



İŞ REAL ESTATE INVESTMENT TRUST CO.



Annual Report  
2014



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İş REIT possesses a diversified portfolio covering various elements including land, offices, shopping malls, hotels and projects. Within this scope, the Company maintains its stable growth target by capitalizing on all investment opportunities and thus enriching its portfolio. To this end, İş REIT keeps a close eye on all changes in preferences and trends that influence the sector dynamics.

## İş REIT in Brief

<u>Date of Incorporation</u> 6 August 1999	<u>Issued Capital</u> TL 680,400,000	<u>Authorized Capital</u> TL 2,000,000,000
<u>Head Office</u> İstanbul	<u>Trade Registry No.</u> 402908	<u>Trade Registry Office</u> İstanbul
<u>BIST Trading Symbol</u> ISGYO	<u>Date / Price of Initial Public Offering</u> 1-3 December 1999 – TL 1.4	<u>Date of Trading</u> 9 December 1999

İş Gayrimenkul Yatırım Ortaklığı A.Ş. (İş REIT) was founded on 6 August 1999 as a result of the takeover of Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. by İş Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş., which was then transformed into a real estate investment trust.

Boasting a healthy growth process since the day it was founded, İş REIT consolidates its market prestige, backed by the deep-rooted corporate principles and financial strength of the İşbank Group of which it is a member, with its sectoral vision and distinguished projects of its own.

With a portfolio structure that is well-diversified and balanced, İş REIT focuses on providing its investors with an optimal possible risk-return trade-off.

Enjoying the capability to finance an uninterrupted series of new investments through sustainable rental income generated by its high-quality portfolio, its own solid equity resources, and convenient access to external funding, İş REIT aims to further accelerate its growth and advance its position in the sector.

İş REIT is one of the leading firms in the sector with its solid portfolio and sound financial structure.

İş REIT, which invests in real estate properties and real estate projects, carry out its activities in compliance with the requirements of the Capital Markets Board of Turkey (CMB) laws and regulations.

## Vision, Mission and Objectives

<u>Vision</u> To set a global corporate example not only by the projects it undertakes, but also with the way it conducts business, by its organizational structure, corporate values and management approach. To achieve a stable portfolio growth over the years and to maintain sustainable growth.	<u>Mission</u> To create desirable spaces for contemporary people and contemporary cities. To maximize the collective value of our portfolio for our shareholders through sustainable growth and high profitability by utilizing our investments and resources effectively.	<u>Objectives</u> To closely monitor opportunities for generating the highest possible returns for our shareholders. To maintain and strengthen our leading position in the market.
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# Capital and Shareholder Structure

## Capital

TL million

# 680.4

As of year-end 2014, İŞ REIT's issued capital amounts to TL 680,400,000, 42% of which is held by T. İŞ Bankası A.Ş. (İşbank).

## Capital Structure

İŞ REIT's issued capital amounts to TL 680,400,000, 42% of which is held by T. İŞ Bankası A.Ş. (İşbank). İşbank, the Company's shareholder, has management control over the Company; there are no non-corporate shareholders holding more than 5% in the capital of the shareholder that has management control over the Company.

The shares issued for raising the Company's issued capital by TL 50,400,000 to TL 680,400,000 so as to remain within the authorized capital of TL 2,000,000,000, which incremental amount will be covered from 2013 profit share as per the Board of Directors' decision dated 8 April 2014, have been registered with the CMB, and the process for the exercise of rights in relation to the issued shares have been completed on 26 May 2014. Following the finalization of the capital increase process, the CMB approved the new version of "Article 7 – Capital and Share Certificates" of the Company's articles of association that shows the issued capital after the capital increase. The new capital that has been registered by Istanbul Trade Registry on 5 June 2014 has been promulgated in the Turkish Trade Registry Gazette issue 8593 dated 18 June 2014.

During the reporting period, the Company did not carry out a capital increase through rights issues.

Under recently introduced changes in the Turkish Commercial Code (TCC) and Capital Markets Board (CMB) rules and regulations, companies are allowed to acquire shareholding interests in

themselves provided that they comply with a previously prepared and publicly disclosed program share-repurchase program. During the 2014 reporting period, İŞ REIT neither announced such a program nor bought back any of its own shares.

The Company's issued capital amounts to TL 680,000,000; the portion corresponding to TL 972,000 are Group A shares and the portion corresponding to TL 679,428,000 are Group B shares. Group A shares are entitled to specific preferential rights with respect to their representation on the Company's Board of Directors: only one seat on the board is filled from among candidates designated by Group B shareholders while all the remaining seats are filled from among candidates designated by Group A shareholders.

Article 14 of the CMB Communiqué (III-48.1) on the Principles Regarding Real Estate Investment Companies sets out that real estate investment trusts may issue shares that incorporate the privilege to nominate candidates for election of board of directors members. REITs are not allowed to issue any instrument that incorporates any preferential right other than shares that allow their holders to designate candidates for seats on their boards of directors. In such cases, the majority shareholder makes suggestions regarding Board Member nominees and the Members of the Board of Directors are elected by the General Assembly of Shareholders. The Company's articles of association contain no provisions pertaining to special voting rights.

### Shareholder Structure

Of the Company's TL 680,400,000 in issued capital, 42% belongs to İşbank. There were no significant changes in the Company's shareholder structure during the reporting period. According to information published by the Central Registry Agency (MKK), 49% of the Company's capital was publicly held as of 31 December 2014.

According to MKK's 31 December 2014 report, the nominal value of the Company's publicly-traded shares was TL 333.2 million, which corresponds to 49% of the Company's capital. The Company's publicly-traded shares held by international (non-resident) investors correspond to about 18% of the Company's capital.

### Subsidiaries

Currently, the Company has only one subsidiary, Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti. The Company's other subsidiary, Nest in Globe (NIG) B.V., a limited liability company, has been liquidated during the reporting period.

#### Kanyon Yönetim İşletim ve Pazarlama Ltd.

Kanyon Yönetim İşletim ve Pazarlama was set up on 6 October 2004 as a joint venture of İş REIT and Eczacıbaşı Holding in which each controls a 50% stake. This jointly-controlled company was created primarily to manage the residence, commercial, and office buildings, to provide the complex's cleaning, security, maintenance & repair, and grounds maintenance services, and to undertake the promotion and marketing of all real estate properties in the complex and to mediate their rental and sale.

### Publicly-traded shares

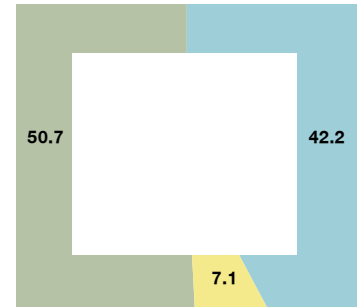
TL million

333.2

The Company's publicly-traded shares held by international (non-resident) investors correspond to about 18% of the Company's capital.

Capital and Shareholder Structure	TL	%
T. İş Bankası A.Ş.	287,366,998.3	42.2
Anadolu Hayat Emeklilik A.Ş.	48,365,503.4	7.1
Other	344,667,498.3	50.7
Total	680,400,000.0	100.00

### Shareholder Structure (%)



■ T. İş Bankası A.Ş.  
■ Anadolu Hayat Emeklilik A.Ş.  
■ Other

# Ordinary General Assembly Meeting of Shareholders Agenda

## **Agenda for the Ordinary General Assembly Meeting of Shareholders of İş Gayrimenkul Yatırım Ortaklığı A.Ş. to be held on 23 March 2015**

- |   |   |  |
|---|---|--|
| 1. Opening, establishment of the Chairmanship Council,  | 6. Discussion and decision of the Board of Directors' proposal on the distribution of the operating profit in 2014,                       | 11. Providing information to the General Assembly of Shareholders within the frame of principle numbered 1.3.6 of the Corporate Governance Principles, |
| 2. Reading and discussion of the Board of Directors' Annual Report on 2014 activities and reading the Auditor's Report on activities in 2014, | 7. Election of the Board Members and determining the terms of their office,   | 12. Informing the shareholders on the Company's donations made in 2014, and setting the limit for the donations to be made in 2015,                    |
| 3. Reading, discussion and approval of the financial statements of the year 2014,   | 8. Determining the remuneration of the Board Members,   | 13. Submitting the Company Disclosure Policy to the information of the General Assembly,   |
| 4. Submitting the new appointments as Members of the Board of Directors to the approval of the General Assembly,                              | 9. Election of the Auditor,   | 14. Wishes and suggestions.  |
| 5. Discharge of the Board Members for their activities in 2014,   | 10. Authorization of the Board Members to conduct the transactions provided under the Articles 395 and 396 of the Turkish Commercial Law, |  |



# General Assembly Meeting and Attendance

The Company's general assembly of shareholders convenes in ordinary (annual) and extraordinary sessions and makes decisions subject to the provisions of the Turkish Commercial Code, of applicable capital market laws and regulations, and the Company's internal directive on working principles and procedures of the general assembly. An ordinary session of the general assembly must be convened within three months of the closing of the Company's fiscal year, at which time the issues set forth in an agenda drawn up according to the provisions of article 409 of the Turkish Commercial Law are to be discussed and decided upon. Extraordinary sessions of the general assembly are convened for any of the reasons set forth in articles 410 et sequitur of the Turkish Commercial Law, at which time decisions are made as required.

Invitations to attend annual general assembly meetings are made by the Board of Directors within the framework of principles set forth in article 29 of the Capital Market Law. General meeting announcements are published on the Public Disclosure Platform (KAP), Electronic General Meeting System, and the Company's website, and such other places as determined by the CMB regulations and other related legislation. Such announcements are published at least three weeks before the meeting date excluding the dates of the announcement and of the meeting.

Without prejudice to article 438 of the Turkish Commercial Law, matters not included in the agenda may not be discussed and decided at a general assembly. However, shareholders' rights to add items to the agenda are reserved within the frame of the Corporate Governance Communiqué.

General assembly meetings are held at the Company's headquarters, except that when circumstances dictate, the Board of Directors may summon a general assembly to convene at some other address in the same city as the Company's headquarters or in some other city.

Only shareholders whose names are on an attendance roster drawn up based on a list of company shareholders obtained by the Board of Directors from MKK may attend general meetings. Shareholders may have themselves represented at general meetings in accordance with the pertinent articles of the Turkish Commercial Law. Article 30 of the Capital Markets Law will remain valid.

Beneficiaries who are entitled to take part in general meetings may do so online pursuant to article 1527 of the Turkish Commercial Code (TCC) via the Central Registry Agency's Electronic General Meeting System (e-GEM). As stipulated in the Company's articles of association, beneficiaries and their representatives are allowed to exercise their rights as specified in regulations pertaining to general meetings via the system that has been established at any general meeting of the Company that may take place.

Upon entering the meeting venue, non-corporate shareholders and their representatives appointed via e-GEM must present identification; the proxies of non-corporate shareholders must present identification together with evidence of their proxy status. Everyone entering the meeting venue must sign the attendance roster in the space provided for their signature.

Shareholders who will lodge the shares followed up in dematerialized form must act in accordance with the provisions of the Regulation on the Principles and Procedures for General Assembly Meetings of Joint Stock Companies and Ministry of Customs and Trade Representatives who will Attend These Meetings.

The regulations of the CMB, the requirements of the Turkish Commercial Code and the principles and procedures set forth in the Company's Internal Directive will be adhered to when voting at a general assembly meeting. The right to attend the general assembly meeting and to vote cannot be linked to the requisite of a shareholder's depositing his/her shares with an entity.

At the Company, each nominal value of TL 0.01 gives entitlement to one vote, and shareholders vote at general assembly meetings pro rata the total nominal value of the shares they hold, pursuant to article 434 of the Turkish Commercial Code. The Company's articles of association grant no privileges in relation to voting.

Votes in relation to matters discussed at a meeting may be cast by raise of hands or using certain electronic equipment facilitating the casting and counting of the votes. The manner of voting is determined by the meeting chair before the meeting begins.

The principles and procedures specified under the said article and subparagraphs shall apply to voting by shareholders or their representatives electronically attending the general assembly meeting pursuant to article 1527 of the TCC.

General assembly meeting and decision quorums are subject to articles 418 and 421 of the Turkish Commercial Law and to relevant provisions of the Capital Market Law.

The regulations of the Capital Markets Board and the Ministry of Customs and Trade, along with the applicable articles of the Turkish Commercial Code are adhered to in all matters related to the General Assembly.

## Key Financial Highlights

### Total Assets

**TL 1,859.9**  
million

İş REIT's total assets increased by 11.5% in 2014 and reached TL 1,859.9 million.

### Total Shareholders' Equity

**TL 1,211.5**  
million

Total shareholders' equity went up by 4.8% in 2014 to TL 1,211.5 million, thus maintaining its solid structure.

### Revenues

**TL 234.1**  
million

Although below the 2013 figure that included housing unit deliveries and hotel disposals, revenues stand strong with TL 234.1 million.

### Net Profit for the Period

**TL 86.8**  
million

Registering a figure lower than the one in 2013 similarly to total revenues, net profit serves to İş REIT's stable profitability target.

### Total Value of Portfolio

**TL 2,905**  
million

Total value of İş REIT's portfolio grew by 20.3% to TL 2,905 million.

### Real Estate Portfolio

**TL 2,766**  
million

The value of the real estate portfolio increased to TL 2,766 million, up by 19.8% year-to-year.

Balance Sheet (TL million)	31.12.2012	31.12.2013	31.12.2014
Current Assets	237.5	233.0	251.6
Non-current Assets	1,152.2	1,435.7	1,608.2
Total Assets	1,389.7	1,668.7	1,859.9

Short-term Liabilities	105.2	162.0	67.1
Long-term Liabilities	214.6	350.6	581.3
Shareholders' Equity	1,069.9	1,156.1	1,211.5
Net Profit	65.4	116.2	86.8

Financial Indicators (TL million)	31.12.2012	31.12.2013	31.12.2014
Sales Revenue	117.7	371.2	234.1
Cost of Sales	38.3	225.1	119.8
Gross Profit/Loss	79.4	146.1	114.3
Return on Assets	4.7%	7.0%	4.7%
Return on Equity	6.1%	10.0%	7.2%

Financial Structure (TL million)	31.12.2012	31.12.2013	31.12.2014
Total Financial Liabilities	319.8	512.6	648.4
Shareholders' Equity	1,069.9	1,156.1	1,211.5
Financial Liabilities	135.6	350.6	477.5
Equity Ratio (%)	77	69	65
Total Liabilities/Shareholders' Equity (%)	30	44	54
Financial Leverage Ratio (%)	23	31	35
Financial Liabilities/Total Assets (%)	10	21	26
Financial Liabilities/Shareholders' Equity (%)	13	30	39



### Summary of Reporting Period Results

- Total assets of İş REIT increased by 11% year-to-year and reached TL 1,859.9 million in the reporting period.
- Net profit for the period went down by 25% annually to TL 87 million in the reporting period. The relatively higher profit figure of 2013 was a result of the fact that income from hotel sales and a

substantial portion of the housing sales revenues generated from the Çınarlı Bahçe project were included in 2013 profit.

- İş REIT has a current ratio of 3.75.
- Every possible financing option for the investments is explored and the most suitable debt instruments and structures are chosen at the time of borrowing. Therefore, there is an increase in

the financial liabilities while there's a decrease in the equity ratio.

- The advances which İş REIT receives for its ongoing projects comprise about 19% of the Company's total liabilities.
- 26% of İş REIT's assets are financed by means of borrowing in the current period and there's no difficulty in financing the debts if there's any need of additional borrowing.

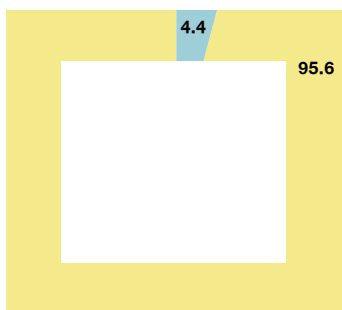
## REIT Sector

Market Capitalization of the REITs	TL million	% Share
İş REIT	966	4.4
Other REITs	20,765	95.6
Market Total	21,731	100

Portfolio Breakdown (%)	31.12.2014
Projects	39
Offices	32
Shopping Malls and Hypermarket	22
Lands	1
Hotel	1
Money & Capital Market Instruments	5
Total	100

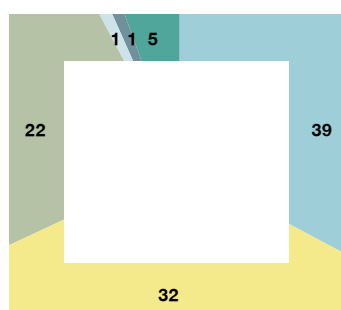
Portfolio Development (TL million)	2010	2011	2012	2013	2014
Real Estate Portfolio	1,419	1,629	1,928	2,309	2,766
Total Portfolio Value	1,504	1,740	2,022	2,415	2,905
Total Assets	1,096	1,161	1,392	1,669	1,860

Market Capitalization of the REITs (%)



■ İş REIT  
■ Other REITs

Portfolio Breakdown (%)



■ Projects  
■ Offices  
■ Shopping Malls and Hypermarket  
■ Lands  
■ Hotel  
■ Money & Capital Market Instruments

### Market Capitalization

**TL 966**  
million

With a market value of TL 966 million, İş REIT controls a 4.4% market share in the REIT sector.

## Stock Performance

Stock Performance	31.12.2010	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Market Capitalization (TL million)	792	600	900	882	966
Market Share (%)	7	6	6	5	4
Earnings per Share (TL)	0.14	0.11	0.11	0.18	0.13
P/E Ratio	13.0	9.0	13.6	7.6	11.1
P/BV	0.80	0.58	0.84	0.77	0.79

With a market capitalization of TL 966 million as at 31 December 2014, the Company represents approximately 4.4% of the real estate investments sector.

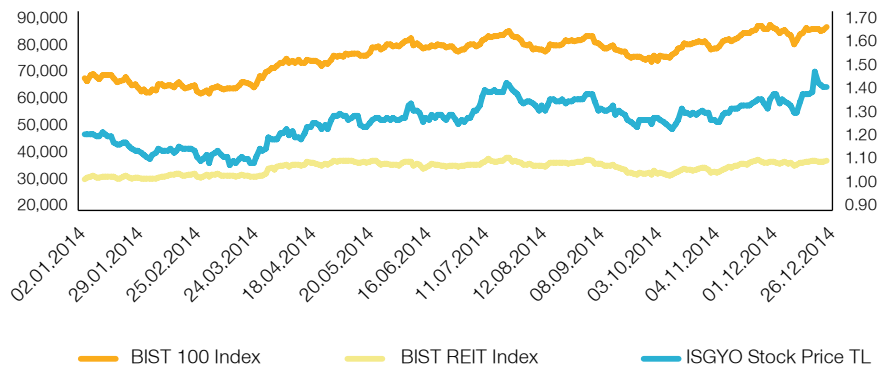
In 2014, BIST 100 Index and BIST REIT Index gained value by 26% and 22%, respectively, while İŞ REIT stock's value gain was 14%.

