of valuations carried out in December 2018 by four independent appraiser firms which are not related party of the Company. Appraisal firms are accredited independent firms licensed by the Capital Markets Board of Turkey, and have appropriate qualifications and recent experience in appraising properties in the relevant locations. According to the appraisal reports, the valuations made in accordance with the International Valuation Standards have been performed according to the methods specified in the table below.

	2018	2017
Investment property under operating lease		
Ankara İş Kule Building	Sales comparison approach	Sales comparison approach
Istanbul Marmara Park Shopping Mall	Sales comparison approach	Sales comparison approach
Istanbul İş Kuleleri Complex	Sales comparison approach	Sales comparison approach
İş Bankası Ankara Merkez Building (*)	-	Sales comparison approach
Kapadokya Lodge Hotel	Cost capitalization approach	Sales comparison and cost approach
Mugla Marmaris Mallmarine Shopping Mall	Sales comparison approach	Sales comparison approach
Maslak Office Building	Sales comparison approach	Sales comparison approach
Taksim Office Lamartine	Sales comparison approach	Sales comparison approach
Tuzla Çınarlı Bahçe Project	Sales comparison approach	Sales comparison approach
Kanyon Shopping Mall	Discounted cash flow approach	Discounted cash flow approach
Tuzla Combined Project	Directly capitalization approach	Sales comparison approach
Tuzla Technology and Operation Center	Directly capitalization approach	Sales comparison approach
Ege Perla Shopping Mall	Sales comparison approach	Sales comparison approach
Investment property under construction		
Istanbul Finance Center Project	Sales comparison and cost approach	Cost approach
Kartal Manzara Adalar	Sales comparison approach	Sales comparison approach
Levent Land	Fair value based on estate tax	Fair value based on estate tax
Üsküdar Land	Sales comparison approach	Sales comparison approach

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

10. Investment property (continued)

	January 1, 2017 opening balance	Purchases	Disposals	Fair value difference	December 31, 2017 closing balance
Investment property under operating lease					
Ankara İş Kule Building	128.025.000	--	--	7.395.000	135.420.000
Istanbul Marmara Park Shopping Mall	146.620.000	--	--	15.400.000	162.020.000
Istanbul İş Kuleleri Complex	797.895.000	12.888.829	--	59.121.171	869.905.000
İş Bankası Ankara Kızılay Building (*)	38.295.000	--	(44.660.000)	6.365.000	-
İş Bankası Ankara Merkez Building	44.320.000	44.819	--	3.390.181	47.755.000
İş Bankası Antalya Merkez Building (*)	22.015.000	--	(23.985.000)	1.970.000	-
Izmir Ege Perla Shopping Mall (**)	279.441.000	80.206.834	--	(114.597.834)	245.050.000
Kapadokya Lodge Hotel	24.250.000	527.591	--	610.409	25.388.000
Mugla Marmaris Mallmarine Shopping Mall	12.312.000	--	--	718.000	13.030.000
Maslak Office Building	101.115.000	--	--	6.520.000	107.635.000
Real Hipermarket Building (*)	110.000.000	--	(115.000.000)	5.000.000	-
Taksim Office Lamartine	48.890.000	--	--	1.653.000	50.543.000
Tuzla Çınarlı Bahçe Project	2.600.000	--	--	--	2.600.000
Kanyon Shopping Mall	479.965.000	1.664.843	--	28.460.157	510.090.000
Istanbul Tuzla Combined	274.812.000	2.924.504	--	(7.354.504)	270.382.000
Tuzla Technology and Operation Center	862.565.000	24.709.675	--	54.070.325	941.345.000
	3.373.120.000	122.967.095	(183.645.000)	68.720.905	3.381.163.000
Investment property under construction					
Istanbul Finance Center Project	169.600.000	24.283.921	--	(1.966.921)	191.917.000
Kartal Manzara Adalar	128.298.507	76.011.693	--	9.902.772	214.212.972
Levent Land	4.110.487	24.775	--	132.655	4.267.917
Üsküdar Land	39.540.000	740.308	--	3.029.692	43.310.000
	341.548.994	101.060.697	--	11.098.198	453.707.889
Total	3.714.668.994	224.027.792	(183.645.000)	79.819.103	3.834.870.889

(*) Among the buildings included in the portfolio of the Company are İş Bankası Ankara Kızılay Building and İş Bankası Antalya Merkez Building was sold to İş Portföy Yönetimi A.Ş. First Real Estate Investment Fund. The transfer procedures were completed on August 22, 2017 and the entire sales price including VAT of TL 81,420,000 was collected. Furthermore, transfer procedures for the sale of the Real Hypermarket Building were completed on August 23, 2017 and the entire sales price including VAT amounting to TL 140.000.000 was collected.

(**) İzmir Ege Perla Shopping Mall project was completed and the shopping center opened on September 6, 2017. Ege Perla Shopping Mall has been transferred to investment properties from investment property under operating lease.

As of December 31, 2018, the Company has 1st and 2nd degree mortgage on the investment properties amounting to USD 136.000.000 and TL 685.000.000 which are established in favor of İş Bank. In the current period, the Company obtained rent income amounting to TL 217.402.306 (December 31, 2017: TL 197.172.445) of its investment property. Total direct operating expenses related to these properties amounting to TL 51.700.565 (December 31, 2017: TL 44.449.570).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

11. Inventories

<i>Short-term inventories</i>	December 31, 2018	December 31, 2017
<i>Completed residential units</i>		
Kartal Manzara Adalar (*)	240.163.575	396.606.760
Topkapı İnistanbul (**)	18.259.806	--
İzmir Ege Perla (***)	48.606.724	66.331.863
<i>Non-completed residential units</i>		
Topkapı İnistanbul (**)	209.357.229	294.173.271
Total	516.387.334	757.111.894

<i>Long-term inventories</i>	December 31, 2018	December 31, 2017
<i>Non-completed residential units</i>		
Topkapı İnistanbul (**)	--	142.566.368
Tuzla Land (****)	217.854.501	201.586.726
Impairment provision on inventories (-)	(43.304.501)	--
Total	174.550.000	344.153.094

(*) There are 975 residential units in Kartal Manzara Adalar Project, as of December 31, 2018, 591 residential units has been delivered to the customers. Balance of advances given related with the Project is amounting to TL 6.111.468 (December 31, 2017: TL 227.783.222) (Note 16).

(**) There are 2.724 residential units in Topkapı İnistanbul Project, as of December 31, 2018, 1.676 residential units has been delivered to the customers. Balance of advances given related with the Project is amounting to TL 271.066.101 (December 31, 2017: TL 499.460.375) (Note 16).

(***) There are 243 residential units in İzmir Ege Perla Project, as of December 31, 2018, 169 residential units has been delivered to the customers. Balance of advances given related with the Project is amounting to TL 2.258.812 (Note 16).

(****) The Company has started the Tuzla Land project registered in İstanbul, Tuzla District in January 2016. The Company has bought a land to in order to develop a project , which cost to 143.500.000 TL. As of September 5, 2018, it is decided to postpone the planned housing project until the appropriate investment conditions are taken into consideration considering the current conjuncture. In accordance with this decision, net realizable value of the land has evaluated as of December 31, 2018 and impairment has recored as amounting to TL 43.304.501 (Note 21).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