The daily trading volume of the Company stock traded on the Collective Products Market was worth TL 2.7 million in 2014.

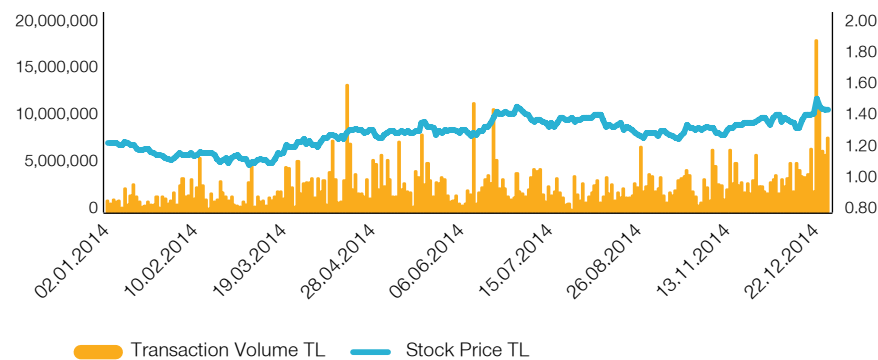
Based on BIST's monthly data on "transactions realized on behalf and account of foreign banks/brokerage houses or individuals", foreign investors' purchases of the Company stock

amounted to USD 55.7 million and sales of the same amounted to USD 61.9 million during the year. Total net sales balance of the stock was USD 6.2 million.

### BIST 100, BIST REIT Index and ISGYO Stock Price



### Stock Price-Transaction Volume



# Milestones in İş REIT's History

## 1998

- The Ankara İş Tower and İstanbul İş Towers Complex are added to the portfolio.

## 1999

- The Company's IPO took place on 1 December through 3 December, and the Company's shares began to be traded on the stock exchange on 9 December 1999.

## 2001

- The Maslak Office Building is added to the portfolio.
- The Antalya Seven Seas Hotel is added to the portfolio.
- The Muğla Marmaris Mallmarine Shopping Mall (Solaris Plaza) is added to the portfolio.
- A 50,000 m<sup>2</sup> project land encompassing the Tatilya Theme Park and its immediate vicinity is added to the portfolio.

## 2004

- The Ankara Ulus Office Building is added to the portfolio.
- The Ankara Kızılay Office Building is added to the portfolio.
- The Antalya Office Building is added to the portfolio.
- Construction work begins on the Kanyon project, a complex consisting of a shopping mall, offices and residences.

## 2005

- İş REIT was granted "Best Developer in Turkey" award by Euromoney magazine.

## 2006

- The İstanbul Üsküdar land with an area of 32,081 m<sup>2</sup> is added to the portfolio.
- Kanyon, Turkey's first semi-open air shopping mall, opens its doors.
- Kanyon Shopping Mall's success is acknowledged by its receiving the "2006 Cityscape Architectural Review Award", the international "Oscar" for architecture.

## 2007

- Real Hypermarket, a project undertaken for the Germany-based Metro Group on a turnkey-delivery basis, opens its doors to the public.

## 2008

- The Sirkeci Office Building is added to the portfolio.
- The Güneşli Office Building is added to the portfolio.
- A 77,327 m<sup>2</sup> project land is purchased in the Kartal district of İstanbul.

## 2009

- An independent and permanent superficies right was established for the property located in Esenyurt, İstanbul (site of the former Tatilya Theme Park), on behalf of ECE Turkey.
- A plot of land with an area of 53,200 m<sup>2</sup>, located in Tuzla, İstanbul and the immovable located on it, is purchased for future project development.

## 2010

- The property on which İstanbul Taksim Office Lamartine project will be developed is added to the portfolio.
- The Lykia Lodge Kapadokya Hotel is added to the portfolio.
- The Club Magic Life Kemer Imperial Hotel is added to the portfolio.
- Two plots of land measuring 44,393.35 m<sup>2</sup> and 21,305.22 m<sup>2</sup> in the Tuzla district of İstanbul are purchased for future project development.

## 2011

- Pre-sales and construction work begin on the İstanbul Tuzla Çınarlı Bahçe Residential Project.
- Construction work begins on the Taksim Office Lamartine project.

## 2012

- Building permits are obtained for the İstanbul Tuzla Technology and Operation Center project and for the Tuzla mixed-use project and construction work begins on both.
- A 9,590 m<sup>2</sup> land is purchased for project development in the İstanbul International Financial Center.
- The Marmara Park Shopping Mall opens to the public.
- After necessary ground improvement permits are received, construction work begins on the İzmir Ege Perla project.
- Sales activities start for the Ege Perla project.

## 2013

- Seven Seas Hotel and Club Magic Life Kemer Imperial Hotel are sold.
- Life starts in the Çınarlı Bahçe project. Out of the 476 housing units in total, 426 are surrendered to their owners.
- Nearly 60% of the units up for sale in the İzmir Ege Perla project are sold.
- Construction is completed in the Taksim Office Lamartine project.
- Topkapı property is purchased for developing a joint project, which was paid for by İş REIT by 75% and by Timur Gayrimenkul Geliştirme Yapı ve Yatırım A.Ş. (NEF) by 25%.

## 2014

- As a result of the sales of title share in Zeytinburnu property, İş REIT and NEF now each has 50% share in the real estate.
- İş REIT was assigned a corporate governance rating score of 9.09 on a scale of 10.
- İstanbul Kartal Manzara Adalar project launch took place.

## Message from the Chairman



### **Global economy is increasingly desynchronizing.**

Backed by the quantitative easing policies implemented in the past several years, the business world and economic cycle in the USA are regaining strength, while positive results started to be manifested in all economic indicators. The growth that is picking up and acquiring stability, coupled with decreased unemployment rates in the USA, is steering the US Federal Reserve (Fed) towards new decisions.

Set to move to normalization in its monetary policy to the extent that US economy shows continued improvement, the Fed, in its last meeting in December

2014, signaled more cautious and gradual interest rate increase. This leads to a stronger possibility of relatively calmer volatilities projected to affect the capital flows to emerging countries.

When we look at the other economies, we see that deflation keeps hovering over the European economies as a threat. While China displayed the lowest economic growth performance of the past five years, many of the emerging countries are undergoing a process of decelerated growth. The Japanese economy failed to capture the targeted success with Abenomics and came to the verge of recession.

The plummeted oil prices, which serve as the driving engine for oil importing developed economies, will bear negative impacts upon oil exporting countries, which entails the risk of creating a domino effect on global economy.

In continental Europe, consumer price indices adopted a downtrend with the support of oil prices. In the process, the expectation of the announcement of a monetary easing policy program by the European Central Bank (ECB) has gained a new dimension with the January 2015 statement to that effect.

**The Turkish economy is estimated to exhibit a growth of approximately 3% in 2014, which is aligned with the projections.**

The policies implemented by the Central Bank of the Republic of Turkey (CBRT) have taken place among the key telling factors upon the macroeconomic developments in Turkey in 2014. Following the front-loaded strong monetary tightening in the first quarter of 2014, the CBRT implemented moderate cuts in interest rates from the second quarter, in the face of decreased internal and external uncertainties. The tight monetary policy was propped with tight liquidity policy as of September in view of the geopolitical risks and the activity in financial markets. While excessive depreciation of the Turkish lira was prevented as a result of the CBRT's strict stance with respect to the monetary policy, the Turkish currency follows a more stable course following monetary tightening through supportive liquidity policy.

The CBRT's interest rate policy, combined with the limitations imposed on loans and the number of installments granted to credit cards, played a repressive role on consumption trend, while domestic and external demand that was rebalanced as a result of the economy policies implemented to reduce current deficit ended up in declined foreign trade deficit and current deficit. The near 50% record drop in oil prices that came in the second half of 2014, through its positive impact on energy imports, contributed to the shrank current deficit. Portfolio investments continue to constitute the largest item within the financing of current deficit.

While export was the primary contributor to growth in 2014, the Turkish economy, which has grown by 2.8% in the first nine months, is estimated to have grown in the order of 3% on the basis of the full-year.

**Looking at the developments in the construction and real estate sectors in Turkey in 2014...**

I would like to briefly touch upon the sector's highlights in 2014:

- The construction sector attained a growth rate in the order of the GDP at the close of the year.
- The downturn in interest rates in the second half of the year that followed the stagnated housing sector in the first six months sprang the postponed demand into action, and housing sales made a leapfrog, exceeding the 2013 volume.
- It can be said that the bubble claims in the housing sector do not reflect the reality, and the overstock was, in fact, a result of the failure to converge the existing demand and supply.
- The activity is ongoing in the office and retail sector through new additions to the stock, while rental fees keep increasing.
- The rise in foreigners' purchases is expected to continue at an increased pace.

**We keep creating "Win-Win" situations for all involved.**

A review of the year with respect to İŞ REIT shows that our Company continues and even fortifies its character as a company that creates "win-win" situations for all parties involved. In this context, I would like to underline two main axes that underpin this quality of our Company:

First and foremost, the investments of İŞ REIT have grown over a scale ranging from boutique projects to larger residential and mixed-use projects; in turn, the expansion in the audience the Company targets and reaches passed over the threshold of a new phase in growth.

Second, the robust financial structure backed by rental income was further strengthened, thus securing sustained high levels in the added value we share and in dividends we distribute to our shareholders.

İŞ REIT's portfolio value as at year-end 2014 grew by 20% to TL 2.9 billion. With a market capitalization of TL 966 million, our Company ranks 4th among the REITs traded on Borsa İstanbul.

Being a company that appreciates the value of people, nature and investment, İŞ REIT will keep reflecting its vision and experience in the sector in its projects in a bid to increase livable spaces that befit the city's fabric.

I would like to extend my thanks to our shareholders, colleagues and investors who have backed us in sustaining our growth trend as a profitable company that possesses a well-balanced and efficient portfolio.



**Levent Korba**  
Chairman

## Message from the CEO



**In 2014, İş REIT carried on with its investments and new project plans, and preserved its financial strength on the back of its rental income, capital structure and ability to access funding sources.**

Having carried on with the construction, leasing and selling activities of its existing real estate projects on one hand, our Company continued to handle the preparatory work for its projects that have reached the licensing procedure stage, on the other hand.

Our Company, which derived 96% of its total revenues in 2014 on income from real estate, posted approximately TL 87 million in net profit for the period at the end of the year. The relatively low net profit for the period was a result of the fact that income from hotel sales and a substantial portion of the housing sales revenues generated from the Çınarlı Bahçe project were included in 2013 profit.

Rental income, which represents one of our key competitive advantages, sustained its stable rise in parallel with the increased average rental fees in valuable

locations where our office spaces and shopping malls are situated. 64% of our rental income was generated on our assets in the office segment and 36% on our assets in the retail segment, which altogether added up to TL 105.5 million.

Total assets of İş REIT went up by 11.5% year-to-year and reached TL 1,860 million as at year-end 2014.

With a market capitalization of TL 966 million, our Company represents 4.4% of the real estate investment trust sector.

In 2014, BIST 100 Index gained value by 26%, BIST REIT Index by 22%, and İş REIT stock by 14%.

Total portfolio value of İş REIT, on the other hand, was up by 20% on an annual basis to TL 2,905 million in 2014.

**We are growing our presence in the sector through our existing and planned projects.**

During 2014, the construction of our existing projects continued as planned, and preparations and planning were undertaken for our new projects.

- With delivery started in 2013 in our Çınarlı Bahçe Tuzla Project, sold units continued to be delivered to buyers in 2014. The occupancy rate reached 65% in the leasable areas of this project.
- Being developed for İşbank on turnkey-delivery basis, the rough construction of the Technology and Operation Center was fully completed while 70% of its architectural construction was finalized.
- Construction is ongoing at our Tuzla Mixed-Use Project that houses commercial and office spaces. With the work underway for renting out the commercial spaces, the project is slated for delivery at the end of the third quarter of 2015.
- Possessing a mixed nature consisting of housing units, home-office spaces and shopping mall, the Ege Perla Project's superstructure tender was finalized last year and its construction is continuing at full speed. We are targeting to finish the project by December 2015, 68% of which is already sold.



- Developed as a high profile class-A office project in and around Taksim, Taksim Office Lamartine Project attained the targeted rental income and portfolio value in 2014. We are anticipating to secure a high occupancy rate in 2015.

In the year ahead, İş REIT aims to sustain its stable growth through new projects planned to be developed.

- The Manzara Adalar Project in Kartal, İstanbul, covering five blocks and commercial units, is of a nature to open the gateway into a peaceful life in the heart of İstanbul, while representing a high investment value due to its location. With three residential and two office blocks, the project that was launched in December 2014 was received with interest.
- Having set its sight on being one of the world's top five financial centers, İstanbul International Financial Center Project will not only reposition Turkey in the international market, but will also likely alter the living standards in the area. On its property located right in the center of the project and enjoying an advantageous position in terms of accessibility owing to its proximity to the city's main traffic arteries, İş REIT will build a project consisting of office and commercial spaces.
- Within the frame of a strategic alliance with Timur Gayrimenkul (NEF), a property in Zeytinburnu, İstanbul was co-purchased, with each party holding 50% title to the property. As this purchase represents the first step of a co-development, work is underway in relation to the project the details of which will be clarified during 2015.

#### **The housing bubble debate was a hot agenda topic in Turkey in 2014.**

Construction sector is, by nature, susceptible to be affected quickly by the overall economic changes. In 2014, the housing demand came to a halt due to the measures that repressed consumption and the CBRT's interest rate policy, combined with the political and economic developments and the current situation in the Middle East. The demand, which we believe was postponed in the first half of the year, began to be manifested in the housing sales that have picked up since August.

The stagnated housing sales in the first half of 2014 fuelled debates about whether there was a housing bubble in Turkey. However, it is not deemed likely that a crisis similar to the one that country experienced in 2008 will be experienced in Turkey owing to the very low level of retail housing loan volume in Turkey as compared with the Western countries, and the highly-regulated structure of the Turkish financial services sector.

That the excess stock arises from the non-convergence of the existing demand and supply is a more correct interpretation of the information that the housing stock in our country is growing. On the other hand, we believe that the price increase in the real estate sector is due to the increased prices of property and construction inputs rather than a virtual rise indicative of the existence of a housing bubble.

#### **Our sector will sustain its growth.**

In 2015, our sector is not anticipated to be immune from the global negative repercussions arising from monetary tightening introduced by the Fed, nor from political developments and particularly the general elections that will be influential upon Turkey. Our sector is expected to grow in line with the GDP in 2015.

In the period ahead, demand for commercial buildings is forecasted to increase in the eastern regions with the shift of investments to these areas due to the new incentive system and the effect of the demand from the nearby geography, and that players in the real estate sector will invest in these areas. The market actors in Turkey should be open to tap these new opportunities through partnerships and other types of alliances with foreign capital.

We predict that the sector's main agenda topics in the next three years will include the following:

- Need for new housing triggered by urban renewal projects,
- The green building concept that produces a positive effect on the value of real estates,
- Development of new commercial and residential areas by virtue of the 3rd bridge, 3rd airport and new highway projects, and the effects of medical tourism on hospital and hotel investments,
- Increased interest from foreign investors.

#### **İş REIT will continue to adhere to its portfolio expansion and investment strategy.**

Our core strategy is to increase our profitability, dividends and productivity in keeping with the principles of İşbank Group, our parent holding. We will continue to enrich the diversified portfolio composition of İş REIT in line with the trends dominating the sector and by capitalizing on the investment opportunities that arise, adhering to the principles of sustainability and creating shareholder value.

İş REIT develops projects and realizes its investments in high-potential locations in line with its solid predictions. Three major transportation investments that will be put into life in the next three years that overlap with the locations on which we are developing projects will contribute great additional value to our projects. When we consider the combined impact Kartal-Körfez bridge, Çanakkale bridge and the third İstanbul bridge will have on the Asian side of İstanbul, Marmara and Northern Aegean regions, the importance of these three passage axes can be better perceived.

We believe that we are entering a period in which our rental and sales income will grow based on our valuable investments in valuable locations, and we will be able to attain our goal of increasing our dividends. Also in this period, we will keep pursuing the mixed-use project concept consisting of residential and commercial units, and ensure the continuity of rental income and the balance of sales revenues.

Aware of our responsibility towards our stakeholders, we will continue to work with the goal of carrying our Company to a stronger position every year. I would like to thank all our investors and stakeholders with whom we share a confident outlook for the future.



**Turgay Tanes**  
CEO

## Board of Directors

H. Cemal Karaoglu  
Independent Board Member

Mete Uluyurt  
Board Member

M. Kemal Fettahoglu  
Vice Chairman

Levent Korba  
Chairman





Turgay Tanes  
CEO

Süleyman H. Özcan  
Board Member

D. Sevdil Yıldırım  
Independent Board Member

Murat Doğan  
Board Member



**Levent Korba**  
**Chairman**

21.03.2014-23.03.2015

Levent Korba received his degree in English language from Buca Faculty of Education at Dokuz Eylül University in 1984. He joined İşbank in 1986 as a Candidate Officer in İzmir Branch. He became an Assistant Section Head in Bornova Branch in 1990, and a Sub-Manager and then Assistant Manager in Karabağlar Branch in 1995 and 1998, respectively. He was brought to the position of Manager of the Samsun Branch in 2002, Çukurova Regional Manager in 2004 and the Head of Branch Network Development Division in 2007. Holding an in-group position in addition to his office as the Chairman of the Board at İş REIT, Mr. Korba serves as Deputy Chief Executive of İşbank since 13 April 2011.

**M. Kemal Fettahoğlu**  
**Vice Chairman**

21.03.2014-23.03.2015

M. Kemal Fettahoğlu got his degree in economics from the Middle East Technical University in 1990 and joined İşbank the same year as an assistant specialist in the Strategic Planning Department. After pursuing graduate studies in finance in London in 1997-1998, he worked as the Finance Manager and Capital Markets and Asset Management Manager at Petrol Ofisi from 2000 through 2003. He also assumed the responsibility of unit manager of İşbank's Economic Research, Enterprise Architecture and Branch Network Development divisions. Holding an in-group position in addition to his office as the Vice Chairman of the Board at İş REIT, Mr. Fettahoğlu has been serving as the head of İşbank's Construction and Real Estate Management Division since October 2011. Having been a member of İş REIT's Board of Directors since 2012, Mr. Fettahoğlu also holds a seat on the Board of Directors of İş-Koray.

**H. Cemal Karaoğlu**  
**Independent Board Member**

21.03.2014-23.03.2015

H. Cemal Karaoğlu got his bachelor's degree in 1987 and his master's degree in 1991 in civil engineering from the Faculty of Engineering at the Middle East Technical University. He started his career under a research program at Imperial College in 1988. He worked as a project engineer at Yüksel Proje Uluslararası A.Ş. from 1989 to 1993. He was a board member at Başarı Yatırımlar Sanayi ve Ticaret A.Ş. from 1993 to 2003 and at Yüksel Proje Uluslararası A.Ş. from 2003 to 2008. He functioned as an engineer and executive in various fields, including constructional drawings, control services, and investment consultancy. He does not hold an in-group position apart from his seat on the Board of Directors at İş REIT. Serving as Deputy Chairman at Yüksel Proje Uluslararası A.Ş. since 2008, he is also on the Board of Directors of Başarı Yatırımlar San. ve Ticaret A.Ş. Holding a seat on İş REIT's Board of Directors since 2010, Mr. Karaoğlu also heads the Committee for Audit and the Committee for Early Detection of Risk.

**D. Sevdil Yıldırım**  
**Independent Board Member**

21.03.2014-23.03.2015

D. Sevdil Yıldırım received her degree in business administration from the Middle East Technical University in 1988. She also has master's degrees in economics from the Middle East Technical University and in business administration from the London Business School. She worked at Capital Markets Board (CMB) in Research and Development and Auditing and Supervision departments in 1988 and 1999. In 1999, she joined Yapı Kredi Invest in order to set up the International Capital Markets Department, where she was promoted to Assistant General Manager in 2003. She joined Turkish Yatırım and BGC Partners as an assistant general manager in 2006 and 2007 respectively. She transferred to Yıldız Holding A.Ş. in 2009 to set up the Corporate Finance and Capital Markets Department. Mrs. Yıldırım was also involved in the establishment of Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş., the publicly held participation of Yıldız Holding, where she served as an Assistant General Manager and also on the Investment Committee Member until February 2012. She held vice president positions for several councils at DEİK (Foreign Economic Relations Board) from 2002 to 2012. In tandem with her seat as an independent member of the Board of Directors at İş REIT, she serves as an independent board member at TAV Havalimanları Holding A.Ş., a non-group position, and at Denizli Cam ve Sanayi A.Ş., an in-group position. Mrs. Yıldırım has been holding a seat on the Board of Directors of İş REIT since 2012 and she is also the head of Corporate Governance Committee as well as the member of the Committee for Audit.

**Mete Uluyurt**  
**Board Member**

21.03.2014-23.03.2015

Mete Uluyurt graduated from Tarsus American High School in 1989 and from the Department of Economics at Bilkent University in 1994. He started his career on the Board of Internal Auditors of İşbank in 1996. Mr. Uluyurt was appointed as an Assistant Manager to the Budget and Planning Department in 2004. Having pursued his master's studies in business administration at Boğaziçi University in 2005, he worked as Vice Chairman of the Board of Internal Auditors, as Unit Manager in Change Management Department and as Unit Manager in the Department of Strategy and Corporate Performance Management. Holding an in-group position in addition to his seat on the Board of Directors at İş REIT, Mr. Uluyurt is currently working as Manager of Balmumcu Branch, to which position he was appointed in 2011.

**Süleyman H. Özcan**  
**Board Member**

08.12.2014-23.03.2015

Süleyman H. Özcan got his degree in economics at Boğaziçi University, and started his career as an assistant internal auditor on the Board of Internal Auditors of İşbank in 1993. He was appointed as Assistant Manager in Treasurers Department in 2001 and then as manager in the same department. He also worked as Unit Manager in Project and Change Management Department and Department of Strategy and Corporate Performance Management respectively and served in various positions at some İşbank subsidiary companies. Holding an in-group position in addition to his seat on the Board of Directors of İş REIT, he has been working as Department Manager in Investor Relations Department since 26 March 2009. Mr. Özcan has been serving as a Member of the Board of Directors at İş REIT since 08 December 2014.

**Murat Doğan**  
**Board Member**

08.12.2014-23.03.2015

Murat Doğan got his degree in industrial engineering from İstanbul Technical University in 2000, and joined İşbank as an assistant specialist in İşbank's Subsidiaries Division. He currently serves as Unit Manager for Property Development and Healthcare Companies in the division. Holding in-group positions in addition to his seat on the Board of Directors of İş REIT, Mr. Doğan is a Board member at Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş., İş Merkezleri Yönetim ve İşletim A.Ş., Erişim Müşteri Hizmetleri A.Ş., İş-Alınhas İnşaat Taahhüt ve Tic. A.Ş., and Camış Yatırım Holding A.Ş. Having served as a member of the Company's Committee for Audit from 2010 to 2012, Mr. Doğan has been holding a seat on İş REIT's Board Of Directors since 08 December 2014. He is also a member of the Corporate Governance Committee and the Committee for Early Detection of Risk.

### Changes in Management during the Reporting Period

At the General Assembly meeting held during the reporting period, Mr. Levent Korba was elected to succeed Mr. Aydın S. Önder as Chairman of the Board of Directors, whereas all of the Board members that made up the previous member body of the Board were re-elected. During the year Mr. Engin Topaloğlu and Mr. Kemal Şahin, members who were elected at the General Assembly meeting, resigned from their seats on the Board of Directors, and Mr. Süleyman H. Özcan and Mr. Murat Doğan have been elected to fill their seats to serve until the next General Assembly meeting.

### Duties and Responsibilities of the Board of Directors

The duties and responsibilities of members of the Board of Directors are spelled out in the Company's articles of association. The Board of Directors is ultimately responsible for the management of the Company and for representing the Company before outside parties. The Board of Directors fulfills the duties incumbent upon it in compliance with the requirements of the Turkish Commercial Law, the Capital Markets Law, and other applicable laws, regulations, and administrative provisions. The Board consists of seven members, two of whom are independent board members.

In accordance with the provisions introduced by the new Turkish Commercial Code no. 6102, the Board of Directors developed internal bylaws concerning limited authority delegation, whereby the necessary requirements and arrangements were made for the Board of Directors Members' representation powers, which have then been registered and promulgated.

### Operating Principles of the Board of Directors

The Board of Directors conducts its activities within the framework of publicly disclosed operating principles. The Board convenes on such occasions as deemed to be made necessary by the Company's business and affairs upon an invitation by its chairman or his deputy. Under article 13 of the Company's articles of association, it is possible for other members to summon the Board to convene as well.

### Board Meetings

A Board of Directors Secretariat has been set up at the Company. This unit is now responsible for and actively involved in organizing Board meetings, preparing and recording reports, documentation, and Board decision, coordinating communication among Board members, and performing similar functions.

The agendas for Board meetings are prepared as recommended by the CEO and with the knowledge of the Board's chairman.

During the reporting period, the Board of Directors convened nine times and passed 86 decisions. All Board members attended all of the Board meetings but one during the year. Save for seven decisions, all decisions taken by the Board were passed unanimously. No dissenting opinions were expressed in any of the decisions taken during Board meetings. Inasmuch as no votes were cast against any of the decisions that were taken, it was not necessary to make note of any opposition to them in meetings' minutes.

No Board member enjoys any special voting rights or has the power to exercise a veto.

### Board of Directors Committees

As required both by the Capital Markets Board's corporate governance principles and by the Company's Board of Directors operating principles, there are three committees within the Board: a Corporate Governance Committee, a Committee for Early Detection of Risk, and a Committee for Audit. Each of these committees is headed by an independent board member. As required by law, all of the members of the Committee for Audit are independent Board members. The names and positions of those who serve as heads and members of these committees are presented below.

#### Corporate Governance Committee

Head	D. Sevdil Yıldırım - Independent Board Member
Member	Murat Doğan – Board Member
Member	Ayşegül Şahin Kocameşe - Head of Investor Relations

#### Committee for Early Detection of Risk

Head	H. Cemal Karaoğlu - Independent Board Member
Member	Murat Doğan – Board Member

#### Committee for Audit

Head	H. Cemal Karaoğlu – Independent Board Member
Member	D. Sevdil Yıldırım - Independent Board Member



The Board of Directors consists of seven members, two of whom are independent. Owing to the present structure of the Board of Directors, a Board member may serve on more than one committee. All due consideration is given to the requirements of Corporate Governance Principles when selecting committee members.

Operating principles have been defined and publicly disclosed for each committee. Committees perform their functions within the frame of those principles. During the reporting period and after the conduct of the Company's annual meeting, the duties and responsibilities of Board members were assigned and elections to committee seats were held as required by CMB Corporate Governance Communiqué, which were then publicly announced.

Neither a Nominating Committee nor a Remuneration Committee has been set up under the Board of Directors. The functions of these committees are performed by the Corporate Governance Committee.

#### **External Positions Held by the Members of the Board of Directors**

Although there are no set rules on Board members' undertaking other duties outside the Company, if they take on an executive role or hold a seat on the board of directors on, or offers consultancy service to, another company, this must not cause a conflict of interest. Also, as a basic principle, independent Board members must act so as to maintain the independence criteria described in the Principles. The in-group/non-group positions held by Board members outside the Company, their years of service in the Company and distribution of positions are provided in the members' résumés.

#### **Disclosure of Company Board Members' Dealings Related to Company's Principal Business Activities or Involving Either the Company or Capital Market Instruments Belonging to the Company**

During the reporting period, no member of the Board of Directors was involved in any commercial or financial transaction related to the Company's principal business activities, or entered into any debt relationship with the Company, or was involved in any dealings that involved any capital market instruments belonging to the Company.

#### **Remuneration of the Members of the Board of Directors**

Pursuant to Corporate Governance Principles, the remuneration principles for the Board members and executives with administrative responsibility are put into writing and presented for the information of shareholders at the General Assembly.

Remuneration of members of the Board of Directors is determined by the General Assembly of Shareholders. All benefits provided to Board members are publicly disclosed in the Company's quarterly financials. The gross value of all remuneration provided to members of the Board of Directors during the reporting period was TL 497 thousand.

Besides the remuneration decided upon by the General Assembly of shareholders, members of the Board of Directors receive no other benefits under such rubrics as "honoraria" or "bonuses" or any similar entitlements. None of the remuneration provided to independent Board members involves any company stock options or any forms of payment linked to the Company's performance.

During the reporting period, the Company did not lend any sums or extend any credit, or made available any loans under the name personal loan through a third party to its Board members or senior managers, nor did it stand guarantee for them such as providing suretyship in their favor.

### **Board of Directors' Assessment of the Efficiency of Board of Directors Committees and the Company's Internal Systems**

As required by the capital market legislation and other applicable regulations and laws, there are three committees at İş Gayrimenkul Yatırım Ortaklığı A.Ş. (İş REIT): Corporate Governance Committee, Committee for Early Detection of Risk, and Committee for Audit. The Corporate Governance Committee fulfills the functions of the Nominating Committee and Remuneration Committee, which need to be set up under Corporate Governance Principles.

The operating principles of the committees, which are already in place, have been reviewed in view of the Corporate Governance Principles Communiqué published during the reporting period in particular, and of other applicable legislation, in general. Within this frame, the operating principles of all committees were updated and publicly disclosed on 28 May 2014. They have also been made available to shareholders via the corporate website accessible at [www.isgyo.com.tr](http://www.isgyo.com.tr).

When the reports submitted by the Committees to the Board of Directors and advisory decisions passed are examined, it is observed that all of the Committees have efficiently carried out their activities in 2014 within the frame of the espoused operating principles; they have fulfilled their duties and responsibilities set out in the Corporate Governance Principles, and accordingly, the Company's internal systems function efficiently. Through their activities, the committees contributed to the activities of the Board of Directors, and the Company furthered its compliance with corporate governance practices.

### **Corporate Governance Committee**

Corporate Governance Committee, which regularly reviews the Company's corporate governance practices, paid attention to meet at least once prior to each Board meeting in principle. The Committee met 12 times and passed 11 decisions during the reporting period. While priority is given to discussing the topics on the agenda in the Committee meetings, the Investor Relations Department's activities during the year, its determinations and evaluations were also addressed, and the Committee served as a bridge between shareholders and the Board of Directors. Decisions adopted in Committee meetings, and the presentations on the topics addressed in meetings were shared with the Board of Directors after the Committee meetings.

The Corporate Governance Committee closely monitors the regulations and requirements regarding corporate governance principles. Within the scope of the activities during the reporting period aimed at furthering the Company's compliance with the principles, the Committee:

- Took the necessary steps to satisfy the obligations imposed by the Corporate Governance Principles Communiqué and other relevant communiqués published during the reporting period in order to achieve alignment with the same,
- Reviewed the Company's policies and bylaws that are in place in view of the Corporate Governance Principles Communiqué and other applicable regulations and laws, and revised and updated them as necessary.

Additionally, the Corporate Governance Committee;

- Fulfilled the functions of the Nominating Committee and Remuneration Committee,
- Actively engaged in the corporate governance rating process of the Company together with the Investor Relations Department.

When carrying out these activities, the Corporate Governance Committee adopted advisory decisions to be presented to the Board of Directors regarding the matters for which the Board of Directors needed to take action.

### **Committee for Early Detection of Risk**

The Committee for Early Detection of Risk, which has been set up to early detect the risks that may threaten the Company's existence, development and survival, to take necessary action for identified risks, and to manage risks in accordance with the CMB's rules and regulations concerning corporate governance, and the relevant provisions of the TCC, held six meetings during the reporting period.

Within the frame of the review of the Company's risk management systems, the Committee prepared and submitted the following to the Board of Directors;

- A quarterly Company Risk Report covering basic risk types in relation to the Company's activities with a particular focus on operational risk, liquidity risk, credit risk and market risk,
- A bimonthly Committee for Early Detection of Risk Report addressing risk management and early detection of risk pursuant to article 378 of the TCC.

In addition to the reports mentioned above, the Committee undertook the following within the scope of the meetings held during the reporting period:

- A revision of the Company's Operating Principles for the Committee for Early Detection of Risk that is currently in force in view of the Corporate Governance Communiqué no. I-17.1 and other applicable legislation,
- An update to the risk-related arrangements in place in accordance with the Company's scale and needs within the frame of the composition and distribution of the Company's existing portfolio investments, planned real estate investments, market conditions and changing needs.

Through its activities during the reporting period, the Committee played an active role in the identification and analysis of important risks inherent in the Company's operations, improved the Company's existing practices through new risk arrangements created, and increased the efficiency of the Company's risk systems.

### Committee for Audit

The Committee for Audit works in relation to public disclosure of the Company's financial statements, execution of independent audits, ensuring effective operation of the Company's internal systems, and active supervision of all other aspects of the independent auditors' activities. The Committee held six meetings during the reporting period.

In parallel with its duties set forth in the operating principles, the Committee for Audit, during the reporting period;

- Oversaw the independent audit process including conformity of all aspects of the independent auditor's activities and the financial reports drawn up to the accounting principles pursued by the Company, as well as their accuracy and fairness,
- Monitored the determination of the annual activity plan of the Company's Audit Unit and execution of audit activities in accordance with the plan, and received information about audit activities in periodic meetings,
- Provided the necessary coordination for sharing the findings identified within the scope of audit activities with the Board of Directors and the Company's senior management, and for ensuring that necessary measures are adopted.

Within this scope, the Committee for Audit reviewed the operation of the Company's internal systems, contributed to the betterment of processes that presented room for improvement, and effectively carried out audit activities.

## Senior Management



**Turgay Tanes**  
CEO



**Hülya Demir**  
Senior Head of Project and Construction  
Management Coordination



**T. Aydan Ormancı**  
Senior Head of Project Development &  
Feasibilities and Real Estate Investments  
Coordination



**Gülfem Sena Tandoğan**  
Head of Corporate Communications, Sales,  
Leasing and Marketing Group



**Ömer Barlas Ülkü**  
Head of Financial Management Group



**K. Sertaç Seviner**  
Head of Audit Group





**Tuğrul Gürdal**  
Head of Accounting and Administrative Affairs  
Group



**Atty. Pınar Ersin Kollu, LL.M**  
Head of Legal Counseling and Human  
Resources & Education Group



**Ayşegül Şahin Kocameşe**  
Head of Investor Relations and Corporate  
Compliance, Risk Management and Internal  
Control Group



**Bülent Otuz**  
Electrical and Mechanical Projects Coordinator



**Gökhan Temel**  
Constructional Projects Coordinator



**Kaan Özsoy**  
Architectural Projects Coordinator



**Turgay Tanes**  
**CEO**

Turgay Tanes graduated from the Department of Public Administration of the Faculty of Economics and Administrative Sciences at Gazi University in 1987. He started his career at İşbank as an assistant inspector on the Board of Inspectors in 1988. He became an assistant manager in the Subsidiaries Division in 1996 and worked as a group manager of Real Estate and Glass Sector Companies from 1999 to 2004 in the same division. Serving as the CEO of İş Real Estate Investment Trust Co. since 2004, Mr. Tanes also functions as the chairman of one of the subsidiaries of İşbank.

**Hülya Demir**  
**Senior Head of Project and Construction Management Coordination**

Hülya Demir graduated from the Faculty of Architecture at İstanbul Technical University in 1982, and received her master's degree from the same faculty in 1984. She started her career in 1983 as a project architect at EPA Architecture and worked as an architect and chief architect for Architectural Project Design and Implementation at İşbank Construction and Real Estate Division from 1985 to 1994. She was in charge of the project and construction management and coordination for İş Towers first as an assistant manager and then as a group head from 1994 until 2001. Hülya Demir joined İş REIT in 2001 as Assistant General Manager and currently functions as the Senior Head of Project and Construction Management Coordination.

**T. Aydan Ormancı**  
**Senior Head of Project Development & Feasibilities and Real Estate Investments Coordination**

T. Aydan Ormancı got her degree in civil engineering from the Middle East Technical University in 1990; she also holds a master's degree from the Graduate School of Science Engineering and Technology. Mrs. Ormancı started her career in 1991 as a project engineer at STFA Mühendislik A.Ş. In 1993, she joined 3M İnşaat A.Ş. as Technical Office Assistant Manager. From 1995 to 2000, she worked as an assistant manager and manager at Project and Sales Departments at Gök İnşaat A.Ş. She began functioning as an assistant manager at the Investment and Project Development Department at İş REIT in 2000, where she was promoted to manager in 2001 and to Assistant General Manager in 2007. Mrs. Ormancı currently serves as Senior Head of Project Development & Feasibilities and Real Estate Investments Coordination.