12. Tangible assets

	Buildings (*)	Machinery and equipment	Vehicles	Fixtures	Total
Cost					
Opening balance as of January 1, 2018	32.189.207	85.950	--	3.203.698	35.478.855
Purchases	7.689	--	374.647	200.090	582.426
Disposals	--	--	--	--	--
Fair value difference	3.443.040	--	--	--	3.443.040
Closing balance as of December 31, 2018	35.639.936	85.950	374.647	3.403.788	39.504.321
Accumulated Depreciation					
Opening balance as of January 1, 2018	1.892.431	85.950	--	2.494.721	4.473.102
Current year charge	947.505	--	31.220	238.335	1.217.060
Disposal	--	--	--	--	--
Closing balance as of December 31, 2018	2.839.936	85.950	31.220	2.733.056	5.690.162
Net book value as of January 1, 2018	30.296.776	--	--	708.977	31.005.753
Net book value as of December 31, 2018	32.800.000	--	343.427	670.732	33.814.159
Cost					
Opening balance as of January 1, 2017	28.793.832	85.950	32.447	2.823.388	31.735.617
Purchases	12.000	--	--	426.622	438.622
Disposals	--	--	(32.447)	(46.312)	(78.759)
Fair value difference	3.383.375	--	--	--	3.383.375
Closing balance as of December 31, 2017	32.189.207	85.950	--	3.203.698	35.478.855
Accumulated Depreciation					
Opening balance as of January 1, 2017	913.832	85.950	32.447	2.144.057	3.176.286
Current year charge	978.599	--	--	398.010	1.376.609
Disposal	--	--	(32.447)	(47.346)	(79.793)
Closing balance as of December 31, 2017	1.892.431	85.950	--	2.494.721	4.473.102
Net book value as of January 1, 2017	27.880.000	--	--	679.331	28.559.331
Net book value as of December 31, 2017	30.296.776	--	--	708.977	31.005.753

(*) As of December 31, 2018, İş Kuleleri Kule:2 10th and 11th floor offices are the most important tangible assets item of the Company which are currently used for registered address with amounting to TL 32.800.000. These areas get share from the mortgages amounting to USD 136 million and TL 185 million established in İş Kuleleri and Kule Çarşı (December 31, 2017: USD 136 million and TL 185 million).

As of December 31, 2018, the Company has tangible assets which is fully depreciated amounting to TL 2.571.964.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

*(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)***13. Intangible assets**

	Computer Programs	Total
<u>Cost</u>		
Opening balance as of January 1, 2018	3.397.414	3.397.414
Purchases	704.999	704.999
Closing balance as of December 31, 2018	4.102.413	4.102.413
<u>Accumulated Depreciation</u>		
Opening balance as of January 1, 2018	2.549.708	2.549.708
Current year charge	537.096	537.096
Closing balance as of December 31, 2018	3.086.804	3.086.804
Net book value as of January 1, 2018	847.706	847.706
Net book value as of December 31, 2018	1.015.609	1.015.609
<u>Cost</u>		
Opening balance as of January 1, 2017	2.668.527	2.668.527
Purchases	728.887	728.887
Closing balance as of December 31, 2017	3.397.414	3.397.414
<u>Accumulated Depreciation</u>		
Opening balance as of January 1, 2017	2.195.277	2.195.277
Current year charge	354.431	354.431
Closing balance as of December 31, 2017	2.549.708	2.549.708
Net book value as of January 1, 2017	473.250	473.250
Net book value as of December 31, 2017	847.706	847.706

As at December 31, 2018 and 2017, the Company has no intangible assets which is capitalized in the business area.

As at December 31, 2018, the Company has intangible assets which is fully depreciated amounting to TL 2.318.629.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

14. Provisions, contingent assets and liabilities

	December 31, 2018	December 31, 2017
Debt provisions (*)	4.814.210	3.604.088
Total	4.814.210	3.604.088

	December 31, 2018	December 31, 2017
Letters of guarantee received (**)	145.521.342	190.095.828
Mortgage received	25.245.505	--
Total	170.766.847	190.095.828

(*) As of December 31, 2018, debt provisions consists of title deed fee accruals of delivered houses and accrued real estate taxes to be paid to T. İş Bankası A.Ş. related with Ege Perla project home and office sales.

(**) Letters of guarantee consist of the letters received from tenants and suppliers of the Company.

Details of collaterals, pledges and mortgages (“CPM”) given by the Company as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
A. CPM given for companies own legal personality (*)	1.438.626.831	1.216.433.473
B. CPM given in behalf of fully consolidated companies	--	--
C. CPM given for continuation of its economic activities on behalf of third parties (**)	163.362.012	213.454.488
D. Total amount of other CPM's	--	--
- Total amount of CPM's given on behalf of majority shareholder	--	--
- Total amount of CPM's given on behalf of other Group companies which are not in scope of B and C	--	--
- Total amount of CPM's given on behalf of third parties which are not in scope of C	--	--
Total	1.601.988.843	1.429.887.961

(*) CPM given for the Company's own legal personality consists of letters of guarantee amounting to TL 38.144.432 and pledge amounting to USD 136.000.000 and TL 685.000.000. As of December 31, 2018, the investment properties are pledged in favour of İş Bankası amounting to 1st degree USD 136.000.000 and TL 500.000.000 and 2nd degree TL 185.000.000. (The Company has 1st degree mortgage on its investment properties held amounting to USD 136.000.000 in favour of Türkiye İş Bankası. The Company received a counter guarantee amounting to USD 160 million from Türkiye İş Bankası to constitute financing guaranty provided. In this context, 1st degree mortgage was constituted in favour of İş Bankası from investment properties portfolio of the Company, Kule-2 and Kule Çarşı amounting to USD 136.000.000 as 1st degree mortgage, Kule-2 and Kule Çarşı amounting to TL 185.000.000 as 2nd degree mortgage.).

1st degree mortgage is constituted in favour of İş Bankası in order to finance Tuzla Land of the Company, amounting to TL 250.000.000.

In order to provide guarantee on financing the Company, 1st degree mortgage is constituted on 60 detached floors at Tuzla Combined Project in favour of İş Bankası amounting to TL 250.000.000.

(**) Represents the cost of guarantors given to the related banks in return for the loan amount in case the buyers of the Company's ongoing residential and office projects use mortgage/business loan from contracted banks. In this respect, as of December 31, 2018, the ratio of CPM given by the Company to the Company's shareholders' equity is 5% (December 31, 2017: 6,5 %).

As of December 31, 2018, there is no significant legal case required provisions on the financial statements and there are 78 legal cases and 45 enforcement proceedings of the Company is a party.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

14. Provisions, contingent assets and liabilities (continued)

Operating leases

The Company, as the lessor in the operating lease transactions

The Company signed operating lease agreements as lessor for the investment properties in its portfolio with tenants which are shopping mall tenants, hotel operators and other third parties. The future minimum lease receivables as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	210.963.597	210.620.406
Between 1-5 years	585.164.570	630.875.291
More than 5 years	1.442.614.509	2.316.229.253
Total	2.238.742.676	3.157.724.950

15. Provision for employee benefits

	December 31, 2018	December 31, 2017
Unused vacation provisions	390.946	317.880
Total	390.946	317.880

	December 31, 2018	December 31, 2017
Severance pay indemnity	1.627.689	1.773.027
Total	1.627.689	1.773.027

Under Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay who retired by gaining right to receive according to current 506 numbered Social Insurance Law’s March 6, 1981 dated, 2422 numbered and August 25, 1999 dated, 4447 numbered with 60th article that has been changed. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was changed as of May 23, 2002.

The amount payable consists of one month’s salary limited to a maximum of TL 5.434 for each period of service as of December 31, 2018 (December 31, 2017: TL 4.732).

TAS 19- Employee Benefits requires the development of actuarial methods for the determination of the retirement pay liability.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

15. Provision for employee benefits (continued)

Actuarial assumptions used to calculate the total liability is given below:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of December 31, 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective reporting dates have been calculated assuming an annual inflation rate of 11,30% (estimated salary increase rate) and a discount rate of 16,00%, resulting in a real discount rate of approximately 4,22% (December 31, 2017: the provisions have been calculated assuming an annual inflation rate of 7% (estimated salary increase rate) and discount rate of 11,50%, resulting in a real discount rate of approximately 4,21% discount rate). The anticipated rate of for features is considered. As the maximum liability is revised semi-annually, the maximum amount of TL 5.434 effective from December 31, 2018 has been taken into consideration in calculation of provision from employment termination benefits.