**Tuğrul Gürdal**  
**Head of Accounting and Administrative Affairs Group**

Tuğrul Gürdal started working as a reporter with the Ministry of Finance Regular Tax Objection Board in 1975, from which post he resigned in 1980. The same year, he joined İşbank Securities Department. He assumed the position of operations manager at IS Investment Ortaklığı A.Ş. in 1997 and was actively involved in the incorporation and public offering of İş REIT, his current employer, where he has been working since 1999. Having worked under the title of Accounting and Administrative Affairs Manager from 1999, Mr. Gürdal is currently the Head of Accounting and Administrative Affairs Group responsible for Accounting, Financial Affairs, Information Technology, Document Management and Operation, Support Services.

**Atty. Pınar Ersin Kollu LL.M.**  
**Head of Legal Counseling and Human Resources & Education Group**

Pınar Ersin Kollu graduated from the Faculty of Law at İstanbul University in 1994 and got her LL.M. degree in Business Law from İstanbul Bilgi University. Ms. Kollu completed her legal internship in 1995 and was enrolled with the İstanbul Bar Association. She began her career as a lawyer at BEDAŞ in 1996, and joined İş REIT in 2000, where she was involved in the process for setting up the Company's Legal Counseling, Human Resources and Education Departments. She was appointed as Legal Counsel in 2005 and currently serves as the Head of Group for Legal Counseling and Human Resources & Education Department.

**Ayşegül Şahin Kocameşe**  
**Head of Investor Relations and Corporate Compliance, Risk Management and Internal Control Group**

Ayşegül Şahin Kocameşe got her bachelor's degree in political science and public administration from the Middle East Technical University in 1998 and got her Executive MBA degree from İstanbul Technical University. She holds CMA Advanced Level License from the Capital Markets Board, Credit Rating Expert License, and Corporate Governance Rating Expert License, as well as a Real Estate Appraiser License. She began her career as an investment specialist assistant at İşbank in 1998. She joined İş REIT in 1999 and personally worked in the incorporation and IPO of the Company. Upon establishment of the Risk Management and Investor Relations Department in 2005, she was brought to the position of manager in this unit. Ms. Kocameşe currently functions as the head of Investor Relations and Corporate Management, Risk Management and Internal Control Group.



### **Gülfem Sena Tandoğan**

#### **Head of Corporate Communications, Sales, Leasing and Marketing Group**

Gülfem Sena Tandoğan got her bachelor's degree in labor economics and industrial relations from the Faculty of Political Sciences at Ankara University in 2001 and Executive MBA from Boğaziçi University. She began her career as an assistant product manager in a pharmaceuticals company in 2001. She started working at the Marketing Department of İş REIT in 2003 and functioned as a specialist at the Risk Management and Investor Relations Department from 2005 until 2007. She was involved in the establishment of the Corporate Communications and Marketing Department in 2007. Ms. Tandoğan is currently the Head of Corporate Communications, Sales, Leasing and Marketing Group.

### **Ömer Barlas Ülkü**

#### **Head of Financial Management Group**

Ömer Barlas Ülkü received his bachelor's degree in civil engineering from the Middle East Technical University in 1995 and his MBA from the Faculty of Economic and Administrative Sciences at the same university. Mr. Ülkü started his career as a research assistant in the Department of Civil Engineering at METU (1995-1997) in tandem with his graduate studies. He functioned as an inspector on İşbank's Board of Inspectors from 2000 to 2008, and as the Internal Audit and Control Manager of our Company from 2008 to 2012, while he was also part of the process to set up the said department. Mr. Ülkü was involved in the establishment of the Financial Management Department in July 2012, and currently serves as the Head of the Financial Management Group.

### **K. Sertaç Seviner**

#### **Head of Audit Group**

K. Sertaç Seviner graduated from the Department of Economics, Faculty of Economic and Administrative Sciences at the Middle East Technical University in 2000. He joined İşbank in 2001 as an assistant inspector trainee on the Board of Inspectors, and was appointed as an assistant manager in the Retail Loans Monitoring and Recovery Division in 2010. Mr. Seviner was brought to the position of the Head of Audit Group of İş REIT in December 2012.

### **Bülent Otuz**

#### **Electrical and Mechanical Projects Coordinator**

Bülent Otuz received his bachelor's degree in 1983 and his master's degree in 1986 in electrical and electronics engineering from the Middle East Technical University. He functioned as a chief engineer at TEK (Turkish Electricity Authority) Power Plants Department from 1984 to 1988. Having worked in İşbank's Construction and Real Estate Management Division from 1988 to 2001, he was in charge of the design and implementation of electrical works in İş Towers from 1996 through 2001. Having joined İş REIT in 2001, Mr. Otuz, who is also a Real Estate Appraiser, currently serves as Electrical and Mechanical Projects Coordinator at İş REIT.

### **Gökhan Temel**

#### **Constructional Projects Coordinator**

Gökhan Temel graduated from the Department of Civil Engineering at İstanbul Technical University in 1988. He started his career in 1988 as a supervising engineer in the construction of the Kınalı-Sakarya Highway undertaken by ENET-ARUP-DCI Joint Venture. He worked as a civil engineer in İşbank's Construction and Real Estate Management Division from 1991 to 1993. He functioned first as a supervising engineer and then as a chief engineer in the construction of İş Bank's Head Office Building from 1993 through 2001. He joined İş REIT in 2001 as a chief engineer, and later assumed the positions of Project Implementation Assistant Manager and then Project Implementation Manager. Mr. Temel, who is also a Real Estate Appraiser, currently serves as the Constructional Projects Coordinator at İş REIT.

### **Kaan Özsoy**

#### **Architectural Projects Coordinator**

Kaan Özsoy received his degree in architecture from the Faculty of Architecture at Yıldız Technical University in 1992. He started his career as an architect in the construction of İşbank Head Office Building in 1994 and functioned as a supervising architect until 2001. Having joined İş REIT as an architect in 2001, Kaan Özsoy was later promoted, in chronological order, to Chief Architect, Project Implementation Assistant Manager and Project Implementation Manager. Mr. Özsoy, who is also a Real Estate Appraiser, currently serves as the Architectural Projects Coordinator at İş REIT.

# Declaration of Interest by Independent Board Members

To: Chairman of the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı A.Ş.

Owing to my candidacy for a seat as an Independent Board Member at your Company's ("the Company") General Assembly Meeting, I hereby declare:

- a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, collectively or individually held more than 5% of the capital or voting rights or privileged shares in, or established any commercial interest of a significant nature, with the Company, or with any companies in which the Company has management control or material influence, and with any shareholders having management control or material influence over the Company, or with any corporate entity which are controlled by these shareholders;
- b) Within the most recent five years, I have neither been a shareholder controlling 5% or higher share, or an employee in an executive position involving major duties and responsibilities nor a board member, in any company from/to which the Company purchases/sells significant amount of services or products under the agreements made during such time when services or products were purchased or sold, and particularly in companies involved in the Company's auditing, rating, or consulting;
- c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member;
- d) If elected, I shall not work on full-time basis at any public institution or organization during my term of office, apart from serving as a faculty member, provided that the same does not contradict with the legislation governing such institution;
- e) I am a resident of Turkey for the purposes of the Income Tax Law;
- f) I possess the ethical standards and professional repute and experience sufficient to enable me to make a positive contribution to the Company's affairs, to maintain my impartiality in any conflicts of interest that may arise between the Company and its shareholders, and to come to decisions freely taking into consideration all stakeholders' rights;
- g) I am capable of devoting sufficient amount of time to follow-up the conduct of the Company's activities and to fully satisfy the requirements of the duties I will be undertaking;
- h) I have not served as a member on the Company's Board of Directors for more than six years within the most recent ten years;
- i) I am not serving as an independent board member in more than three of the companies in which the Company, or shareholders having management control over the Company, have management control, or in more than five companies, in the aggregate, traded on the stock exchange;
- j) I have not been registered and promulgated on behalf of the corporate entity elected as a member of the Board of Directors.

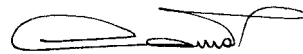


D. Sevdil Yıldırım  
Independent Board Member

To: Chairman of the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı A.Ş.

Owing to my candidacy for a seat as an Independent Board Member at your Company's ("the Company") General Assembly Meeting, I hereby declare:

- a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, collectively or individually held more than 5% of the capital or voting rights or privileged shares in, or established any commercial interest of a significant nature, with the Company, or with any companies in which the Company has management control or material influence, and with any shareholders having management control or material influence over the Company, or with any corporate entity which are controlled by these shareholders;
- b) Within the most recent five years, I have neither been a shareholder controlling 5% or higher share, or an employee in an executive position involving major duties and responsibilities nor a board member, in any company from/to which the Company purchases/sells significant amount of services or products under the agreements made during such time when services or products were purchased or sold, and particularly in companies involved in the Company's auditing, rating, or consulting;
- c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member;
- d) If elected, I shall not work on full-time basis at any public institution or organization during my term of office, apart from serving as a faculty member, provided that the same does not contradict with the legislation governing such institution;
- e) I am a resident of Turkey for the purposes of the Income Tax Law;
- f) I possess the ethical standards and professional repute and experience sufficient to enable me to make a positive contribution to the Company's affairs, to maintain my impartiality in any conflicts of interest that may arise between the Company and its shareholders, and to come to decisions freely taking into consideration all stakeholders' rights;
- g) I am capable of devoting sufficient amount of time to follow-up the conduct of the Company's activities and to fully satisfy the requirements of the duties I will be undertaking;
- h) I have not served as a member on the Company's Board of Directors for more than six years within the most recent ten years;
- i) I am not serving as an independent board member in more than three of the companies in which the Company, or shareholders having management control over the Company, have management control, or in more than five companies, in the aggregate, traded on the stock exchange;
- j) I have not been registered and promulgated on behalf of the corporate entity elected as a member of the Board of Directors.



H. Cemal Karaoğlu  
Independent Board Member

# Consultancy, Auditing, Rating and Appraisal Services

## **Tax Consultants**

Başaran Nas Yeminli Mali Müşavirlik A.Ş.

## **Independent Auditors**

Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik A.Ş.  
(Member of KPMG International)

## **Corporate Governance Principles Compliance Rating Agency**

Saha Kurumsal Yönetim ve Kredi  
Derecelendirme Hizmetleri A.Ş.

## **Real Estate Appraisal Firms from Which Services Were Procured in 2014**

- Harmoni Gayrimenkul Değerleme ve Danışmanlık A.Ş.
- Reel Gayrimenkul Değerleme ve Danışmanlık A.Ş.
- Ace Gayrimenkul Değerleme ve Danışmanlık A.Ş.
- Nova Taşınmaz Değerleme ve Danışmanlık A.Ş.

## **Disclosure of Any Conflicts of Interest Between the Company and Its Service Providers**

In the selection of its service providers, the Company complies with applicable capital market regulations and takes all due care to prevent potential conflicts of interest.

There were no conflicts of interest between the Company and the service providers identified above either during the course of service procurement or subsequently.

# Real Estate Sector in 2014

## An Overview of the Turkish Real Estate Sector

Having closed 2013 with 7.1% increase, the construction industry slowed down in 2014 with the effect of macroeconomic developments. In the sector that was able to register a mere growth of 2.9% in the first three quarters of 2014, 5.3% expansion in the same period in private sector construction outlays following contraction for two years in a row gives hope with respect to the performance dynamics of the coming period. The construction sector is estimated to close 2014 with a growth rate in the order of 3% in parallel with economic growth. In the first three quarters of 2014, growth in real estate and business activities sector, on the other hand, stood at a low 2.2%.

Existing construction projects and new construction undertakings followed a fluctuating course in 2014. In December 2014, the level of existing construction projects and new undertakings declined by 3.1 points and 2.7 points, respectively, as compared with December 2013.

In the last quarter of 2014, the building construction cost index (BCCI) went up by 0.1% over the previous quarter, by 9.5% year-to-year, and by 10.7% on the basis of average of four quarters.

## Developments in the Housing Market

The number of housing building permits received in the first 9 months of 2014 grew 33.2% year-to-year and reached 805,584. During the same period, the number of use and occupancy permits went up by 12.1% to 566,568.

National Home Sales Composite Price Index for Turkey with base year 2007 June=100 rose by 1.08% on a monthly basis and 16.89% on an annual basis in December 2014. On the basis of annual changes in sales prices, the highest increase was in İstanbul with 20.97%, whereas the lowest one was in Bursa with 8.73%.

While new home prices were stable in general in 2014, according to REIDIN-GYODER New Home Price Index results, there was 0.26% increase in December over the previous month, 5.61% year-to-year, and 52.40% over January 2010, the inception date of the index. The highest

increase in new home prices in the past one year occurred in 3+1 flat types with a ratio of 6.4%.

In 2014, residential unit sales went up by 0.7% and numbered 1,165,381. In residential unit sales, İstanbul claims the highest share with 19.3% on the basis of 225,454 units. With 157 units, Ardahan was the province with the lowest residential unit sales.

While the mortgage loan allocation volume, which directly impacts the housing demand, shrank due to the high loan rates in connection with the CBRT's interest rate policy in the first quarter of 2014 and the restriction imposed on loans, the same adopted an upturn in conjunction with the increased demand toward the end of the second quarter. It was observed that the share of home purchases financed by bank loans reached the year-end 2013 level in the third quarter of 2014.

While monthly average interest rates on mortgage loans, which declined after the first quarter of the year, went below 1% in September and October, it closed the year at its November figure of 0.91%.

In view of the growing population, increased urbanization, decreased number of urban households, and immigration, combined with the demographical change and differentiated needs, the housing demand in Turkey is predicted to continue without losing pace.

## Developments in the Office Market

Having been lively in the first two quarters of 2014, office market in İstanbul had a relatively slower period in the third quarter due to the Presidential elections in August, coupled with the summer season. While location searches continued in line with the demands of institutionalized companies, large volume transactions did not take place in leases and purchases, and many of the leasing and purchasing transactions in progress were carried over to the last quarter.

In the third quarter of 2014, İstanbul's office stock showed notable growth on the basis of districts, and 240,000 m<sup>2</sup> of office space was readied for use. In terms of office space, Central Business District (CBD) has 40% share, whereas non-CBD European side, non-CBD Asian side and Emerging Office Districts (Kağıthane, Bomonti-Piyalepaşa, Kartal-Maltepe, West Ataşehir) had respective shares of 19%, 33% and 8%.

In terms of the overall vacancy rates of İstanbul office market, vacancy rates maintained their uptrend in CBD, which shows a rapid stock growth, also in the third quarter of 2014, and overall vacancy rate in Class-A office buildings went up to 23%. Buildings, whose construction was completed, in the Maslak area made the greatest contribution to the increased office stock. While the overall vacancy rate of non-CBD European side Class-A office buildings rose to 13.7%, that in non-CBD Asian side, which attracts greater demand than does non-CBD European

## Distribution of Class-A and Class-B office stock in İstanbul (TLA m<sup>2</sup>)

	Europe	Asia	Total
Class-A	1,474,088	621,887	2,095,975
Class-B	444,536	274,871	719,407

## Current and Future Shopping Mall Stock in İstanbul

Location	Existing		Future supply	
	No. of Malls	Total leasable area (m <sup>2</sup> )	No. of Malls	Total leasable area (m <sup>2</sup> )
Europe	71	2,494,062	8	390,650
Asia	25	881,313	4	339,000
<b>Total</b>	<b>96</b>	<b>3,375,375</b>	<b>12</b>	<b>729,650</b>

side, declined to 14.5%. On the other hand, after hiking to 20.5% from 2.1% due to increased stock in Levent area in the second quarter of 2014, vacancy rates of Class-A office buildings dropped to 14.3% in the third quarter, owing to the high demand toward the area.

As the list prices of new generation office buildings surpassed the district average, CBD average rental rates went up to 32.7 USD/m<sup>2</sup>/month. The highest rents were demanded in Levent in the third quarter of 2014, as was the case in previous periods. The highest list rent demanded in the area was determined to be 45 USD/m<sup>2</sup>/month. CBD average rent is anticipated to go even higher with the new generation office buildings that will be added to the area's stock in the periods ahead, particularly in Maslak area.

The competitive bar will be raised even further for new additions to Class-A office towers after the arrival of the first tower

that qualified for the LEED Platinum certificate endorsing the highest green building criteria in İstanbul office market, which is located in Kozyatağı area.

#### Developments in the Retail Market

Total leasable area (TLA) of the shopping malls in Turkey reached 9.7 million m<sup>2</sup> on the basis of 336 malls at mid-year 2014. Total leasable area of shopping malls currently under construction, which are slated for completion by the end of 2017, is calculated as 2.7 million m<sup>2</sup>. Upon completion of the projects under construction, total leasable area of shopping malls is expected to reach 12.4 million m<sup>2</sup>. Total supply under construction in İstanbul constitutes 50% of total leasable area under construction in Turkey.

While retail concentration across Turkey was 127 m<sup>2</sup> in the first half of 2014, the same was 244 in İstanbul, the leader in terms of concentration.

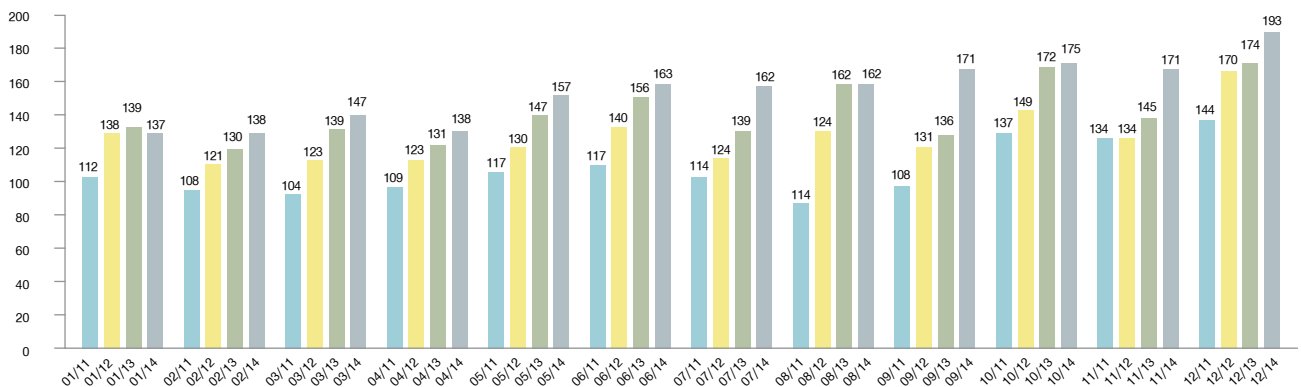
There are currently 96 shopping malls in İstanbul Metropolitan Area. Total leasable area of shopping malls in İstanbul was 3.38 million m<sup>2</sup> as at the third quarter of 2014, which is estimated to reach 3.65 million m<sup>2</sup> at the end of the year.

Based on the results of the shopping centers index published by the Council of Shopping Centers-Turkey (AYD), the turnover index went up by 10.9% year-to-year and reached 193 points in 2014.