	January 1 – December 31, 2018	January 1 – December 31, 2017
Opening balance at January 1	1.773.027	1.224.737
Service cost	203.898	198.538
Interest cost	194.110	168.627
Retirement pay provisions (-)	(703.641)	(177.756)
Actuarial differences	160.295	358.881
Closing balance as of year end	1.627.689	1.773.027

16. Prepaid expenses, other assets, deferred revenue and other liabilities

<i>Prepaid expenses – short term</i>	December 31, 2018	December 31, 2017
Job advances (*)	10.901.517	9.456.536
Prepaid expenses	696.197	520.941
Related party prepaid expenses (Note 24)	2.788.312	65.354.311
Total	14.386.026	75.331.788

<i>Prepaid expenses – long term</i>	December 31, 2018	December 31, 2017
Job advances (**)	4.757.821	2.358.403
Prepaid taxes and dues payable	1.224.604	1.882.140
Total	5.982.425	4.240.543

(*) The amount consists of job advance is amounting to TL 4.609.098 to Sera Yapı Endüstri ve Tic. A.Ş. for construction of Topkapı İnistanbul Project (December 31, 2017: TL 4.567.157) and job advance is amounting to TL 3.276.607 to the related directorates within the scope of the construction supervision services of the projects (December 31, 2017: TL 1.140.904).

An agreement has signed in order to bought 45% shares of the land registered in Kadikoy, Istanbul, has 9.043 m2 of floor space which is ownership of the land is belong to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi (Tecim Ltd. Şti.). In this context, the expenses incurred until the price of the land is reached in accordance with the terms of the agreement will be accounted in this account.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

16. Prepaid expenses, other assets, deferred revenue and other liabilities (continued)

<i>Other current assets</i>	December 31, 2018	December 31, 2017
Deposits and guarantees given	22.787	36.727
Prepaid taxes and dues payable	14.471	3.425
Total	37.258	40.152

<i>Other non-current assets</i>	December 31, 2018	December 31, 2017
VAT transferred (*)	53.261.012	110.088.475
Toplam	53.261.012	110.088.475

(*) The amount of 47.143.727 of VAT transferred has received as cash returned from the tax office in the current year.

<i>Other short-term liabilities</i>	December 31, 2018	December 31, 2017
Taxes and funds payable	1.040.031	3.094.233
Payable social security cuts	218.234	400.658
Total	1.258.265	3.494.891

Deferred revenue - short-term	December 31, 2018	December 31, 2017
Advances received (*)	279.436.381	586.576.131
Deferred revenue	7.025.210	10.443.578
Short-term deferred revenue from related party (Note24)	257.870	493.827
Total	286.719.461	597.513.536

Deferred revenue - long-term	December 31, 2018	December 31, 2017
Advances received (**)	--	140.667.466
Total	--	140.667.466

(*) The current year’s advances received consist of advances received from sales of Kartal Manzara Adalar Project, Topkapı Project and Izmir Ege Perla Project (Note 11).

(**) The balance is comprises of advances received from sales of 3th and 4th stage of Topkapı Project (Note 11).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

17. Shareholder's equity

Share capital

The composition of the paid-in share capital as of December 31, 2018 and 2017 are as follows:

	December 31, 2018		December 31, 2017	
<u>İş Gayrimenkul Yat. Ort. A.Ş.</u>	<u>(%)</u>		<u>(%)</u>	
Türkiye İş Bankası A.Ş.	47,44	454.800.582	44,11	403.081.752
Anadolu Hayat Emeklilik A.Ş.	7,11	68.151.714	7,11	64.952.938
Other	45,45	435.797.704	48,78	445.715.310
Total	100	958.750.000	100	913.750.000

The total number of ordinary shares consists of TL 958.750.000 (December 31, 2017: TL 913.750.000) shares with a par value of TL 1 per share. All of the shares are issued to name and TL 1.369.642,817 (December 31, 2017: TL 1.305.357) of the total amount is Group A and TL 957.380.357,183 (December 31, 2017: TL 912.444.643) of the total amount is Group B shares. Group A shareholders have the privilege to nominate candidates during the Board of Directors member elections. One member of Board of Directors is selected among the candidates nominated by Group B shareholders while the rest is selected among the candidates nominated by Group A shareholders. There is no other privilege given to the Group A shares.

According to decision which was taken of Ordinary General Meeting of shareholders dated March 21, 2018, of distribute the 2017 year's profit as share, the Company's paid in capital was amounted to TL 958.750.000 from TL 913.750.000 by increasing TL 45.000.000 and the increase has been meet from profit of the year 2017 on condition that no exceed the upper limit of registered capital which is amounting to TL 2.000.000.000.

The operations regarding to capital increase was completed on May 8, 2018 and the new capital has been registered on May 22, 2018.

Adjustment to share capital

Adjustment to share capital amount is TL 240.146.090 as of December 31, 2018 and 2017. Adjustment to share capital represents the restatement effect of the cash contributions to share capital equivalent to purchasing power of TL.

Share premium

As of December 31, 2018 and 2017, share premiums amounting TL 423.981 represent excess amount of selling price and nominal value for each share during initial public offering of the Company's shares.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

17. Shareholders’ equity (continued)

Restricted reserves

	December 31, 2018	December 31, 2017
Legal reserves	59.561.684	46.188.875
Total	59.561.684	46.188.875

Legal reserves consist of first and second legal reserves. The first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the paid-in share capital. The second legal reserve is calculated as the 10% of dividend distributions, in excess of %5 of paid-in capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed %50 of paid-in capital.

Prior years’ profits

	December 31, 2018	December 31, 2017
Prior years’ profits	1.925.777.515	1.872.724.737
Total	1.925.777.515	1.872.724.737

Dividend distribution

According to decision of Ordinary General Assembly Meeting dated March 21, 2018, primary reserve and secondary reserve has been reserved amounting to TL 11.088.434 and TL 2.284.375 respectively by the Company on the basis of net period profit which is amounting to TL 221.768.689 in tax declaration dated December 31, 2017, TL 68.531.250 has been distributed as cash dividend and TL 45.000.000 has been distributed as bonus shares from the net profit of the year 2017.

In the Ordinary General Shareholders’ Meeting held on March 21, 2018, the distribution of 2017 net profit was determined as follows:

	Amount
Primary reserve (TTK 466/1) %5	11.088.434
Dividend	68.531.250
Secondary reserve (TTK 466/2)	2.284.375
Capital increase through bonus shares	45.000.000
Transferred to prior years’ profits	53.052.778
Total	179.956.837

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

*(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)***18. Revenue and cost of revenue**

	January 1 - December 31, 2018	January 1 - December 31, 2017
Sales income from investment property	80.185.000	187.644.068
Rent income	195.593.500	178.897.669
Income from sales of real estate	789.386.565	41.674.317
Income from right of construction	21.808.806	18.274.776
Income fees and service	1.337.838	1.061.872
Other revenue	539.222	264.289
Total real estate revenues	1.088.850.931	427.816.991
Interest income on bank deposits	8.964.777	8.209.727
Gain on buy/sell of marketable securities	610.180	3.620.655
Interest income from reverse repos	11.394	11.145
Total debt instruments revenue	9.586.351	11.841.527
Sales discounts (-)	(104.791)	--
Total revenue	1.098.332.491	439.658.518

	January 1 - December 31, 2018	January 1 - December 31, 2017
Cost of sales of investment property	(84.460.408)	(186.460.401)
Cost of administrative expenses	(30.091.396)	(26.855.880)
Cost of sales of real estate	(701.340.829)	(30.913.903)
Taxes and dues	(17.571.552)	(6.402.403)
Insurance expenses	(3.116.459)	(2.601.494)
Other	(921.158)	(394.434)
Total	(837.501.802)	(253.628.515)

19. Administrative expenses / Marketing, selling and distribution expenses

Administrative expenses	January 1 - December 31, 2018	January 1 - December 31, 2017
Personnel expenses	(13.592.892)	(10.611.655)
Outsourced service expenses	(6.311.274)	(5.375.365)
Depreciation and amortization	(1.754.156)	(1.731.040)
Taxes and dues	(188.184)	(179.407)
Provision for doubtful receivables	(1.246.896)	(1.251.360)
Other	(1.365.292)	(1.113.067)
Total	(24.458.694)	(20.261.894)

Marketing, selling and distribution expenses	January 1 - December 31, 2018	January 1 - December 31, 2017
Advertising expenses	(16.463.776)	(18.960.700)
Sales commission expenses	(3.822.878)	(902.369)
Consultancy expenses	(1.721.367)	(1.850.758)
Sales office expenses	(173.259)	(1.044.958)
Other	(106.456)	(996.196)
Total	(22.287.736)	(23.754.981)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

*(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)***20. Expenses by nature**

	January 1 - December 31, 2018	January 1 - December 31, 2017
Personnel expenses		
Administrative expenses	13.592.892	10.611.655
Total	13.592.892	10.611.655
	January 1 - December 31, 2018	January 1 - December 31, 2017
Depreciation and amortization		
Administrative expenses	1.754.156	1.731.040
Total	1.754.156	1.731.040

21. Other operating income / expense

	January 1 - December 31, 2018	January 1 - December 31, 2017
Other operating income		
Revaluation income of investment property (Note 10)	326.600.140	203.738.363
Foreign exchange gains	12.740.526	2.577.853
Other	1.829.439	1.380.440
Total	341.170.105	207.696.656
	January 1 - December 31, 2018	January 1 - December 31, 2017
Other operating expense		
Impairment provision of inventory (Note 11)	(43.304.501)	--
Revaluation difference of investment property (Note 10)	(31.212.866)	(123.919.259)
Other	(918.942)	--
Toplam	(75.436.309)	(123.919.259)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

22. Finance income / expense

Finance income and expenses as of December 31, 2018 and 2017 are as follows:

Finance income	January 1 - December 31, 2018	January 1 - December 31, 2017
Derivative gains	60.395.502	3.829.974
Total	60.395.502	3.829.974

Finance expense	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange losses	(87.993.792)	(21.977.088)
Interest expenses	(111.910.440)	(29.043.919)
Other interest expense	(9.466)	(5.615)
Derivative losses	(11)	(555)
Total	(199.913.709)	(51.027.177)

23. Earnings per share

	January 1 - December 31, 2018	January 1 - December 31, 2017
Period opening of number of shares in circulation	91.375.000.000	85.000.000.000
Bonus shares due to capital increase	4.500.000.000	6.375.000.000
Number of shares in circulation as of year end	95.875.000.000	91.375.000.000
Weighted average number of shares in circulation (*)	95.875.000.000	91.375.000.000
Net profit for the period	341.610.873	179.956.837
Earnings per share	0,0036	0,0020
Diluted earnings per share	0,0036	0,0020

(*) Capital increase is realized from internal sources and increase in number of share is used for computation of prior period earnings per share.

As of December 31, 2018 capital of the Company consists of 95.875.000.000 shares that are valued TL 0,01 for each one.

24. Related party disclosures

Related parties of the Company are direct or indirect subsidiaries of İş Bankası and the executives and personnel of the Company.

Receivables from related parties are mainly due to sales transactions and the average payment term is one month. By nature no interest is calculated on these receivables and no guarantees have been received.

Payables due to related parties are mainly due to purchase transactions and the average credit payment term is one month. No interest is calculated on these payables.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

24. Related party disclosures (continued)

Details of related party balances are as follows:

Balances at İş Bankası	December 31, 2018	December 31, 2017
Demand deposits	4.671.458	9.647.133
Time deposits	45.406.348	59.381.733
Other current asset	102.499	209.350
Income from reverse repos	--	85.786
Total	50.180.305	69.324.002

The Company has letters of guarantee amounting TL 38.144.431 (December 31, 2017: TL 18.455.073) from İş Bankası. In addition, 1st and 2nd degree mortgage is instituted by the Company in favour İş Bankası amounting to USD 136.000.000 and TL 685.000.000 on some investment properties.

As of December 31, 2018 and December 31, 2017, the Company has mutual funds, established by, İş Bankası and İş Portföy Yönetimi A.Ş.

	December 31, 2018			
	Short Term Trade Receivables	Short Term Prepaid Expenses	Short Term Trade Payables	Deferred Income
Balances with related parties				
İş Merkezleri Yönetim ve İşletim A.Ş.	2.293.499	--	1.732.093	--
İş Girişim Sermayesi A.Ş.	--	--	350	--
İş Finansal Kiralama A.Ş.	--	--	805	--
Türkiye İş Bankası A.Ş. (*)	--	--	--	17.438
İş Faktoring A.Ş.	--	--	750	--
Kanyon Yönetim İşl. Paz. Ltd. Şti. A.Ş.	75.754	--	2.602.868	43.479
Anadolu Anonim Türk Sigorta A.Ş.	--	2.788.312	1.495.237	--
Anadolu Cam Sanayii A.Ş.	--	--	--	15.532
Anadolu Hayat Emeklilik A.Ş.	128.968	--	--	--
Camiş Madencilik A.Ş.	--	--	--	5.746
Şişecam Çevre Sistemleri A.Ş.	6.252	--	--	616
Madencilik San. Ve Tic. A.Ş.	--	--	--	73
Camiş Elektrik A.Ş.	--	--	--	73
Cam Elyaf San. A.Ş.	642	--	--	73
Trakya Polatlı Cam San. A.Ş.	97	--	--	73
Trakya Yenişehir Cam San. A.Ş.	--	--	--	73
Çayırova Cam San. A.Ş.	1.380	--	--	73
Şişecam Otomotiv A.Ş.	5.407	--	--	4.055
İş Net Elektronik Hizmetler A.Ş.	767	--	13.770	--
Paşabahçe Cam San. Ve Tic. A.Ş.	54.872	--	--	41.154
Paşabahçe Mağazacılık A.Ş.	70.507	--	--	8.648
Soda Sanayii A.Ş.	17.176	--	--	12.882
Şişecam Enerji A.Ş.	--	--	--	1.950
Şişecam Elyaf Sanayii A.Ş.	97	--	--	73
Türkiye Şişe ve Cam Fabrikaları A.Ş.	108.444	--	--	81.332
Trakya Cam Sanayii A.Ş.	32.703	--	--	24.527
Softtech Yazılım Teknolojileri A.Ş.	--	--	48.216	--
Maxis Girişim Sermayesi Portföy Yön. A.Ş.	350	--	--	--
Tecim Yapı Elemanları Ltd. Şti.	1.883.847	--	10.097.186	--
Ortaklara borçlar (dividend)	--	--	705	--
Other	--	--	368.239	--
	4.680.762	2.788.312	16.360.219	257.870

(*) As of December 31, 2018, there is balance of other short-term receivable is amounting to TL 35.610 from Türkiye İş Bankası A.Ş.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

24. Related party disclosures (continued)

December 31, 2018				
Loans and borrowings				
<i>Balances with related parties</i>	Short Term	Long Term		
T. İş Bankası A.Ş.	195.688.191	378.309.711		
<i>Transactions with related parties</i>	Interest expense on loans	Capitalized interest expense		
T. İş Bankası A.Ş.	47.712.639	20.372.369		
December 31, 2017				
	Short Term Trade Receivables	Short Term Prepaid Expenses	Short Term Trade Payables	Deferred Income
<i>Balances with related parties</i>				
Anadolu Anonim Türk Sigorta A.Ş.	3.931	2.472.998	1.374.868	--
Anadolu Cam Sanayii A.Ş.	--	--	--	14.213
Anadolu Cam Eskişehir Sanayi AŞ	--	--	--	--
Anadolu Hayat Emeklilik A.Ş.	--	--	30	--
Cam Elyaf Sanayii AŞ	525	--	--	--
Camiş Madencilik A.Ş.	--	--	--	5.258
Çayırova Cam Sanayii A Ş	525	--	--	--
İş Faktoring A.Ş.	195	--	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	--	--
İş Merkezleri Yönetim ve İşletim A.Ş.	498.474	--	2.650.186	--
İş Net Elektronik Hizmetler A.Ş.	--	--	15.116	--
İş Yatırım Menkul Değerler A.Ş.	--	--	--	--
İş Finansal Kiralama A.Ş.	--	--	38.818	--
İş Portföy Yönetimi A.Ş.	--	--	9.543	--
Kanyon Yönetim İşl. Paz. Ltd. Şti.	977.793	--	5.036.048	298.773
Madencilik Sanayii ve Ticaret AŞ	--	--	--	--
Mepa Merkezi Pazarlama AŞ	--	--	--	--
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	--	37.659
Paşabahçe Mağazaları A.Ş.	18.462	--	--	7.913
Soda Sanayii A.Ş.	--	--	--	11.788
Softtech Yazılım Teknolojileri A.Ş.	--	--	--	--
Şişecam Çevre Sistemleri A.Ş.	4.441	--	--	563
Şişecam Dış Ticaret A.Ş.	--	--	--	2.296
Şişecam Enerji A.Ş.	88	--	7.935	1.785
Şişecam Otomotiv A.Ş.	--	--	--	3.711
Şişecam Sigorta Hizmetleri A.Ş.	--	--	766	1.137
Türkiye İş Bankası A.Ş.	--	--	--	14.041
Trakya Cam Sanayii A.Ş.	--	--	--	22.445
Türkiye Şişe ve Cam Fabrikaları A.Ş.	96.327	--	--	72.245
Tecim Yapı Elemanları Ltd. Şti.	--	62.881.313	35.990.000	--
Ortaklara borçlar (dividend)	--	--	597	--
Other	--	--	231.796	--
	1.600.761	65.354.311	45.355.703	493.827