Sales per SCs leasable area (m<sup>2</sup>) increased by 19 points on an annual basis in 2014, whereas productivity per square meter was measured as TL 738.

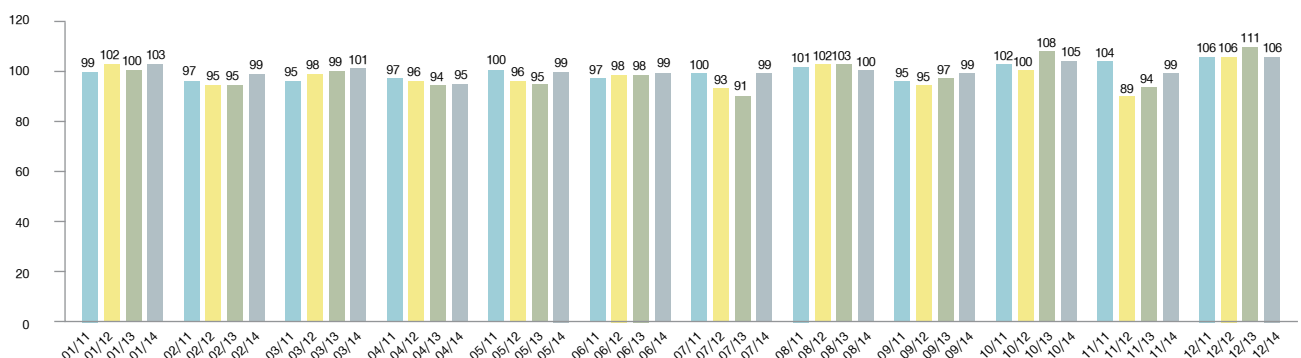
Sources: Colliers International, John Lang Lasalle, Association of Turkish Construction Material Producers (IMSAD) 2014 report, Council of Shopping Centers-Turkey (AYD), TurkSTAT, Propin, Overview of İstanbul Office Market - Third Quarter, Association of Real Estate and Real Estate Investment Companies (GYODER), Real Estate Sector Based on 2014 Q3 Data, REIDIN.

#### Turnover Index (General)



Source: Council of Shopping Centers-Turkey (AYD)

In 2014 Number of Visitors Index was up by 4.5% compared to 2013.



Source: Council of Shopping Centers-Turkey (AYD)

### Investments

## potential

İş REIT pays utmost attention to selecting locations offering high-growth potential for its investments.

### Board of Directors Activities in 2014

Choosing high-potential locations for its investments, İş REIT continued with the construction work of its investments in Tuzla, which the Company believes to possess such a growth potential. Significant progress was recorded in the projects as at year-end.

By virtue of its location, Tuzla is a highly valuable district in terms of living and investing. Having become the new home of the headquarters and operations departments of numerous businesses in recent years, Tuzla and environs drew a rapidly growing density of investments, which played an important part in the development of the area and turned the district into a center of attraction. Investments both by the private sector and the local municipalities in the area picked up in recent years. Particularly the areas flanking the E-5 highway, the main axis of transportation, have created a line that is appreciating in value. In addition, the information that the existing metro network would be extended as far as Tuzla, according to a statement by the local municipality, will add to the advantages of the area from the standpoint of transportation accessibility. According to the plan announced by the Mayor of İstanbul, the expected projects for Tuzla include three rail system lines and one air rail line. Upon completion of the subway network announced by the İstanbul Metropolitan Municipality, metro will cut the transportation times to 94 minutes from Tuzla to Küçükçekmece in 2016, and to 47.5 minutes from Tuzla Tersane to Üsküdar in 2017. İçmeler and Tuzla stations within the scope of the Marmaray Project are approximately 1 to 1.5 kilometers from the Technology and Operation Center Project.

The factors that grant Tuzla its outstanding position clearly reveal the reason why İş REIT selected the Tuzla region for its commercial property and residential investments. Having accurately foreseen the area's inherent growth potential years ago and having quickly steered its investments accordingly, İş REIT has a construction area of 277,704m<sup>2</sup> in total on two adjacent plots in the locality, whereon the Company is developing the "Technology and Operation Center" and the "Mixed-Use Project" covering office and commercial spaces. The Company has engaged the internationally renowned SOM company and Dizayn Group for the project design. With its construction currently carried out by Koray İnşaat, rough construction has been completed by 95% on plot 1 and 100% on plot two as at year-end 2014. Internal design, landscaping and environmental planning are underway.

İşbank Tuzla Technology and Operation Center on parcel 1 is a turnkey-delivery project being undertaken for İşbank. The complex will house the bank's information technology, data-storage, training units and accommodations for trainees. The facility has been leased to the bank for a period of 25 years. The project has an area under construction of approximately 184,500 m<sup>2</sup>, and deliveries are scheduled to begin at the end of the third quarter of 2015.

The mixed-use project, which is being developed on parcel 2 and which has a construction area of 93,204 m<sup>2</sup>, is planned to include a leasable area of nearly 33,400 m<sup>2</sup>. It comprises of a small shopping mall designed to fulfill the basic needs of employees working at the Technology and Operation Center, as well as office spaces. The mixed-use project is slated for completion by end-September 2015.

The two projects have a total estimated development cost of approximately USD 365 million, and are projected to generate a total rental income of USD 30 million.





### **İstanbul Tuzla Çınarlı Bahçe Residential Project**

Life started in 2013 at the “Çınarlı Bahçe Tuzla” residential project that was introduced with the concept “New Life in İstanbul”. Located in Tuzla, İstanbul’s up-and-coming district both in residential and commercial investments and set just about 3 kilometers from the E-5 highway and the Tuzla Marina Project that will be constructed, the project consists of low-rise dwellings compatible with the summer resort characteristic of the location, and 463 of the 476 units in total have been delivered to owners by the end of 2014. With the sales activities commenced in the last week of October 2011, about 98% of the units on the market have been sold. The high sales ratio attained in a short period of time has been an indicator of the trust held in the Company and its parent holding İş Group, as well as endorsing the right choice of project partners. Nearly 2% of the remaining units in the project are still up for sale.

Kanyon Ltd. Şti. has been designated as the operating company in order to ensure high quality and high-standard management of the project following delivery. All required tasks have been handed over to the company, which has started activities.



### **İzmir Ege Perla Project**

Today, new economic actors besides İstanbul are needed to help drive the national economy further. Along the line, İzmir is considered one of the major candidates to become the second main power. Accordingly, İş REIT, having faith in the development potential of İzmir, decided to realize its investment decision in the city. Situated in the “New City Center” of İzmir’s Konak district, Ege Perla is a mixed-use project consisting of residential and home-office units and a shopping mall.

Bearing the signature of the worldwide famous architect Emre Arolat, an Aga Khan Award laureate, Ege Perla Project consists of sea view residences, spacious offices and a shopping mall whose semi-open architecture makes it an ideal venue for up-market stores and shops. The project comprises two tower blocks housing home-offices and residential units, while the shopping mall presents a leasable area of approximately 25,600 m².

The project was conceptually designed both to be an amalgam of traditional İzmir lifestyle and modern architecture, and to become a signature landmark of the city with its architecture that blends in with İzmir.

İş REIT has engaged CEFIC, a firm with 19 years of experience in the Turkish sector and an expert team, to manage the leasing of the shopping mall included in the project. It is targeted to create a tenant mix and concept with a focus on the needs and expectations of İzmir and its local people at the Ege Perla shopping mall, which is a magnet for numerous domestic and international brands as well as the local ones in İzmir. The mall is envisaged as a true city park with its architecture, brand mix and commercial spaces, and a spot frequented by people of all ages as the first representative of innovations in the area.

With a forecasted development cost, including land, of about USD 180 million, the tower blocks housing the residential units and home-offices are slated for completion by the end of December 2015. The shopping mall is targeted to open its doors in the first half of 2016. With its construction underway, the project has a rough construction progress rate of 60%.

With its launch carried out on 7 November 2012, about 68% of the units on the market were already sold at the end of 2014.



### **İstanbul Taksim Office Lamartine Project**

Office development in İstanbul is mostly concentrated along the line defined as “central business districts”. Yet, central locations such as Taksim are much in demand at all times.

Along the line, İş REIT has developed a project on its centrally located property, specifically to fulfill the demand for class-A office space in and around Taksim, which will be leased to domestic and foreign companies. The project is envisaged to become one of the signature landmarks of the locality.

With a total development cost, including land, of USD 13.5 million, the project’s construction was completed in March 2013. Activities to rent out the offices continued throughout 2014.



### **İstanbul International Financial Center Project**

Launched as one of the most significant projects of late, the İstanbul International Financial Center (IFC) will not only reposition our country in the international market, but is also expected to alter the living standards in the area. To be developed on an area of 800,000 m<sup>2</sup> with a total investment cost of TL 4.5 billion, IFC-İstanbul will be providing employment for some 50 thousand people.

In this parallel, İş REIT included a property with an area of 9,590 m<sup>2</sup> in its portfolio in 2012. Lying at the heart of IFC-İstanbul targeting to become one of the five biggest financial centers in the world, the property is intended to be used for the development of a project consisting of office and commercial units. With its proximity to the city’s main arterial roads, the project property will have an advantageous position also in terms of transportation accessibility. The plans for the area are expected to be clarified with the completion of tendering processes to be carried out in the period ahead, and construction is expected to commence concurrently. The license application for the project planned to be developed in this area has been approved by the Ministry, and it is anticipated that the related license will be obtained from Ümraniye Municipality in the first quarter of 2015.

Planned to have a leasable/sellable area of approximately 33,000 m<sup>2</sup>, the project’s forecasted investment cost, including land, is around USD 110 million.

### **İstanbul Topkapı Project**

In 2013, İş REIT undersigned a strategic alliance with Timur Real Estate (NEF) to develop projects. It is targeted to produce projects that will contribute added value to the sector with the synergy and potential resulting from the union of the two companies. The priority goal of the new formation has been set as urban renewal areas and new project developments thereon. Within this scope, the first step for the development of projects has been taken with the joint purchase of the property located in Zeytinburnu district in İstanbul province, owned by Türkiye Şişe ve Cam Fabrikaları Anonim Şirketi and Anadolu Cam Sanayi Anonim Şirketi (the old Topkapı plant). Of the total price of TL 320,000,000, 75% has been covered by our Company and 25% by NEF (Timur Real Estate).

In 2014, a portion corresponding to 25% of the said property was sold to Timur Real Estate, as a result of which İş REIT and Timur Real Estate now have equal share in the property.

Planned to comprise residential units and a small number of commercial units, the project has a forecasted investment cost of approximately USD 500 million. The details of the project will become clear during 2015 and will be publicly disclosed in the coming periods.



### **İstanbul Kartal Manzara Adalar Project**

Designated as an investment region by İş REIT, the developing Kartal district still presents further growth potential and is one of the nicest and most valuable locations on the Asian side. The attraction of the area will further boost with the urban renewal projects and constantly increasing commercial districts, as well as the availability of transportation means.

In September 2014, the building permit has been obtained for the Manzara Adalar Project that has a total investment value of nearly USD 300 million, which İş REIT is developing in keeping with this foresight. The project will comprise a total

of five blocks, three of them residential and two of them office blocks, along with commercial units, which will be set on a total construction area of 318,113 m<sup>2</sup>. The project is designed to respond to all sorts of needs with its sellable/leasable restaurant, café and supermarket spaces. With its design undertaken by the world-famous architecture firm Perkins Eastman, the Manzara Adalar Project covers 975 residential units ranging from studio apartments to 5+1 flats, and various options for office and commercial spaces. At 5-minute driving and 17-minute walking distance from the coastline, Manzara Adalar is set to take its place among the prestigious projects of İş REIT.

4 minutes from D-100 motorway, 22 minutes from the Bosphorus Bridge and 25 minutes from the FSM Bridge, the project is also close to critical spots in the district, such as hospital, courthouse, universities, train station and metro station, while it is only 19 kilometers from Sabiha Gökçen Airport.

Launched at end-December 2014, Manzara Adalar Project keeps drawing interest.





## Strategic Goal

# 2015

The strategic goal of İŞ REIT in 2015 is, first and foremost, to carry on with the development, sales and leasing activities of its existing investments, to bring its investments to completion within the projected timelines, and to maximize the added value to be derived on these investments.

## İŞ REIT Strategy in 2015

İŞ REIT possesses a diversified portfolio covering various elements including land, offices, shopping malls, hotels and projects. Within this scope, the Company maintains its stable growth target by capitalizing on all investment opportunities and thus enriching its portfolio. To this end, İŞ REIT keeps a close eye on all changes in preferences and trends that influence the sector dynamics.

The Company's projects in development phase and those that have reached the license stage continue to adhere to the mixed-use project concept that includes both residential and commercial units. The benefit to be derived is rendered continuous thanks to leasing activities, while sales are intended to serve to generate high returns and profit realization.

Accordingly, the key strategic goal of İŞ REIT in 2015 is, first and foremost, to carry on with the development, sales and leasing activities of its existing investments, to bring its investments to completion within the projected timelines, and to maximize the added value to be derived on these investments.

In addition to the strategy described above, İŞ REIT will keep exploring opportunities that materialize in areas that will increase its profit and will create maximum benefit for its shareholders. The Company will also continue to capitalize on these opportunities to the extent the market conditions are conducive. In keeping with the principles of our parent İŞbank Group, the main strategy of İŞ REIT is to increase the amount of dividends and efficiency. Along this line, being a company that has been paying out cash dividends at a certain ratio for many years, we are targeting to further increase this percentage in the coming years in line with the growing investments.

The Board of Directors of İŞ REIT regularly reviews the targets and observes risk-versus-return balance in all of its operations. Apart from extraordinary situations, all strategic changes resulting from the decisions made during the year and deviations from forecasts are reviewed on a monthly basis. The Company shapes investment decisions and funding plans so as to accommodate relevant changes when necessary, and re-establishes a position.

## Activities of the Investor Relations Department

The Company's "Investor Relations Department" has been operating since 28 January 2005 within the frame of the CMB's applicable regulations.

The Investor Relations Department regularly and efficiently manages the exercising of shareholder rights, public disclosure and information sharing activities in particular, as well as General Assembly and capital increase formalities.

Prior to each Board of Directors meeting, the Department prepares a report to be submitted to the Board of Directors about the Department's activities during the period, investor's remarkable assessments, and brokerages' comments and assessments about the Company. The Department participates in the Board of Directors meetings, as and when necessary, and provides detailed information on the subject. Serving as a bridge between the Department and the Board of Directors, the Corporate Governance Committee, which actively oversees the Department's activities, meets prior to each Board meeting, and evaluates the activities carried out by the Department during the reporting period. Following the meeting, presentations about the topics that have been dealt with are shared with the Board of Directors.

### Public Disclosure and Provision of Information

During the reporting period, the Investor Relations Department held one-on-one meetings with domestic and international investment companies at the Company's headquarters, took part in investor conferences organized by brokerages in and out of Turkey (TEB Investment-Istanbul/Turkey, IS Investment-London/UK, IS Investment-Bodrum/Turkey, Yatirim Securities-Warsaw/Poland), and held meetings with investors controlling major assets within the scope of the road show organized by Yapı Kredi Invest, which covered Frankfurt, London and Stockholm. The Department also held teleconferences at the Company's headquarters. Within this framework, the Department had contacts with nearly 80 people from more than 60 investment companies.

The majority of parties met with during the reporting period consisted of foreign brokerages' and asset management companies' analysts and fund managers, and the analysts and fund managers of domestic investors.

During the year, the Investor Relations Department responded to more than 270 queries, most of which were received by e-mail. Comprehensive information requests received from local, foreign, individual or institutional investors were responded to with careful observation of all matters with respect to public disclosure, and particularly the legislation and the Company's Information Policy. About 80% of all requests for information were received from institutional investors, while the remaining 20% consisted of individual queries.

The Investor Relations Department regularly maintains proper records both of the written and oral queries that it receives and of the responses given. Besides handling requests for information made to the Company, this Department also regularly follows up reports and bulletins published by brokerages in which any mention of the Company is made.

Shareholders request information by directly contacting the Investor Relations Department employees, or by sending an email either to the Department's email address or using the communication form available on the website.

In addition to investors' queries, support is extended for information requests, surveys and academic studies within the scope of research conducted by universities and various public institutions.

### Stakeholder Communication

## transparent

Investor Relations Department gives access to accurate and up-to-date information to various individuals or institutions that require information about the Company and its activities.

## Corporate Governance Rating

# 9.09

Believing in the importance of corporate governance principles and having made significant progress with respect to corporate governance practices, İş REIT's CMB corporate governance rating assigned by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA) was revised as 9.09.

### Corporate Governance Committee

Shareholders	9.10
Public Disclosure and Transparency	9.76
Stakeholders	8.44
Board of Directors	8.89

Necessary records in relation to written and oral information requests and the responses provided to them are regularly kept by the Investor Relations Department. Besides the information requests received by the Company, the Department also regularly monitors the reports and bulletins published by brokerages in which any mention of the Company is made, while providing the necessary support to brokerages for their reporting processes.

In addition, the Investor Relations Department manager, acting as an effective channel of communication between the Company and its shareholders, attended all meetings of the Corporate Governance Committee as one of the Committee members held during the reporting period, and provided the Committee with information about the Department's activities, important developments during the reporting period and regulatory changes that concern investor relations activities. The Department manager was also actively involved in the improvement and rating of corporate governance practices.

The Company website is actively used to facilitate public disclosure and exercise of shareholder rights. Quarterly investor presentations in Turkish and English, as well as the balance sheet and income statement drawn up within the scope of financial statements, along with material event disclosures made through the Public Disclosure Platform (KAP) are prepared in Turkish and English and posted on the corporate website the same day. Moreover, those sections of the Company's corporate website that are subject to updates, particularly the information with a potential impact on the exercise of shareholder rights, are regularly updated. Thereby, accurate and up-to-date information is made available especially to investors and analysts in addition to various individuals or institutions that require information about the Company and its activities.

## Corporate Governance

On 03 January 2014, the CMB published the Corporate Governance Communiqué (II-17.1) and the "Communiqué Serial IV, No:56 on the Determination and Implementation of Corporate Governance Principles" was abolished. The Company has acknowledged its compliance with corporate governance principles, keeps a close watch on changes in the regulatory framework governing such principles, exercises maximum care in its compliance with such issues, and makes necessary improvements to increase the extent of its compliance with corporate governance principles.

The Company receives corporate governance rating service from Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA). Following the review conducted by SAHA in 2014, the Company's corporate governance rating was upgraded to 9.09. The Company was given the following ratings in the four main sections: Shareholders 9.10, Public Disclosure and Transparency 9.76, Stakeholders 8.44, Board of Directors 8.89.