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

*(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)***24. Related party disclosures (continued)**

December 31, 2017		
Loans and borrowings		
<i>Balances with related parties</i>	Short term	Long term
T. İş Bankası A.Ş.	154.258.179	484.995.840

December 31, 2017		
<i>Transactions with related parties</i>	Interest expense on loans	Capitalized interest expense
T. İş Bankası A.Ş.	28.700.640	41.250.185

December 31, 2017		
Financial leasing		
<i>Balances with related parties</i>	Short term	Long term
İş Finansal Kiralama A.Ş.	696.316	--

As of December 31, 2018, the Company entered into an interest option derivative transaction with İş Bankası and there is no (December 31, 2017: TL 11) accrual of this derivative transaction is recognized in the Company’s statement of financial position and also TL 11 derivative trading loss (December 31, 2017: TL 555 derivative trading gains) is recognized in the Company’s profit or loss for this transaction.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

24. Related party disclosures (continued)

<i>Balances with related parties</i>	January 1 – December 31, 2018				
	Purchases (*)	Interest received	Rent income	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş. (*)	4.583.167	--	409.210	7.513	--
Anadolu Hayat Emeklilik A.Ş.	124.089	--	5.918.603	--	--
İş Finansal Kiralama A.Ş.	7.475	--	--	--	2.324
İş Merkezleri Yönetim ve İşletim A.Ş.	11.030.707	--	3.817.803	--	--
İş Yatırım Menkul Değerler A.Ş.	945.041	--	3.475.576	--	--
Türkiye Şişe ve Cam Fabrikaları A.Ş.	--	--	7.669.716	99.356	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	390.118	--	--
İş Net Elektronik Hizmetler A.Ş.	297.564	--	91.958	--	--
İş Portföy Yönetimi A.Ş.	2.026	--	--	--	--
Paşabahçe Mağazacılık A.Ş.	210.652	--	1.840.505	10.796	--
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	3.692.784	51.377	--
Trakya Cam Sanayii A.Ş.	--	--	2.200.859	30.620	--
Soda Sanayii A.Ş.	--	--	1.155.906	16.082	--
Anadolu Cam Sanayii A.Ş.	--	--	1.393.689	19.390	--
Camiş Madencilik A.Ş.	--	--	515.593	7.173	--
Camiş Elektrik A.Ş.	--	--	6.525	24	--
Şişecam Sigorta Hizmetleri A.Ş.	--	--	27.865	1.137	--
Softtech Yazılım Teknolojileri A.Ş.	44.235	--	5.576.781	8.119	--
Şişecam Enerji A.Ş.	--	--	175.008	2.435	--
Şişecam Dış Ticaret A.Ş.	--	--	56.274	2.296	--
Şişecam Otomotiv A.Ş.	--	--	363.854	5.062	--
Şişecam Çevre Sistemleri A.Ş.	--	--	55.235	769	--
Şişecam Elyaf Sanayii A.Ş.	--	--	6.525	24	--
Madencilik San. Ve Tic. A.Ş.	--	--	6.525	24	--
Cam Elyaf San. A.Ş.	--	--	6.525	24	--
Trakya Yenişehir Cam San. A.Ş.	--	--	6.525	24	--
Trakya Polatlı Cam San. A.Ş.	--	--	6.525	24	--
Çayırova Cam San. A.Ş.	--	--	6.525	24	--
İş Portföy Yönetimi A.Ş. Birinci Gayrimenkul Yatırım Fonu (**)	--	--	--	25.800.000	--
Maxis Girişim Sermayesi Portföy Yön. A.Ş.	--	--	167.911	--	--
İş Faktoring A.Ş.	--	--	53.488	--	87.600
Kültür Yayınları İş Türk A.Ş.	5.889	--	--	--	--
Türkiye İş Bankası A.Ş. (***)	--	8.976.171	76.547.370	49.914.590	324.281
	17.250.845	8.976.171	115.641.781	75.976.883	414.205

(*) The amount of purchases with Anadolu Anonim Türk Sigorta Anonim Şirketi is related to the insurance of the Company's real estates. The amount of purchases from the İş Merkezleri Yönetim ve İşletim Anonim Şirketi is related to the operation of the Company's investment properties İş Kuleleri, Kapadokya Lodge Hotel and Mallmarine Shopping Center.

(**) The amount of other income with İş Portföy Yönetimi A.Ş. Birinci Gayrimenkul Yatırım Fonu is related to the sales of 18 single spaces of the office areas in the Kartal Project.

(***) Revenue share compensation is amounting to TL 3.200.889 has paid to T. İş Bankası A.Ş. within the scope of Ege Perla Project in 2018. In addition, there is revenue share compensation is amounting to TL 2.768.012 which is not paid yet as part of debt provisions of 2018.

Additionally, revenue share compensation is amounting to TL 46.167.293 has paid to Tecim Yapı Elemanları Ltd. Şti. withing the scope of Kartal Manzara Adalar Project in 2018.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

24. Related party disclosures (continued)

<i>Balances with related parties</i>	January 1 – December 31 2017				
	Purchases (*)	Interest received	Rent income	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş. (*)	4.697.393	--	--	--	--
Anadolu Cam Sanayi A.Ş.	--	--	1.140.440	23.200	167.620
Anadolu Cam Eskişehir Sanayi AŞ	--	--	3.557	--	--
Anadolu Cam Yenişehir Sanayi AŞ	--	--	3.557	--	--
Anadolu Hayat Emeklilik A.Ş.	226.069	--	4.459.401	44.861	--
Cam Elyaf Sanayii AŞ	--	--	5.335	--	--
Camiş Madencilik A.Ş.	--	--	421.575	8.583	62.011
Camiş Elektrik Üretim AŞ	--	--	5.335	--	--
Çayırova Cam Sanayii A Ş	--	--	5.335	--	--
İş Faktoring A.Ş.	--	--	4.400	--	4.400
İş Finansal Kiralama A.Ş.	970.792	--	9.242	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	476.498	3.356	--
İş Merkezleri Yönetim ve İşletim A.Ş.	21.196.063	--	2.041.168	12.319	--
İş Net Elektronik Hizmetler A.Ş.	410.860	--	21.459	--	--
İş Portföy Yönetimi A.Ş.	--	--	21.826	--	51.805
İş Portföy Yönetimi A.Ş. Birinci Gayrimenkul Yatırım Fonu (**)	--	--	--	69.000.000	--
İş Yatırım Menkul Değerler A.Ş.	112.500	--	3.841.764	33.898	1.930
Madencilik Sanayii ve Ticaret AŞ	--	--	5.335	--	--
Maxis Girişim Sermayesi Portföy Yön. A.Ş.	--	--	12.068	--	--
Mepa Merkezi Pazarlama AŞ	--	--	4.001	--	--
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	3.019.406	61.471	444.135
Paşabahçe Mağazacılık A.Ş.	6.307	--	1.463.473	12.917	305.898
Soda Sanayi A.Ş.	--	--	945.127	19.241	139.022
Softtech Yazılım Teknolojileri A.Ş.	9.599	--	4.380.105	--	--
Şişecam Çevre Sistemleri A.Ş.	--	--	45.163	919	6.643
Şişecam Dış Ticaret A.Ş.	--	--	184.050	3.747	--
Şişecam Enerji A.Ş.	86.519	--	143.095	2.913	21.048
Şişecam Elyaf Sanayii A.Ş.	--	--	4.446	--	--
Şişecam Otomotiv A.Ş.	--	--	297.505	6.057	43.761
Şişecam Sigorta Hizmetleri A.Ş.	--	--	91.135	1.855	--
T.Şişe ve Cam Fabrikaları A.Ş.	--	--	6.106.490	123.197	852.020
Trakya Cam Sanayi A.Ş.	--	--	1.799.533	36.636	264.699
Trakya Polatlı Cam Sanayii AS	--	--	5.335	--	--
Trakya Yenişehir Cam Sanayii AŞ	--	--	5.335	--	--
Türkiye İş Bankası A.Ş. (***)	--	8.220.872	72.908.603	2.645	134.660
	27.716.102	8.220.872	103.881.097	69.397.815	2.499.652

(*) The amount of purchases with Anadolu Anonim Türk Sigorta Anonim Şirketi is related to the insurance of the Company's real estates. The amount of purchases from the İş Merkezleri Yönetim ve İşletim Anonim Şirketi is related to the operation of the Company's investment properties İş Kuleleri and Mallmarine Shopping Center.

(**) The amount of other income with İş Portföy Yönetimi A.Ş. Birinci Gayrimenkul Yatırım Fonu is related to the sales of Ankara Kızılay Building and Antalya Bank Service Building from investment property portfolio of the Company. Fair values of the investment properties for sale are TL 68.645.000.

(***) Revenue share compensation is amounting to TL 15.547.306 has paid to T. İş Bankası A.Ş. within the scope of Ege Perla Project in 2017. In addition, there is revenue share compensation is amounting to TL 523.328 which is not paid yet as part of debt provisions of 2017.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

24. Related party disclosures (continued)

As of December 31, 2018, TL 20.021.745 part of TRSISGY31915 ISIN coded bond which is issued in nominal value TL 213.000.000 TL 2.502.593 part of TRSISGY61912 ISIN coded bond which is issued in nominal value TL 100.000.000, TL 3.620.270 part of TRSISGY32111 ISIN coded bond which is issued in nominal value TL 100.000.000 and TL 16.789.893 part of TRSISGYK1917 ISIN coded bond which is issued in nominal value TL 100.000.000 are in related parties. The paid amount of related bonds is 5.544.152 and breakdowns of balances and transactions are below:

Balance with related parties	December 31, 2018			
	TRSISGY31915	TRSISGY61912	TRSISGY32111	TRSISGYK1917
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	5.005.186	2.502.593	--	309.016
İş Yatırım Menkul Değerler A.Ş.	15.016.559	--	3.620.270	15.450.822
İş Yatırım Ortaklığı A.Ş.	--	--	--	1.030.055
	20.021.745	2.502.593	3.620.270	16.789.893

Balance with related parties	December 31, 2017	
	TRSISGY31915	TRSISGY61912
Anadolu Anonim Türk Sigorta A.Ş.	15.004.748	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	5.001.583	2.500.791
İş Yatırım Menkul Değerler A.Ş.	2.671.845	--
İş Yatırım Ortaklığı A.Ş.	4.501.424	3.501.108
	27.179.600	6.001.899

Transactions with related parties	December 31, 2018
Anadolu Anonim Türk Sigorta A.Ş.	2.908.500
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	1.454.250
İş Yatırım Menkul Değerler A.Ş.	559.760
İş Yatırım Ortaklığı A.Ş.	621.642
	5.544.152

Benefits provided to key management personnel:

Benefits provided to board of directors, general manager, senior group presidents and group presidents are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Salaries and other short term benefits	4.717.075	4.394.779
Employee termination benefits	479.196	538.465
Total	5.196.271	4.933.244

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments

a) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders and corporate shareholders and at the same time, provide consistent application of the most efficient capital structure to minimize the cost of capital.

The Company’s capital and funding structure consists of cash and cash equivalents, share capital and retained earnings.

The Company management evaluates the cost of capital and the risk associated with each class of equity.

b) Financial risk factors

The risks of the Company, resulting from operations, include market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company’s risk management program generally seeks to minimize the effects of uncertainty in financial markets on the financial performance of the Company.

Risk management is implemented according to the policies approved by the Board of Directors. According to the policy, once a risk is identified, it has been evaluated by each operating unit which is responsible to coordinate the work to minimize the exposure to that risk. The Board of Directors is in charge of forming written procedures in order to manage the foreign currency risk, interest risk, credit risk, and use of derivative and non-derivative financial instruments and the assessment of excess liquidity.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management

Exposure to maximum credit risk as of reporting date	Receivables							
	Trade receivables		Other Receivables			Bank deposits	Derivative instruments	Other ^(***)
	Related parties	Other parties	Related parties	Other parties				
December 31, 2018								
Maximum net credit risk as of the reporting date (A+B+C+D+E) ^(*)	4.680.762	147.150.300	--	718.345	50.182.973	59.536.713	4.053.776	
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	--	--	--	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	4.680.762	147.150.300	--	718.345	50.182.973	59.536.713	4.053.776	
B. Net book value of financial assets which are overdue but not impaired	31.407	9.502.808	--	--	--	--	--	--
C. Net book value of impaired assets								
- Past due (gross carrying amount)	--	3.814.164	--	--	--	--	--	--
- Impairment (-)	--	(3.814.164)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--	--

^(*) Items such as guarantees received which increase the credibility are not included in the determination of the balance.

^(**) Collaterals consist of notes, cheques and mortgages.

^(***) Investment funds which are shown in cash and cash equivalent, 3 months government bonds reverse repo agreements and other liquid assets are shown in other.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management (continued)

Exposure to maximum credit risk as of reporting date	Receivables							
	Trade receivables		Other Receivables			Bank deposits	Derivative instruments	Other ^(***)
	Related parties	Other parties	Related parties	Other parties				
December 31, 2017								
Maximum net credit risk as of the reporting date (A+B+C+D+E) ^(*)	1.600.761	45.842.088	--	1.078.243	69.028.866	3.865.901	14.088.726	
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	--	--	--	--	--	--	
A. Net book value of financial assets that are neither past due nor impaired	1.600.761	45.842.088	--	1.078.243	69.028.866	3.865.901	14.088.726	
B. Net book value of financial assets which are overdue but not impaired	--	1.463.781	--	--	--	--	--	
C. Net book value of impaired assets	--	2.567.268	--	--	--	--	--	
- Impairment (-)	--	(2.567.268)	--	--	--	--	--	
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	
- Not past due (gross carrying amount)	--	--	--	--	--	--	--	
- Impairment (-)	--	--	--	--	--	--	--	
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--	

^(*) Items such as guarantees received which increase the credibility are not included in the determination of the balance.

^(**) Collaterals consist of notes, cheques and mortgages.

^(***) Investment funds which are shown in cash and cash equivalent, 3 months government bonds reverse repo agreements and other liquid assets are shown in other.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

*(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)***25. Nature and level of risks arising from financial instruments (continued)*****b.1) Credit risk management (continued)***

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company’s exposure to credit risks is monitored on a continuous basis.