The corporate governance rating assigned to İş REIT is a result of the importance the Company attaches to corporate governance principles, its commitment to execute it as a continuous and dynamic process, and the improvements realized to this end.

With its revised corporate governance score, the Company continues to be traded on the BIST Corporate Governance Index, in which it was included on 28 December 2012.

Detailed information about the Company's corporate governance practices and performance is provided in the "Corporate Governance Principles Compliance Report" section of this annual report.



## Activities of the Audit Group

The Audit Group is responsible for monitoring and reviewing all of the business processes and activities of Company departments, for evaluating and reporting its findings, and for making such recommendations pertaining to those findings as the group may deem to be necessary. The group's monitoring and reviewing activities are carried out independently. Their underlying goals are to foster an internal auditing culture throughout the Company and to determine the effectiveness and efficiency of the Company's internal control, risk management, and corporate governance systems.

The İş REIT Internal Audit and Control Department was established in November 2008, at which time the department was also made separate from and independent of other Company units. This department began reporting directly to the Board of Directors in June 2012. As a result of a general reorganization carried out at the Company in December of the same year, it was decided to split the Company's internal audit and internal control functions from each other and a separate group responsible for audit was set up and made responsible for reporting directly to the Board of Directors while internal control activities were merged into the Investor Relations & Corporate Compliance, Risk Management, and Internal Control Group, which reports directly to the general manager.

During 2014, the Audit Group monitored and reviewed all of the Company's activities and transactions in light of their compliance with the requirements of all the laws and regulations to which İş REIT is subject as well as with Board of Directors decisions and with the Company's own regulations and directives. In addition, processes and activities of Project Development, Feasibilities, Real Estate Investments Coordination and Project and Construction Management Coordination were included within the scope of audit. Furthermore, Occupational Health and Safety audits were conducted in our ongoing projects.

Furthermore, the other audit activities performed during 2014 included a review of the feasibilities of the projects that İş REIT is still in development phase, supervision of compliance with tax and other legal obligations, study of the contracts to be signed by the Company, and evaluation and audit of the reportings to the senior management and principal shareholder.

### Audit

## impartial

The activities of the Audit Group are intended to establish an audit culture across İş REIT, and to assess efficiency and effectiveness of internal control, risk management and corporate governance systems.

## Risk Management

Risk management functions and activities at İŞ REIT were placed under the responsibility of a separate risk management unit in 2005. This unit's duties consist of managing all risks which are inherent in the Company's activities within the framework of the Company's published Risk Policy and of associated internal rules and regulations. The Risk Management Unit reports to Company senior management.

The Board of Directors and the Committee for Early Detection of Risk are kept informed about the Company's risk exposure by means of a comprehensive "Company Risk Report" that is prepared and submitted every three months. This report includes, among other things, information about the Company's business sector, key financial indicators, and the results of the unit's analysis and assessment of the risks which are inherent in the Company's activities. Detailed information is provided about business environment risk, a category of operational risk that the Company is particularly exposed to.

Under article 378 of the Turkish Commercial Code no. 6102, a review was undertaken regarding the duties and responsibilities assigned to the Committee for Early Detection of Risk and the Board of Directors in relation to risk management and early detection of risk. Accordingly, bimonthly "Committee for Early Detection of Risk Report" is issued and submitted to the Board of Directors.

İŞ REIT has published a "Company Risk Catalogue" that identifies all of the risks which are inherent in the Company's activities as dictated by changing market and business conditions. This catalogue is constantly reviewed and kept up to date, new types of risk are defined, potential risks are identified, and risk-mitigation measures are proposed. The goal of all of these activities is to enable senior management to take whatever measures are needed to ensure that the Company's risks are effectively managed.

In the conduct of its portfolio management activities, the Company invests not just in real estate properties but also in money- and capital-market

instruments. As of end-2014, real estate investments made up about 95% of the Company's overall investment portfolio. The most serious risk to which the Company is exposed on account of its activities is business environment risk. Risks within this scope include external factors such as changes in legislation/ implementations with a potential impact on Company operations, and the supply and demand in the sector. The Company takes necessary measures to minimize its exposure to business environment risk, makes use of risk control systems and closely watches the effectiveness of these systems.

As of 31 December 2014, money and capital market investments made up 5% of İŞ REIT's overall investment portfolio. These investments are exposed primarily to market risk, which is an expression of the potential losses that the Company may sustain due to changes in interest rates, exchange rates, and equity prices. The Company's exposure to market risk on account of its money and capital market instruments and the FX position held is regularly analyzed and monitored, using the methods and principles determined by the management, and the results are reported to senior management.

Credit risk is an expression of the risks to which the Company is exposed on account of the failure of a counterparty to a contract concerning the purchase or sales of goods or services, to which the Company is a party, to fulfill the contractual requirements and/or to timely satisfy its contractual obligations, in part or in whole. The Company complies with internal guidelines in order to minimize its potential credit risk exposure in relation to transactions to which the Company is a party.

Liquidity risk is defined as the possibility of the Company's suffering, on account of imbalances in its cash flow, a loss because there are not enough cash assets available or cash flow sufficient in volume and quality to fulfill all of its cash disbursement obligations in full and on time. İŞ REIT manages its liquidity risk exposure by placing cash resources that it does not use in projects in money- and capital-market instruments whose

values and maturities are compatible with its cash-flow needs. The Company's short and long term financing needs are determined through regular cash projections; the maturity and the type of foreign currency relationships between the Company revenues and project finance costs are closely watched, and the Company's cash holdings and financing strategies are shaped accordingly. The Company's liquidity is regularly analyzed and monitored using the methods and limits set by the management, and the results are reported to the senior management.

### Internal Control

The Company's internal control system is established for the purpose of reviewing the relevance, adequacy and effectiveness of the Company activities and the controls in relation to these activities, and of reporting the outcomes to related units. The Unit responsible for internal control activities works in accordance with the "İŞ REIT Internal Control Unit Operating Principles Guideline" that governs the duties, powers, responsibilities, and operating principles and procedures of the individuals assigned to the Internal Control Unit.

The internal control system established at the Company has adopted a risk-focused approach to control. The controls developed to minimize and eliminate the risks inherent in the Company's operations and the adequacy of these controls make up the basis of the internal control activity. The Unit submits reports to the Board of Directors at three- and six-month intervals.

### Risk Management

## efficient

The Risk Management Unit targets to manage the risks inherent in the Company's operations in accordance with the Company's Risk Policy and ancillary internal guidelines.

## Human Resources

İş REIT recognizes the participation of human resources who share common values in the Company and providing such human resources with training and progression opportunities that will support their personal and professional development as essential elements of its corporate culture.

İş REIT's Human Resources & Education Department that takes a proactive, innovative, systematic, and open-communication approach, is aware of its impact on the Company's strategic decisions, and cooperates with all related parties.

Human resources functions at İş REIT consist primarily of employee recruitment, performance management, career planning, compensation and benefits management, training, development, and communication. The Company's human resources practices are carried out with the aims of increasing employee performance and productivity and of improving the quality of the workplace environment. Its recruitment and placement activities are informed by the principle of choosing the best people from among candidates who are compatible with İş REIT's corporate culture and values, who are professionally competent, who are open to development, and who have strong potential. Having identified such individuals, the Company then places them in positions that best suit their abilities.

With the support of the Human Resources & Education Department and the cooperation of Company managers, employees who are interested in their own professional progression take part in discussions about how their own career paths are to be managed. This approach is embodied in İş REIT's belief that every employee should be a potential leader.

The main objective of the Human Resources and Education Department is to recruit qualified personnel in order to carry out Company activities in the most effective manner and to ensure employee motivation so as to maintain constant success, as well as continuously improve financial and social rights of employees, create a fair and professional work

environment and determine the training needs of personnel.

In line with the objectives and strategies specified in the Company's Human Resources Policy, the Company aims to create a shared corporate culture by recruiting the human resource that espouses the same values with the Company, and seeks to create competitive advantage by conducting the necessary training, development and cultivation activities.

Matters such as employment conditions, career path and advancement requirements, monetary arrangements and fringe benefits are clearly detailed in the Company's Human Resources Regulation for the information of employees. The Human Resources and Education Department carries out all decisions made in relation to the employees within the scope of the said regulation.

Employees' job descriptions were developed based on business analyses. Number of employees, on the other hand, was determined according to the units' workloads and on the basis of distribution of tasks in line with the demands of the Company's Groups. Employees are expected to embrace the performance-driven management concept and recognize that their individual involvement will contribute to customers and shareholders. Therefore, Company Performance Evaluation criteria and their printed results are shared with the employees. Employees who target to add value to their respective jobs are backed by the Human Resources and Education Department, and position themselves, gain access to self-development and manage their career objectives along with their managers.

### Employees

# 69

İş REIT, which regards each employee as a future leader, had 69 employees on its payroll as at year-end 2014.

### Recruiting the Right Person in the Right Job

The Human Resources & Education Department fulfills the recruitment and hiring duties at İŞ REIT that sees every employee as a future leader.

### Training and Development at İŞ REIT

The training programs designed on a need basis are intended to bring about changes in the Company employees' knowledge, skills and attitudes, advancement in their careers, motivation and job satisfaction. Our priority is to make training programs available for all Company employees within the frame of equality of opportunity. During 2014, 36 employees attended 27 different professional training programs; in addition, Occupational Health and Safety and Disc Personality Testing training programs were given to all employees. During 2014, the Company initiated a series of internal conversation sessions, which take place with the participation of guests who are specialized in their respective fields.

### Fringe Benefits Granted to Employees

Upon completion of the two-month trial period, the Company pays the employee contribution for those employees who are part of the Private Pension System, and all employees are covered under the corporate health insurance policy. Moreover, subsidized meals and shuttle bus service are provided to all employees. In addition to those, İŞ REIT pays for the chamber membership dues of its employees who are architects, engineers or lawyers.

### Organizational Structure

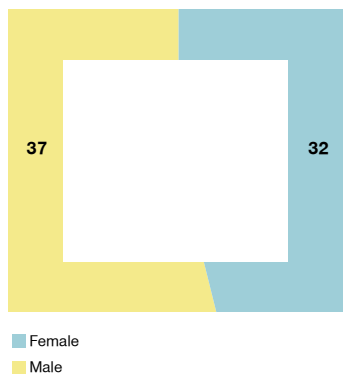
Groups and Coordinators within İŞ REIT's organizational structure are presented below:

- Project & Construction Management Coordination Group
- Project Development & Feasibilities and Real Estate Investments Coordination Group
- Accounting & Administrative Affairs Group

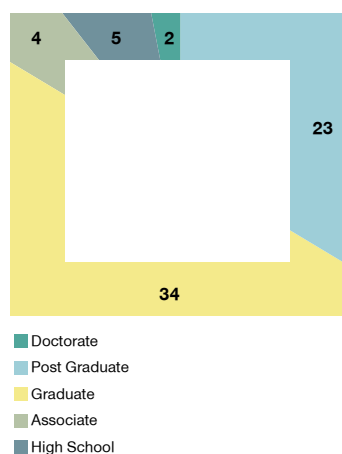
- Legal Counseling & Human Resources and Education Group
- Investor Relations and Corporate Compliance Risk Management and Internal Control Group
- Financial Management Group
- Corporate Communications, Sales, Leasing, and Marketing Group
- Audit Group

The average seniority of employees at the Company is six years. Managers are promoted from within. During 2014, six employees were promoted to higher positions.

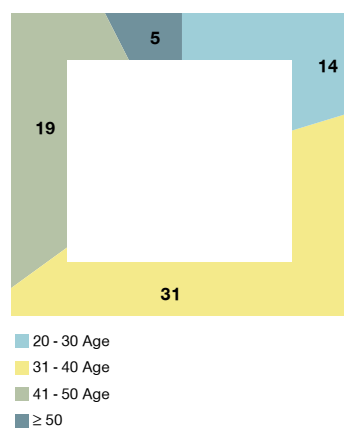
Number of Employees



Distribution by Educational Status



Distribution by Age



# Corporate Social Responsibility

While headed towards generating high returns for its shareholders, which is a key objective, İŞ REIT also carries out various activities to contribute to the social life and the environment within the scope of its corporate social responsibility concept.

Along the line, the Company extends support to numerous artistic and sports events, in addition to the activities carried out in the sector. The activities carried out with a view to allowing the young generation gain experience in the sector and to socially equip them coincide with our corporate mission that puts human at its core.

Acting upon the conviction that sustainable growth in all areas is crucial, and with its mission of creating desirable spaces for contemporary people and cities, İŞ REIT continued to support the sector's development and social solidarity as well as the arts and sports in 2014.

İŞ REIT sponsored Konak Municipality Youth and Sports Club Women's Football Team, which competes in the Turkish Football Federation Women's 1. League, and granted TL 100,000 to the team for their player kit sponsorship in the 2014-2015 season. In keeping with the goal of taking an active role in propagating sports among all segments of the society without any discrimination between men and women, young and old, the Company sponsored the team for 2011-2012, 2012-2013, and 2014-2015 seasons. Claiming the national championship in the Women's 1. Football League, Konak Municipality Women's Football Team qualified to represent Turkey in the UEFA Women's Champions League.

İŞ REIT extended sponsorship support to the Regional Conference organized by Gündoğdu Rotary Club till 28 April 2014. The Company also supported the Regional Assembly held by Söke Rotary Club from 10 April through 13 April 2014. During the painstakingly formulated Rotary Club events, seminars were organized addressing various topics from personal development to the country's problems.

İŞ REIT opens the doors of the shopping centers in its portfolio to associations and

foundations working to benefit the public by offering them the opportunity to set up stands and carry out publicity activities free-of-charge. The Company extends all necessary cooperation in this area.

İŞ REIT provides gratuitous support to projects in areas that it regards within the scope of its social responsibility such as education, health, culture, law, art, scientific research, environmental protection, and sport. Committed to consistently shaping its approaches, values, and policies within the framework of its corporate social responsibility, the Company will continue to engage in such activities and to provide them with support in the future as well.

In the conduct of all of its activities, İŞ REIT takes pains to be a socially responsible actor who abides by the law and is mindful of environmental values. No lawsuits were brought against the Company on account of environmental damage in 2014.

## Donation Policy

It is the policy of the Company to make charitable donations which are in line with its sense of social responsibility and which comply with applicable principles and procedures laid down by the Capital Markets Board. The Company made no charitable donations in 2014. The Company's publicly disclosed donations policy is presented below.

The Company may make charitable donations which are in line with its sense of social responsibility and which comply with applicable principles and procedures laid down by the Capital Markets Board.

The Company may make charitable donations related to the matters listed below with the aim of contributing favorably towards public perceptions of its sensitivity about the fulfillment of its social responsibilities and on condition that it shall do so without securing any financial or commercial benefit therefrom.

- Education, health, culture, law, art, scientific and scholarly research, environmental protection, sport, and similar social endeavors;
- Natural disasters that have occurred in Turkey or elsewhere.

## Sustainable Development

### support

Acting upon the conviction that sustainable development in all areas is crucial, and with its mission of creating desirable spaces for contemporary people and cities, İŞ REIT continued to support the sector's development and social solidarity as well as the arts and sports in 2014.

# Additional Information Required by CMB Regulations

## Related Party Transactions

İş REIT regularly engages in related-party transactions with its principal shareholder İşbank and with other members of the İşbank Group. These are ordinary transactions carried out as part of the Company's normal business activities. They consist primarily of:

- Letting properties and accounting for revenues, expenditures, and receivables associated therewith;
- Borrowings, mortgagings, and collateralizations related to the conduct of the Company's ordinary business activities;
- Insurance, banking, and non-banking services procured in the conduct of the Company's ordinary operations;
- Other goods and services procurements.

Rental income makes up a substantial part of İş REIT's business revenues. In 2014, the Company received a total of TL 49,087,383 as rental income from related parties. As of the end of the reporting period (31 December 2014), total cash and cash equivalents belonging to İş REIT and held in accounts with İşbank amounted to TL 68,768,935 in value. As of the same date İş REIT had received, from İşbank, letters of guarantee worth TL 6,305,382 in total. İşbank also holds prior liens over some of İş REIT's real estate properties amounting in total to USD 161,500,000 and TL 250,000,000. At the end of the reporting period, İş REIT's accounts showed a financial liability of TL 272,270,358 to İşbank on account of its borrowings from that bank. Furthermore, out of the bonds İş REIT issued during 2014, the portion corresponding to TL 13,881,331 is held by İşbank and other group companies.

More detailed information about related party transactions, which İş REIT was involved in during 2014, is provided in footnote 24 ("Related Party Disclosures") to the Company's financial statements provided elsewhere in this annual report.

In the "Conclusions" section of the "Affiliated Companies Report" published in compliance with the requirements of article 199 of the Turkish Commercial Code no. 6102, which went into effect on 1 July 2012, the following statement is made:

"All of the Company's dealings with its principal shareholder İşbank and with other members of the İşbank Group in 2014 are in the nature of ordinary transactions which are carried out on an arm's-length basis as part of the Company's normal business activities. The Company was adequately and appropriately compensated for each and every such transaction that it entered into at the time the transaction occurred. The conclusion reached is that there were no measures taken or refrained from which might have caused the Company to suffer a loss."

## Lawsuits Initiated Against the Company During the Reporting Period

No suits capable of materially affecting either the Company's financial standing or its activities were initiated against the Company during the reporting period.

## Administrative or Judicial Action Initiated Against the Company or the Members of Its Governing Bodies

No administrative or judicial action was initiated against the Company or any member of any of its governing bodies during the reporting period.

## Legal Transactions with the Group of Companies

İş REIT is a member of İşbank group of companies. Both İş REIT and İşbank are publicly-held and publicly-traded companies and are therefore subject to external as well as internal audit. İşbank is also subject to supervision by the Banking Regulation and Supervision Agency and by the Capital Markets Board while İş REIT is additionally subject to Capital Markets Board supervision. On these grounds therefore the actions and dealings of both companies may be deemed to be in compliance with the requirements of law. Currently applicable law prevents a controlling company from making decisions or engaging in acts which are detrimental to the interests of a controlled company. For this reason, no other measures or actions were deemed to be necessary in order to prevent the Company from suffering a loss.

## Transactions Involving Individuals Who Have Privileged Access to Company Information

No shareholder having management control over the Company, nor any Member of the Company's Board or of its senior management with administrative responsibility, nor any other person with privileged access to Company information save for any of their spouses or their relatives by blood or by marriage unto the second degree informed the Board of Directors on any matter for incorporation in the agenda for provision of information at the General Assembly about transactions they were engaged in on their own behalf, which fall within the Company's object and scope.



# Changes in Regulations During the Reporting Period

## Changes Made in the Communiqué on Principles Regarding Real Estate Investment Companies

During the reporting period, the CMB published the Communiqué (III-48.1a) Amending the Communiqué on the Principles Regarding Real Estate Investment Companies, which was published in the Official Gazette issue 28891 dated 23 January 2014.