The aging of the overdue but not impaired receivables are as follows:

December 31, 2018	Receivables		Total
	Trade Receivables	Other Receivables	
Past due 1-30 days	5.600.304	--	5.600.304
Past due 1-3 months	2.117.572	--	2.117.572
Past due 3-12 months	1.765.086	--	1.765.086
Past due 1-5 years	51.253	--	51.253
Total overdue receivables	9.534.215	--	9.534.215
Total collateralized portion	6.854.656	--	6.854.656

December 31, 2017	Receivables		Total
	Trade Receivables	Other Receivables	
Past due 1-30 days	824.711	--	824.711
Past due 1-3 months	382.407	--	382.407
Past due 3-12 months	244.067	--	244.067
Past due 1-5 years	12.596	--	12.596
Total overdue receivables	1.463.781	--	1.463.781
Total collateralized portion	1.177.822	--	1.177.822

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management (continued)

Collaterals held for trade receivables that are past due but not impaired as of the reporting date are as follows:

	December 31, 2018		December 31, 2017	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Letters of guarantee	6.669.324	6.669.324	960.940	960.940
Cash collaterals	110.552	110.552	103.399	103.399
Note payable	74.780	74.780	111.961	111.961
Letters of blockage	--	--	1.522	1.522
	6.854.656	6.854.656	1.177.822	1.177.822

b.2) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company’s short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. On the other hand, derivative financial liabilities are presented based on their gross cash inflows and outflows which have not been discounted. Derivative instruments are settled and realized on a net basis based on their respective gross cash inflows and outflows which have not been discounted. When the receivables and payables are not fixed, the amount disclosed is calculated via an interest rate derived from yield curves as of the reporting date.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)***b.2) Liquidity risk management (continued)***

December 31, 2018						
<u>Contractual maturities</u>	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Loans and borrowings	1.314.848.120	1.630.380.067	344.684.543	568.713.664	716.981.860	--
Trade payables	24.803.886	24.803.886	24.803.886	--	--	--
Other payables	30.930.992	30.930.992	--	30.930.992	--	--
Total liabilities	1.370.582.998	1.686.114.945	369.488.429	599.644.656	716.981.860	--
December 31, 2017						
<u>Contractual maturities</u>	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Loans and borrowings	1.185.482.549	1.414.452.979	85.726.140	190.850.660	1.104.594.708	33.281.471
Trade payables	53.537.218	53.537.218	53.537.218	--	--	--
Other payables	44.979.614	44.979.614	--	44.979.614	--	--
Total liabilities	1.283.999.381	1.512.969.811	139.263.358	235.830.274	1.104.594.708	33.281.471

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management

b.3.1) Foreign currency risk management

The Company’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Company are measured using sensitivity analysis and stress scenarios.

There has been no change to the Company’s exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency transactions lead to currency risks.

The exchange rates applied as of December 31, 2018 and 2017 are as follows:

	US Dollar	Euro	GBP
December 31, 2018	5,2609	6,0280	6,6528
December 31, 2017	3,7719	4,5155	5,0803

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

The foreign currency denominated monetary and non-monetary assets and liabilities of the Company as of the reporting date are as follows:

December 31, 2018			
	TL Equivalent (Functional currency)	US Dollar	Euro
1. Trade Receivables	--	--	--
2a. Monetary Financial Assets	2.953.603	502.478	51.446
2b. Non-Monetary Financial Assets	172.152	32.723	--
3. Other	--	--	--
4. CURRENT ASSETS	3.125.755	535.201	51.446
5. Trade Receivables	--	--	--
6a. Monetary Financial Assets	--	--	--
6b. Non-Monetary Financial Assets	--	--	--
7. Other	--	--	--
8. NON CURRENT ASSETS	--	--	--
9. TOTAL ASSET	3.125.755	535.201	51.446
10. Trade Payables	64.935	12.343	--
11. Financial Liabilities	61.037.604	8.823.529	2.425.000
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	4.148.284	594.477	169.343
13. SHORT TERM LIABILITIES	65.250.823	9.430.349	2.594.343
14. Trade Payables	--	--	--
15. Financial Liabilities	200.296.725	35.294.118	2.425.000
16a. Other Monetary Liabilities	--	--	--
16b. Other Non-Monetary Liabilities	--	--	--
17. LONG TERM LIABILITIES	200.296.725	35.294.118	2.425.000
18. TOTAL LIABILITIES	265.547.548	44.724.467	5.019.343
19. Net asset/liability position of off balance sheet derivatives (19a-19b)	232.098.529	44.117.647	--
19.a Off-balance sheet foreign currency derivative assets	232.098.529	44.117.647	--
19b. Off-balance sheet foreign currency derivative liabilities	--	--	--
20. Net foreign currency asset / liability position	(30.323.264)	(71.619)	(4.967.897)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(258.445.661)	(43.627.512)	(4.798.554)
22. Fair Value of foreign currency hedged Financial asset	59.381.350	11.287.299	--
23. Hedged foreign currency assets	--	--	--
24. Hedged foreign currency liabilities	--	--	--

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Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)***b.3) Market risk management (continued)******b.3.1) Foreign currency risk management (continued)***

December 31, 2017			
	TL Equivalent (Functional currency)	US Dollar	Euro
1. Trade Receivables	--	--	--
2a. Monetary Financial Assets	24.683.762	6.057.501	406.483
2b. Non-Monetary Financial Assets	132.040	35.006	--
3. Other	--	--	--
4. CURRENT ASSETS	24.815.802	6.092.507	406.483
5. Trade Receivables	--	--	--
6a. Monetary Financial Assets	--	--	--
6b. Non-Monetary Financial Assets	--	--	--
7. Other	--	--	--
8. NON CURRENT ASSETS	--	--	--
9. TOTAL ASSET	24.815.802	6.092.507	406.483
10. Trade Payables	2.448.207	25.100	521.212
11. Financial Liabilities	47.084.378	9.577.324	2.427.122
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	2.093.642	455.055	83.539
13. SHORT TERM LIABILITIES	51.626.228	10.057.479	3.031.873
14. Trade Payables	--	--	--
15. Financial Liabilities	188.307.531	44.117.648	4.850.000
16a. Other Monetary Liabilities	--	--	--
16b. Other Non-Monetary Liabilities	--	--	--
17. LONG TERM LIABILITIES	188.307.531	44.117.648	4.850.000
18. TOTAL LIABILITIES	239.933.759	54.175.127	7.881.873
19. Net asset/liability position of off balance sheet derivatives (19a-19b)	--	--	--
19.a Off-balance sheet foreign currency derivative assets	--	--	--
19b. Off-balance sheet foreign currency derivative liabilities	--	--	--
20. Net foreign currency asset / liability position	(215.117.957)	(48.082.620)	(7.475.390)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(213.156.355)	(47.662.571)	(7.391.852)
22. Fair Value of foreign currency hedged Financial asset	--	--	--
23. Hedged foreign currency assets	--	--	--
24. Hedged foreign currency liabilities	--	--	--

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Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

Foreign currency sensitivity

The Company is mainly exposed to foreign currency risk on Euro and US Dollar.

The following table details the Company’s sensitivity to 10% increase in the currency of Euro and US Dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The positive amount indicates the increase in profit/loss and equity.

December 31, 2018		
	Appreciation of foreign currency	Devaluation of foreign currency
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset / liability	(22.951.998)	22.951.998
Portion hedged against US Dollar risk (-)	23.209.853	(23.209.853)
US Dollar net effect	257.855	(257.855)
<u>If Euro changes against TL by 10%</u>		
Euro net asset / liability	(2.892.568)	2.892.568
Portion hedged against Euro risk (-)	--	--
Euro net effect	(2.892.568)	2.892.568
December 31, 2017		
	Appreciation of foreign currency	Devaluation of foreign currency
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset / liability	(17.977.845)	17.977.845
Portion hedged against US Dollar risk (-)	--	--
US Dollar net effect	(17.977.845)	17.977.845
<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability	(3.337.790)	3.337.790
Portion hedged against Euro risk (-)	--	--
Euro net effect	(3.337.790)	3.337.790

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Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.2) Interest rate risk management

Interest rate risk represents the risk of fair value decrease in the Company’s interest rate sensitive assets due to market fluctuations.

Mutual funds classified as financial asset at fair value through profit or loss in accompanying financial statements is subject to price risk depending on price changes.

There are no debt securities of the Company classified as financial asset at fair value through profit or loss in accompanying financial statements as of December 31, 2018 and 2017.

The sensitivity analyses have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period at 1%. If interest rates increase or decrease by 1% as of December 31, 2018, the net profit would decrease or increase by TL 1.864.464 (December 31, 2017: TL 692.063 decrease or increase).

		Interest Rate Table	
		December 31, 2018	December 31, 2017
Fixed Rate Financial Instruments			
	Financial assets classified at fair value through profit or loss	--	--
Financial Assets	Time deposits at banks	45.406.340	59.381.733
	Receivables from reverse repo transactions	--	85.786
Financial Liabilities		440.720.682	547.257.424
Floating Interest Rate Financial Instruments			
	Investment Funds	3.951.277	13.793.590
Financial Liabilities		874.127.438	638.225.125

b.3.3) Equity price risk

As of December 31, 2018, company has no equity in their portfolio. Therefore, there is no equity price risk. (December 31, 2017: None)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

26. Fair value of financial instruments

Financial assets

Financial investments, recognized in financial statements are reflected at fair values. The Company assumes that the carrying values of the cash and cash equivalents are close to their fair value because of their short-term nature.