With the new arrangement, principles regarding infrastructure real estate investment companies were reconstructed in the REIT Communiqué. (The Communiqué Serial: VI No: 24 on Principles Pertaining to Infrastructure Real Estate Investment Companies has been abolished.)

The Communiqué Serial: III-48.1 on Principles of Real Estate Investment Companies is accessible at [www.spk.gov.tr](http://www.spk.gov.tr).

## Changes Introduced with the Corporate Governance Communiqué

During the reporting period, the CMB published the Corporate Governance Communiqué (II-17.1), which was published in the Official Gazette issue 28871 dated 03 January 2014.

In essence, the Communiqué;

- revised corporate governance principles within the framework of the provisions contained in the Capital Market Law and the Turkish Commercial Code no. 6102 which had been published;
- reconstructed the related party transactions, which were previously addressed in different CMB regulations, and principles pertaining to collaterals, pledges, mortgages and suretyship;
- revised the article entitled “Shareholder Relations Unit” which was set forth in the Communiqué Serial: IV No: 41, as “Investment Relations Department”, which sets out that the said department should directly report to the company’s general manager or assistant general manager or another equivalent executive with administrative responsibility, and prepare and submit a report on its activities to the board of directors at least once a year. In addition, the head of the department must be assigned as a member of the Corporate Governance Committee.

## Consumer Protection Law no. 6502

“Law on Consumer Protection no. 6502” was published in the Official Gazette dated 28 November 2013 and enacted six months thereafter, on 28 May 2014, whereas the Regulation on Advance Payment Sales of Residential Units went into force on 27 November 2014.

The new legislation bears impact on REITs carrying out unit sales with respect to commencement timing of advance payment sales and to promise-to-sell contracts within the scope of advance payment sales.

Although the new Consumer Protection Law no. 6502 contains certain provisions that are in parallel with those in the previous Law no. 4077, some radical changes have been introduced in the Regulation on Advance Payment Sales of Residential Units regarding the provisions on Rights of Rescission and Withdrawal from the Contract, Delivery Timing and Collateral. An additional change that will deeply affect the sector is that advance payment sales of residential units cannot be commenced before getting a building permit. Led by relevant departments, efforts for achieving alignment with the legislation have been consummated at İŞ REIT and all new requirements are being watched closely.

## Portfolio Information

İş REIT's leading position in the real estate sector is amply justified by an outstanding portfolio of prestigious commercial properties that is the most important source of its revenues.





## İş REIT's Portfolio

İş REIT's real estate portfolio consists of:

- Offices (34%)
- Hotel (1%)
- Shopping malls and hypermarkets (23%)
- Ongoing projects (41%)
- Lands (1%)

## Commercial Properties

- İstanbul İş Towers Complex (Tower 2 - Tower 3 - Kule Çarşı Shopping Mall)
- Ankara İş Tower
- İstanbul Maslak Office Building
- Ankara Ulus Office Building
- Ankara Kızılay Office Building
- Antalya Office Building
- İstanbul Kanyon Shopping Mall
- İstanbul Real Hypermarket Building
- İstanbul Sirkeci Office Building
- İstanbul Güneşli Office Building
- İstanbul Marmara Park Shopping Mall
- Nevşehir Kapadokya Lodge Hotel
- Muğla Marmaris Mallmarine Shopping Mall

## Real Estate Projects

### Ongoing Projects

- İzmir Ege Perla Project
- İstanbul Tuzla Technology & Operation Center Project
- İstanbul Tuzla Mixed-Use Project
- İstanbul Kartal Manzara Adalar Project

### Completed Projects

- İstanbul Tuzla Çınarlı Bahçe Residential Project
- İstanbul Taksim Office Lamartine Project

### Planned Projects

- İstanbul International Financial Center Project
- İstanbul Topkapı Project

### Lands

- İstanbul Üsküdar land (32,081 m<sup>2</sup>)
- İstanbul Levent İş Towers vacant land (7,613 m<sup>2</sup>)



# İstanbul İş Towers Complex

(Tower 2, Tower 3, Kule Çarşı Shopping Mall)



Set in Levent, one of the central locations in İstanbul, İş Towers is a complex consisting of two office towers and a shopping mall midway along the thoroughfare linking Mecidiyeköy and Maslak.

Comprising two office towers, each consisting of 34 storeys of which 27 are leasable, and Kule Çarşı, a mall with 48 independent sections, the complex has established itself as one of İstanbul's landmarks.

İş Towers is set apart by virtue of its robust infrastructure, state-of-the-art technology, and outstanding architectural concept. Being an eco-friendly building, the complex is also a sustainable heritage for the future.

İş Towers, preferred for availability of transportation means, have become the favorite location of prestigious and financially sound domestic and foreign companies. The independent sections in the complex are rented out on leases averaging five years.

In addition to Tower 2, Tower 3 and Kule Çarşı Shopping Mall, İş Towers Complex is also home to the 52-storey İşbank Head Office building, the 800-seat auditorium of İş Sanat Art and Cultural Center, and a 479-vehicle car park.

<u>Location</u> <b>İstanbul</b> İstanbul Province, Beşiktaş District, 4. Levent Quarter	<u>Gross Area</u> <b>80,124 m<sup>2</sup></b>	<u>Acquisition Date</u> <b>1999</b>
<u>Appraised Value (TL)</u> <b>600,000,000</b>	<u>2014 Rental Income (Excluding VAT) (TL)</u> <b>38,422,307</b>	<u>Ratio of Rental Income to Total Rental Income</u> <b>36.4%</b>

### Land in front of İş Towers in Levent

<u>Location</u> <b>İstanbul</b> 4. Levent, in front of İş Towers	<u>Area</u> <b>7,613 m<sup>2</sup></b>	<u>Acquisition Date</u> <b>1999</b>	<u>Appraised Value (TL)</u> <b>3,806,500</b>
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## Ankara İş Tower





The Tower has become an outstanding example of modern architecture with its aesthetic design.

Representing a benchmark in the transition of the Turkish architecture to modern structures, Ankara İş Tower consists of three blocks of offices located on a total of 29 storeys.

The tallest skyscraper in our country when it was built, Ankara İş Tower stands out with its architectural aesthetics, as well as functionality. Having served as the head office of İşbank from 1975 to 1999, İş Tower is now home to the Banking Regulation and Supervision Agency and İşbank.

#### Location

Ankara

Ankara Province, Çankaya District,  
Kavaklıdere Quarter

#### Gross Area

26,488 m<sup>2</sup>

#### Acquisition Date

1999

#### Appraised Value (TL)

107,300,000

#### 2014 Rental Income (Excluding VAT) (TL)

8,712,263

#### Ratio of Rental Income to Total Rental Income

8.3%

## İstanbul Maslak Office Building



Erected in a central location, the building is home to a number of companies engaged in various fields.

Located along the Levent-Maslak thoroughfare, which is regarded as the center of trade and finance world in İstanbul, the 12-storey Maslak Office Building is preferred by companies owing to its advantageous location in terms of access and offers a tremendous commercial potential. The tenants of the building include OMV Petrol Ofisi and İşbank.

<div>Location</div> <div>İstanbul</div> <div>İstanbul Province, Şişli District, Ayazağa Quarter</div>	<div>Gross Area</div> <div>12,904 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2001</div>
<div>Appraised Value (TL)</div> <div>82,248,600</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>4,162,855</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>3.9%</div>

## Ankara Ulus Office Building



The building design reflects the architectural aesthetics of the early Republic era.

Having served as İşbank's second head office building, Ulus Office Building, which has a high commercial value owing to its location as well as for its architectural and historical associations, is let to İşbank on a 15-year lease.

<div>Location</div> <div>Ankara</div> <div>Ankara Province, Altındağ District, Ulus Quarter</div>	<div>Gross Area</div> <div>6,194 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2004</div>
<div>Appraised Value (TL)</div> <div>31,590,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>3,727,983</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>3.5%</div>



## Ankara Kızılay Office Building





Situated in the most swarming district of Ankara, the building responds to intensive demand.

Situated in the Kızılay district, the commercial hub of Ankara, and enjoying a central location with commercial development potential, Kızılay Office Building is held by İşbank under a 15-year lease.

<div>Location</div> <div>Ankara</div> <div>Ankara Province, Çankaya District, Kızılay Quarter</div>	<div>Gross Area</div> <div>5,175 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2004</div>
<div>Appraised Value (TL)</div> <div>29,500,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>3,139,416</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>3.0%</div>

## Antalya Office Building



The building rises right in the heart of commercial activity in the Mediterranean Region.

Situated in Antalya, one of Turkey's top tourist cities, the Office Building stands out both with its location and its high commercial potential. The building is held by İşbank under a 15-year lease.

<div>Location</div> <div>Antalya</div> <div>Antalya Province, Merkez District</div>	<div>Gross Area</div> <div>3,353 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2004</div>
<div>Appraised Value (TL)</div> <div>17,200,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>1,570,296</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>1.5%</div>

## İstanbul Sirkeci Office Building



The building is located in İstanbul's oldest and financially active area.

Located in Sirkeci, a district that stands out with its historical heritage, İstanbul Sirkeci Office Building preserves its high commercial value. The building is rented out to İşbank on a 15-year lease.

<div>Location</div> <div>İstanbul</div> <div>İstanbul Province, Fatih District, Sirkeci Quarter</div>	<div>Gross Area</div> <div>4,170 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2008</div>
<div>Appraised Value (TL)</div> <div>37,200,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>3,380,969</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>3.2%</div>



## İstanbul Güneşli Office Building



The building is set on İstanbul's new commercial axis.

Located in Güneşli, one of the newer business districts that is home particularly to call center and customer care units of companies, the Office Building is just six kilometers from Atatürk Airport. The building is let to İşbank on a 15-year lease.

<div>Location</div> <div>İstanbul</div> <div>İstanbul Province, Küçükçekmece District, Halkalı Quarter</div>	<div>Gross Area</div> <div>20,805 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2008</div>
<div>Appraised Value (TL)</div> <div>46,600,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>5,768,187</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>5.5%</div>



Situated in the Levent district in İstanbul, Kanyon Shopping Mall is recognized as one of the modern, original and prestigious projects not just in Turkey but in all of Europe.

Born out of a joint venture between İş REIT and the Eczacıbaşı Group, Kanyon is a complex on its own covering residential flats, offices and shopping center.

Introducing a new dimension to the general shopping center perception with its open-air mall concept, Kanyon Mall houses nine cinemas, a gym, a health center, bars, cafés, restaurants, and an indoor/outdoor swimming pool. Sitting on an area of 38,940 m<sup>2</sup> and consisting of four storeys and 130 stores, Kanyon Mall also features residential units and offices.

Built in compliance with national and international earthquake regulations, Kanyon Mall is not just a shopping mall, but a frequently preferred living space with its gardens, flats with terraces or balconies, combined with a highly convenient and modern architecture at the heart of İstanbul.

Through the Project V2.0, which was initiated in mid-2011 with the goals of enhancing customer comfort and satisfaction, and increasing the productivity and functionality of leasable area use, the evolving trends of Kanyon visitors were determined, as a result of which new brands and concepts were welcomed, thus satisfying the guests' expectations to a large extent.

Under the V2.0 project, Kanyon increased its property value in line with the rise in rental and advertising income, and sustained its leadership in the sector, remaining the primary choice in shopping, as well as in wining, dining and entertainment based on the mall's positioning as an "Urban Life Center".

<div>Location</div> <div>İstanbul</div> <div>İstanbul Province, Şişli District, Levent Quarter</div>	<div>Gross Area*</div> <div>38,940 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2006</div>
<div>Appraised Value (TL)</div> <div>390,000,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>27,569,923</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>26.1%</div>

\* İş REIT holds the rights to a total of 18,853 m<sup>2</sup> of space in the shopping mall. Both the appraised value and the estimated rental income are calculated on the basis of this area.



## Muğla Marmaris Mallmarine Shopping Mall





Mallmarine Shopping Mall has become a center of attraction with its location and shop mix.

Mallmarine Shopping Mall is the first modern mall established in Marmaris, one of Turkey's most important tourist destinations. Consisting of 30 independent sections, Mallmarine Shopping Mall is frequented both by the foreign tourists, as well as local visitors.

<div>Location</div> <div>Muğla</div> <div>Muğla Province, Marmaris District, Kemeraltı Mahallesi, Atatürk Caddesi</div>	<div>Gross Area</div> <div>3,172 m<sup>2</sup></div>	<div>Acquisition Date</div> <div>2001</div>
<div>Appraised Value (TL)</div> <div>10,142,650</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>552,279</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>0.5%</div>

# Istanbul Marmara Park Shopping Mall



Situated in Esenyurt, İstanbul, Marmara Park is one of the biggest shopping centers in Europe.

The first shopping mall in Turkey that has implemented a galaxy design theme and having an investment value of EUR 220 million, Marmara Park Shopping Mall opened its doors in October 2012 with a gross leasable area of approximately 74,000 m<sup>2</sup> and parking space for about 4,000 vehicles.

With more than 250 stores, a vast hypermarket, a DIY center, a huge consumer electronics outlet, cinemas, and an amusement park, İstanbul Marmara Park Shopping Mall offers its visitors a wide variety of options and products to choose from, along with unlimited fun.

#### Location

İstanbul

İstanbul Province, Esenyurt District

#### Gross Area of Land

62,343.7 m<sup>2</sup>

#### Appraised Value (TL)

106,600,000

#### 2014 Superficies Income (Excluding VAT) (TL)

10,871,897

## İstanbul Real Hypermarket Building



Located in Esenyurt in İstanbul, the Real Hypermarket Building went into service in 2007.

Developed by İş REIT in Esenyurt that provides the setting for significant, distinctive residential projects, and having a covered area of 53,479 m<sup>2</sup>, Real Hypermarket Building offers its customers a comfortable and enjoyable shopping experience with its 6-meter aisles and 8-meter ceiling, along with more than 40,000 food and non-food products.

A retailing company and member of the Germany-based Metro Group, Real's investor in Turkey is SB Warenhaus Holding GmbH.

<div>Location</div> <div>İstanbul</div> <div>İstanbul Province, Esenyurt District, Yakuplu Neighborhood</div>	<div>Enclosed Area</div> <div>53,479 m<sup>2</sup></div>	<div>Opening Date</div> <div>2007</div>
<div>Appraised Value (TL)</div> <div>81,000,000</div>	<div>2014 Rental Income (Excluding VAT) (TL)</div> <div>5,676,044</div>	<div>Ratio of Rental Income to Total Rental Income</div> <div>5.4%</div>



## Nevşehir Kapadokya Lodge Hotel



Situated in Nevşehir that boasts fascinating historical and geographical heritage, Kapadokya Lodge Hotel offers its guests an unmatched vacationing experience.

Presenting its guests with a privileged and comfortable stay with its high quality management and service, Kapadokya Lodge Hotel is set in Cappadocia, one of the crossroads of tourism, and stands out for its architecture that represents the geographical texture and historical heritage of the Central Anatolia Region. The four-star Kapadokya Lodge Hotel that has 291 beds and 146 rooms is rented out to İş Merkezleri Yönetim ve İşletim A.Ş. The facility furnishes high quality service to its guests seeking a relaxing, rejuvenating and entertaining vacation with its local cuisine of traditional flavors offered in two indoor and outdoor restaurants, and with sports and amusement activities including basketball, volleyball, tennis on quartz sand court, mini football, billiards, table tennis, swimming pools and orchards.

#### Location

Nevşehir

Nevşehir Province, Uçhisar

#### Gross Area

28,827 m<sup>2</sup>

#### Acquisition Date

2010

#### Appraised Value (TL)

21,505,000

#### 2014 Rental Income (Excluding VAT) (TL)

1,286,917

#### Ratio of Rental Income to Total Rental Income

1.2%

## İstanbul Tuzla Çınarlı Bahçe Residential Project



## Çınarlı Bahçe housing project promises a life at high standards.

Putting into life the beauties of a “New Life in İstanbul” in comfortable houses designed in a modern architecture, the project consists of 476 units.

With its construction contracted out to Mesa Mesken Sanayii A.Ş., sales of the units in the project began by late October 2011. August 2013 marked the commencement of life in the Çınarlı Bahçe project, which provides its residents with a green living space through its rich landscaping and protected woods. Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti. has been designated as the operating company in order to ensure high quality and high-standard management of the project following delivery.

Having a total sellable area of approximately 58,000 m<sup>2</sup>, the project’s total development costs amounted to nearly USD 66 million, including land. The sales activities commenced in the last week of October 2011.

Çınarlı Bahçe project was honored with the “Best High-Rise Residence” award at the Sign of the City Awards that is set to become one of the most prestigious recognition programs in the real estate sector.

### Location

# İstanbul

İstanbul Province, Tuzla District

### Total Land Area

# 40,983 m<sup>2</sup>

### Total Number of Houses

# 476

### Appraised Value\* (TL)

# 6,286,000

\*Value of the units remaining in the portfolio.

### Appraised Value of Assets Held for Investment (TL)

# 2,246,000







Office Lamartine project reflects the altered visage of Taksim.

Having a leasable area of 3,856 m<sup>2</sup> and intended to meet the need for office spaces in and around Taksim, the busiest, high-potential spot in İstanbul, Office Lamartine project is located at the intersection of Cumhuriyet and Lamartine avenues. The construction of the project was brought to completion in March 2013.

Location

İstanbul

İstanbul Province, Beyoğlu District,  
Şehit Muhtar Neighborhood

Gross Land Area

578.72 m<sup>2</sup>

Appraised Value  
(TL)

44,295,000

2014 Rental Income  
(Excluding VAT) (TL)

1,518,747

Ratio of Rental Income to  
Total Rental Income

1.4%

## Ongoing Projects

### **İstanbul Kartal Manzara Adalar Project**

Set to rise in İstanbul's up-and-coming district of Kartal and bearing the signature of the globally renowned design firm Perkins Eastman, Manzara Adalar is a mixed-use project consisting of a total of five blocks, which also comprises commercial units that will contribute to the impeccability of this life center covering three residential and two office blocks. Rising to a dazzling view of the islands and situated within 1.5 km walking distance to the seaside, Manzara Adalar project enjoys a central location that is right in the heart of the road, rail, air and marine transportation

network. Featuring different flat types ranging from 1+0 to 5+1 units, the project's investment cost is approximately USD 300 million. As well as the high investment value presented by virtue of its location, Manzara Adalar opens the doors to a peaceful life in the heart of İstanbul. At nearly 5 minutes of driving and 17 minutes of walking distance to the seaside, Manzara Adalar promises a relaxed and enjoyable life with its indoor/outdoor swimming pool, outdoor children's pool, reflecting pools and walking paths, fitness center, SPA area, hobby rooms, kids club and multipurpose sports complex.