Financial liabilities

The Company assumes that the carrying values of the trade payables and other financial liabilities are close to their fair value because of their short-term nature.

Financial liabilities are recognized with their acquisition costs including transaction costs and evaluated through amortized costs depending on the method of active interest rate.

The Company assumes that the carrying values of the floating interest rate banks loans are close to their fair value, since floating interest rate banks loans are re-priced recently. The Company assumes that the carrying values of the fixed interest rate banks loans are close to their fair value, since the opening date of the bank loan is close to the reporting period and there is no significant change in the market interest rates. The estimated fair value of fixed rate financial liabilities is calculated by using discounted cash flows using current market interest rates. As of December 31, 2018, net book value of fixed rate loan is TL 440.720.682 and fair value of those loans are TL 440.720.682.

	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Carrying value	Note
December 31, 2018					
<i>Financial Assets</i>					
Cash and cash equivalents	50.285.472	3.951.277	--	54.236.749	5
Trade receivables	147.150.300	--	--	147.150.300	8
Due from related parties	4.680.762	--	--	4.680.762	24
Other financial assets	718.345	--	--	718.345	9
Derivative instruments	--	59.536.713	--	59.536.713	6
<i>Financial Liabilities</i>					
Loans and borrowings	--	--	697.915.716	697.915.716	7
Loans and borrowings from related parties	--	--	616.932.404	616.932.404	7
Trade payables	--	--	18.540.853	18.540.853	8
Trade payables to related parties	--	--	6.263.033	6.263.033	24
Other payables	--	--	20.833.806	20.833.806	9
Other payables to related parties	--	--	10.097.186	10.097.186	24
December 31, 2017					
<i>Financial Assets</i>					
Cash and cash equivalents	69.324.002	13.793.590	--	83.117.592	5
Trade receivables	62.067.357	--	--	62.067.357	8
Due from related parties	1.600.761	--	--	1.600.761	24
Other financial assets	1.078.243	--	--	1.078.243	9
Derivative instruments	--	3.865.901	--	3.865.901	6
<i>Financial Liabilities</i>					
Loans and borrowings	--	--	512.350.715	512.350.715	7
Loans and borrowings from related parties	--	--	673.131.834	673.131.834	7
Trade payables	--	--	44.171.515	44.171.515	8
Trade payables to related parties	--	--	9.365.703	9.365.703	24
Other payables	--	--	8.989.614	8.989.614	9
Other payables to related parties	--	--	35.990.000	35.990.000	24

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

26. Fair value of financial instruments (continued)

Fair Value of Financial Instruments

The fair value of financial assets and liabilities are determined as below:

Level I: Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.

Level II: Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

Level III: Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

The levels of the financial assets and liabilities presented in fair values are as follows:

Fair Value Hierarchy as at Reporting Date

<u>Financial assets</u>	<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment properties	4.153.488.099	--	4.153.488.099	--
Tangible Assets	33.814.159	--	33.814.159	--
Financial assets held for trading	3.951.277	3.951.277	--	--
Derivatives held for trading	59.536.713	--	59.536.713	--
	<u>4.250.790.248</u>	<u>3.951.277</u>	<u>4.246.838.971</u>	<u>--</u>

<u>Financial assets</u>	<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment properties	3.834.870.889	--	3.834.870.889	--
Tangible Assets	31.005.753	--	31.005.753	--
Financial assets held for trading	13.793.590	13.793.590	--	--
Derivatives held for trading	3.865.901	--	3.865.901	--
	<u>3.883.536.133</u>	<u>13.793.590</u>	<u>3.869.742.543</u>	<u>--</u>

27. Events after the reporting period

On January 28, 2019, the Company has issued 728-day maturity, TRLIBOR + 2,50% interest rate bond amounting to TL 100.000.000. The maturity date of the bond which is sold to qualified investors through İş Yatırım Menkul Değerler A.Ş. is January 25, 2021.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

Additional Note: Control of compliance with restrictions on the investment portfolio

The main accounts of separate financial statements	Related regulation	December 31, 2018	December 31, 2017
A Capital and money market instruments	III-48.1. Md. 24 / (b)	54.236.749	83.117.592
B Real estates, rights supported by real estates and real estate projects	III-48.1. Md. 24 / (a)	4.844.425.433	4.936.135.877
C Affiliates (*)	III-48.1. Md. 24 / (b)	3.088.133	2.527.108
Due from related parties (other receivables)	III-48.1. Md. 23 / (f)	--	--
Other assets		320.582.609	290.166.679
D Total assets	III-48.1. Md. 3 / (k)	5.222.332.924	5.311.947.256
E Loans and borrowings	III-48.1. Md. 31	1.314.848.120	1.184.786.233
F Other financial liabilities	III-48.1. Md. 31	4.814.210	3.604.088
G Financial lease obligations	III-48.1. Md. 31	--	696.316
H Due to related parties (other payables)	III-48.1. Md. 23 / (f)	--	--
I Equity	III-48.1. Md. 31	3.556.939.355	3.280.576.987
Other liabilities		345.731.239	842.283.632
D Total liabilities and equity	III-48.1. Md. 3 / (k)	5.222.332.924	5.311.947.256
Other separate financial information	Related regulation	December 31, 2018	December 31, 2017
A1 Capital and money market instruments amount held for 3-year real estate payments	III-48.1. Md. 24 / (b)	--	--
A2 Time balances / demand balances TL / foreign currency	III-48.1. Md. 24 / (b)	50.182.973	69.028.866
A3 Foreign capital market instruments	III-48.1. Md. 24 / (d)	--	--
B1 Foreign real estates, rights supported by real estates and real estate projects	III-48.1. Md. 24 / (d)	--	--
B2 Inactive land	III-48.1. Md. 24 / (c)	51.314.379	47.577.917
C1 Foreign affiliates	III-48.1. Md. 24 / (d)	--	--
C2 Participating to operating company	III-48.1. Md. 28	3.088.133	2.527.108
J Non-cash loans	III-48.1. Md. 31	38.144.431	18.455.073
K Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Md. 22 / (e)	--	--
L The sum of investments in money and capital market instruments in a single company	III-48.1 Md. 22 / (1)	54.131.580	71.994.421

(*) From the associates disclosed in Note 3, Kanyon is in the scope of the Company under the scope of Article 28 paragraph 1 of the "Communiqué on Principles Regarding Real Estate Investment Trusts" No: 48.1 of the CMB, III. The Company accounts for this associate according to the equity method in the accompanying financial statements. As of December 31, 2018, the Company's participation in Kanyon is TL 500.000 and does not exceed 10% of the total assets.

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Notes to the Condensed Financial Statements For the Year Ended December 31, 2018

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

Additional Note: Control of compliance with restrictions on the investment portfolio (continued)

Portfolio restrictions	Related regulation	December 31,	December 31,	Min/Max ratio
		2018	2017	
1 Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Md. 22 / (e)	0%	0%	Max %10
2 Real estates, rights supported by real estates and real estate projects	III-48.1. Md. 24 / (a). (b)	93%	93%	Min %51
3 Capital and money market instruments and subsidiaries	III-48.1. Md. 24 / (b)	1%	2%	Max %49
4 Foreign real estates, rights supported by real estates and real estate projects, affiliates and capital market instruments	III-48.1. Md. 24 / (d)	0%	0%	Max %49
5 Inactive land	III-48.1. Md. 24 / (c)	1%	1%	Max %20
6 Participating to operating company	III-48.1. Md. 28	0%	0%	Max %10
7 Borrowings limits	III-48.1. Md. 31	38%	38%	Max %500
8 Time balances / demand balances TL / foreign currency	III-48.1. Md. 22 / (e)	1%	1%	Max %10
9 The sum of investments in money and capital market instruments in a single company	III-48.1 Md. 22 / (1)	1%	0%	Max %10