### İşbank Technology and Operation Center Project

Located on a 44,393.35 m<sup>2</sup> property in İstanbul's Tuzla district, which is gradually turning into a field of commercial attraction with the relocation of company head offices and operation departments to this district, İşbank Technology and Operation Center Project will house the bank's information technology and data-storage units, training facility and accommodations for trainees. Being

developed for İşbank on a turnkey-delivery basis, the project has been rented out to the bank on 25-year lease.

While deliveries are planned to begin at the end of the third quarter of 2015, the project is believed to drive development in and around Tuzla with its infrastructure, technological fitting and modern structure.



### İstanbul Tuzla Mixed-Use Project

Tuzla mixed-use project is located right next to the Technology and Operation Center property in İstanbul's high-potential district of Tuzla.

Developed on a 21,305.22 m<sup>2</sup> property, the project is planned to include a small shopping mall and office spaces.



Designed as a single central plaza for employees and visitors, Tuzla Mixed-Use Project is intended to ensure continuity of activities on the two parcels. The project's design and architectural works have been carried out by the world-famous architectural and engineering firm SOM (Skidmore, Owings & Merrill LLP) and Design Group.

### İzmir Ege Perla Project

Located in Konak, İzmir, and regarded as the city's "New City Center", Ege Perla is being developed on an area of 18,392 m<sup>2</sup>. Having a total leasable area of 25,600 m<sup>2</sup>, the shopping mall also covers residential and home-office units in different sizes and plans ranging from 1+1 to 5+1 executive unit.

With an investment value of approximately USD 180 million and

the first mixed-use project in the area, Ege Perla has been realized to blend seamlessly into the traditional lifestyle. Inspired by the old İzmir houses, the project is designed by world-renowned architect Emre Arolat. Slated for completion by year-end 2015, the project's building activities are in progress. CEFIC, a firm with 19 years of experience in the sector and an expert team, has been engaged for services related to renting out the shopping mall included in the project.



## Planned Projects

### **İstanbul International Financial Center Project**

A property offering a leasable/sellable area of approximately 33,000 m<sup>2</sup> has been purchased with the target of developing a mixed-use project consisting of office and commercial spaces in İstanbul International Financial Center. The realization of the project will require a forecasted investment cost of nearly USD 110 million. The plans for the area are expected to be clarified with the completion of tendering processes to be carried out in the period ahead, and construction is anticipated to commence concurrently.



### **İstanbul Topkapı Project**

The property located in the Zeytinburnu district of İstanbul (former Topkapı Plant) has been purchased for TL 320 million for the development of a project with NEF. Based on the deal between İş REIT

and NEF, it was decided to sell a share corresponding to 25% of the property to NEF for TL 94,000,000 excluding VAT out of İş REIT's title share. Following the sales transaction, İş REIT and NEF now each has 50% share in the real estate.

# Convenience Translation into English of the Independent Auditor's Report Related to Annual Report Originally Issued in Turkish

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

## **Report on the Audit of Board of Directors' Annual Report Based on Standards on Auditing which is a Component of The Turkish Auditing Standards Published by The Public Oversight Accounting and Auditing Standards Authority ("POA")**

We have audited the accompanying annual report of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (the "Company"), for the year ended 31 December 2014.

### **Board of Directors' Responsibility for the Annual Report**

Pursuant to the article 514 of the Turkish Commercial Code numbered 6102 ("TCC") and Communiqué on the Principles of Financial Reporting In Capital Markets numbered II – 14.1 ("Communiqué"), management is responsible for the preparation of the annual report fairly and consistent with the financial statements and for such internal control as management determines is necessary to enable the preparation of such annual report.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Company's annual report based on our audit in accordance with article 397 of the TCC and Communiqué whether the financial information included in the accompanying annual report is consistent with the audited financial statements expressed in the auditor's report of the Company dated 29 January 2015 and provides fair presentation.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the POA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the annual report is consistent with the financial statements and provide fair presentation. An audit also includes performing audit procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


### **Opinion**

In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited financial statements and provides a fair presentation.

### **Report on Other Regulatory Requirements**

In accordance with the third clause of the article 402 of TCC, no material issue has come to our attention that shall be reported about the Company's ability to continue as a going concern in accordance with TAS 570 Going Concern.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member of KPMG International Cooperative



Orhan Akova, Certified Public Accountant  
Partner  
29 January 2015  
İstanbul, Turkey



## Dividend Policy

The dividend distribution proposal of the Board of Directors is discussed at the General Assembly and it is decided whether to pay out dividends, as well as its manner and timing.

The Company's articles of association stipulate that first dividends in the rate and amount determined by the CMB are to be distributed from the distributable profit.

The Board of Directors adopted a dividend distribution policy based on the principle of proposing to distribute at least 30% of the distributable profit in bonus shares or in cash to the General Assembly, giving due consideration to:

- maintaining the delicate balance between shareholders' expectations and the Company's need to grow, and
- the Company's profitability.

There are no privileges regarding distribution of profit, and dividend distribution is carried out within the legally prescribed period of time.

In the event that the Board of Directors proposes against distribution of profit to the General Assembly, information on the reasons therefor and the usage manner of retained earnings will be presented to the shareholders at the General Assembly, incorporated in the annual report, and disclosed publicly.

The Company's articles of association address distribution of advances on profit share, and advances on dividends may be distributed to shareholders subject to capital market requirements and regulations.

## Profit Distribution Table

İş Real Estate Investment Trust Co. Profit Distribution Table for the Year 2014 (TL)			
1. Paid-in/Issued Capital			680,400,000
2. General Legal Reserve (based on legal records)			29,473,711.54
Information regarding privileges in profit distribution according to the Articles of Association, if any, information on such privileges		There are no privileges in profit distribution	
		<b>Based on CMB</b>	<b>Based on Legal Records</b>
3. Profit for the Period		86,771,767.00	71,258,335.26
4. Taxes		0.00	0.00
5. Net Profit for the Period		86,771,767.00	71,258,335.26
6. Prior Period Losses		0.00	0.00
7. General Legal Reserve		3,562,916.76	3,562,916.76
8. NET DISTRIBUTABLE PROFIT FOR THE PERIOD		83,208,850.24	67,695,418.50
9. Donations Made within the Year		0.00	
10. Net Distributable Current-Year Profit Including Donations		83,208,850.24	
11. First Dividend to Shareholders		65,600,000.00	
- Cash			
- Bonus		65,600,000.00	
- Total		65,600,000.00	
12. Dividends For Preferred Shareholders		0.00	
13. Dividends For Others		0.00	
- Board Members		0.00	
- Employees		0.00	
- Other than Shareholders		0.00	
14. Dividends for Usufruct Shares		0.00	
15. Second Dividend to Shareholders		0.00	
16. General Legal Reserves		0.00	
17. Statutory Reserves		0.00	
18. Special Reserves		0.00	
19. EXTRAORDINARY RESERVES		17,608,850.24	2,095,418.50
20. Other Sources for Distribution			47,628,000.00
- Prior Period Profit			0.00
- Extraordinary Reserves			47,628,000.00
- Other Reserves Distributable As Per Law and Articles of Association			0.00

İş Real Estate Investment Trust Co. 2014 Dividend Ratio Table						
	GROUP	TOTAL DIVIDENDS		TOTAL DIVIDENDS/NET DISTRIBUTABLE PERIOD PROFIT	OF TL 1 NOMINAL VALUE DISTRIBUTED PROFIT	
		CASH (TL)	BONUS (TL)	RATIO (%)	AMOUNT (TL)	RATIO (%)
NET	A	68,040.00	93,714.29	0.19%	0.166	16.6%
	B	47,559,960.00	65,506,285.71	135.88%	0.166	16.6%
	TOTAL	47,628,000.00	65,600,000.00	136.08%	0.166	16.6%

# Corporate Governance Principles Compliance Report

## PART I – STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

İş REIT espoused the four main elements of Corporate Governance Principles, which are Fairness, Transparency, Accountability and Responsibility, and observes compliance with them in its activities. Our Company closely monitors the development of the Corporate Governance practices both in the world and in our country, and believes in the necessity to achieve compliance with these principles in order to maintain successful business practices and to generate long-lasting added value to investors.

Our Company adheres to all of the Corporate Governance Principles that are compulsory to be implemented, and takes maximum care to adhere to optional principles. Optional corporate governance principles are addressed under the relevant headings in the following sections. There were no conflicts of interest that arose during the reporting period on account of non-implementation of optional principles.

Our Company exercises the necessary sensitivity for compliance with Corporate Governance Principles, and established the Corporate Governance Committee in 2007. The Committee's primary duties include monitoring compliance with corporate governance principles, undertaking improvements in these areas, and presenting recommendations to the Board of Directors. The Committee follows up the changes in legislation, with a particular focus on investor relations activities in respect of capital markets, and regularly reviews the Company's corporate governance practices, constantly identifies improvement areas, and continually improves the Company's corporate governance system through new implementations enforced.

Our Company has already embraced the Corporate Governance Principles, and closely monitors any regulations governing these principles; the Company pays utmost attention to achieving compliance with the principles and carries out the necessary improvements to further its conformity to the principles. Accordingly, corporate governance rating of our Company has been revised as 9.09 within the scope of the review performed by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. The Company was given the following ratings in the four main sections: Shareholders 9.10, Public Disclosure and Transparency 9.76, Stakeholders 8.44, Board of Directors 8.89.

The rating report prepared by SAHA is posted on the Company website in the "Investor Relations" section, under the heading "Corporate Governance".

The Company's Corporate Governance Principles Compliance report is available on the Company website in the "Investor Relations" section, under the heading "Corporate Governance".

## PART II - SHAREHOLDERS

### 2.1. Investor Relations Department

The Company's "Investor Relations Department" has been active since 28 January 2005 within the relevant regulations of the CMB. Prior to each meeting, the Department prepares a report to be submitted to the Board of Directors about the Department's activities during the period, investor's remarkable assessments, and brokerages' comments and assessments about the Company. The Department participates in the Board of Directors meetings, as and when necessary, and provides detailed information on the subject. Serving as a bridge between the Department and the Board of Directors, the Corporate Governance Committee, which actively oversees the Department's activities, meets prior to each Board meeting, and evaluates the activities carried out by the Department during the reporting period. Following the meeting, presentations about the topics that have been dealt with are shared with the Board of Directors.

The Company's Investor Relations Department operates under the name "Investor Relations and Corporate Compliance" within the "Investor Relations and Corporate Compliance, Risk Management and Internal Control Group". The Department manager is Ayşegül Şahin Kocameşe, Head of the Investor Relations and Corporate Compliance, Risk Management and Internal Control Group. The Department manager holds Capital Market Activities Advance Level License and Corporate Governance Rating Specialist License. The Department manager has been assigned as a member of the Corporate Governance Committee on 13 February 2014 in accordance with article 10 of the Corporate Governance Communiqué.

Contact details for the individuals working in the Investor Relations Department are presented below:

Contact Person	Phone Number	E-mail Address
Ayşegül Şahin Kocameşe Head of Investor Relations	0212-325 23 50	aysegul.sahin@isgyo.com.tr
Mine Kurt Yıldırım Assistant Manager	0212-325 23 50	mine.kurt@isgyo.com.tr
Begüm Olgaç Senior Assistant Specialist	0212-325 23 50	begum.olgac@isgyo.com.tr

Investor Relations Department is also responsible for the consistent and effective management of the exercise of shareholders' rights, for public disclosure and provision of company-related information, and for overseeing matters related to the conduct of General Assembly Meetings and share capital increases.

During the reporting period, the Investor Relations Department held one-on-one meetings with domestic and international investment companies at the Company's headquarters, took part in investor conferences organized by brokerages in and out of Turkey (TEB Investment-Istanbul/Turkey, IS Investment-London/UK, IS Investment-Bodrum/Turkey, Yatırım Securities-Warsaw/Poland), and held meetings with investors controlling major assets within the scope of the road show organized by Yapı Kredi Invest, which covered Frankfurt, London and Stockholm. The Department also held teleconferences at the Company's headquarters. Within this framework, the Department had contacts with nearly 80 people from more than 60 investment companies.

The majority of parties met with during the reporting period consisted of foreign brokerages' and asset management companies' analysts and fund managers, and the analysts and fund managers of domestic investors.

During the year, the Investor Relation Department responded to more than 270 queries, most of which were received by e-mail. Comprehensive information requests received from local, foreign, individual or institutional investors were responded to with careful observation of all matters with respect to public disclosure, and particularly the legislation and the Company's Information Policy. About 80% of all requests for information were received from institutional investors; the remaining 20% consisted of individual queries.

In addition to investors' queries, support is extended for information requests, surveys and academic studies within the scope of research conducted by universities and various public institutions.

The Investor Relations Department regularly maintains proper records both of the written and oral queries that it receives and of the responses given. Besides handling requests for information made to the Company, this Department also regularly monitors the reports and bulletins published by brokerages in which any mention of the Company is made, while providing the necessary support to brokerages for their reporting processes.

In addition, Investor Relations Department manager, acting as an effective channel of communication between the Company and its shareholders, attended all meetings of the Corporate Governance Committee as one of the Committee members held during the reporting period, and provided the Committee with information about the Department's activities, important developments during the reporting period and regulatory changes that concern investor relations activities. The Department manager was also actively involved in the improvement and rating of corporate governance practices.

## **2.2. Exercise of Shareholders' Right to Obtain Information**

İş REIT's Information Policy is based on transparency and fairness, and the Company adheres to İş REIT Code of Ethics, which has been in place since 2003, in all of its public disclosure activities, and treats every shareholder equally, irrespective of the value of shares held thereby.

The Company's Information Policy was reviewed in view of the Material Events Communiqué published during the reporting period, and was revised in accordance with the said communiqué and the Company's changing needs. The updated Information Policy was publicly disclosed via the Public Disclosure Platform (in Turkish: KAP) and posted on the corporate website on 15 July 2014.

Shareholders request information by directly contacting the Investor Relations Department employees, or by sending an email either to the Department's email address or using the communication form available on the website.

During the reporting period, comprehensive information requests and queries received from any number of local, foreign, individual or institutional investors have been responded to, observing particularly the legislation and the Company's Information Policy, as well as all other considerations relating to public disclosure. Necessary records in relation to written and oral information requests and the responses provided to them are regularly kept by the Investor Relations Department. Besides the information requests received by the Company, the reports prepared and bulletins published by brokerages about the Company are also regularly followed up.

The Company website is actively used to facilitate public disclosure and exercise of shareholder rights. Quarterly investor presentations in Turkish and English, as well as the balance sheet and income statement drawn up within the scope of financial statements, along with material event disclosures made through the Public Disclosure Platform (KAP) are prepared in Turkish and English and posted on the corporate website the same day. Moreover, those sections of the Company's corporate website that are subject to updates, particularly the information with a potential impact on the exercise of shareholder rights, are regularly updated. Thereby, accurate and up-to-date information is made available especially to investors and analysts in addition to various individuals or institutions that require information about the Company and its activities.

The corporate website has been allocated as required by the regulation governing the websites of equity companies published by the Ministry of Customs and Trade, and incorporates the "Information Society Services" section. Investors link to the Central Registry Agency (MKK) portal via the Information Society Services section and are able to access fundamental information about the Company.

Moreover, under a service contract executed with Foreks Bilgi İletişim A.Ş., investors have access to stock performance data as well as to the Company's material event disclosures via a link on the "Investor Relations/Stock Performance" section. In addition, stock performance data is also provided in English.

Care is taken to publish announcements about the Company's activities, which will take place in the press, in national editions of newspapers with high circulation numbers. In addition, news and documents concerning ordinary and extraordinary General Assemblies of Shareholders are also posted on the corporate website.

Requests to appoint a special auditor have not been stipulated as an individual right in the Company's articles of association. During the reporting period, our Company did not receive any requests for the appointment of a special auditor.

### 2.3. Information About General Assembly

The Annual General Assembly of Shareholders for 2013 convened on 21 March 2014 at the address İş Kuleleri, Kule 1, Kat: 41 Levent-Beşiktaş/İstanbul with 63.24% attendance, of which 63.15% were acting as proxies and 0.09% were acting in person. Besides shareholders, all Members of the Board of Directors participated in the meeting, as well as an authorized person from the independent audit firm and Company employees. Although the Company's articles of association or the Company's internal directive on the operating principles and procedures of the General Assembly contain no provisions precluding the media from attending the General Assembly, no members of the media attended the General Assembly.

Under the relevant requirements of the Turkish Commercial Code and the Ministry of Customs and Trade, the Company's General Assembly Meeting for 2013 was concurrently held on the Electronic General Meeting System hosted by the Central Registry Agency, and shareholders who are entitled to participate in the General Assembly Meeting were given the opportunity to electronically participate in the meeting, assign a proxy, make recommendations, voice their comments, and cast votes over this system.

The General Assembly process was conducted according to the Corporate Governance Principles and the provisions of the Turkish Commercial Code (TCC); in addition, the invitation for the meeting, including the agenda and sample proxy form, were published on the corporate website, Turkish Trade Registry Gazette, Public Disclosure Platform (KAP), and in two national newspapers. In addition to the announcements on the Public Disclosure Platform, invitation for the meeting was also made via the Electronic General Meeting System (e-GEM) and the e-Company (Companies Information Portal) of the MKK; documents pertaining to the General Assembly were also uploaded to e-GEM. In order to ensure that both Turkish and foreign investors were informed about meeting matters in advance, a "General Assembly Informative Document" was prepared in Turkish and English. This document, as well as the proxy form sample, the agenda and the dividend distribution proposal of the Board of Directors along with the invitation were all published on the Company website. The 2013 Annual Report was made available at the Company's headquarters and on the website for investor review 21 days before the meeting date. All documents prepared in relation to the General Assembly were also uploaded to the MKK's Electronic General Meeting System.

When preparing the agenda, the Board of Directors pays attention to take into consideration the matters communicated in writing by shareholders to the Company's Investor Relations Department for their incorporation in the agenda. At the time the agenda for the 2013 Annual General Assembly was being prepared, no such requests have been received by the Company.

Pursuant to Corporate Governance Principles, the Company publicly disclosed in a material event disclosure given prior to the General Assembly that the final list of board member nominees and their résumés are accessible on the home page and General Assembly sections of the corporate website, thus allowing shareholders to have information about board member nominees in advance.

In order to facilitate participation of shareholders in the General Assembly Meeting, due care was taken to hold the meeting in a place where majority of shareholders reside and to ensure that the right to participate in the meeting is exercised within the frame of the relevant regulations of the Ministry of Customs and Trade.

Pursuant to Corporate Governance Principles, prior to the meeting, shareholders were informed on the number of total votes that may be cast at the General Assembly, the privileges they incorporate, and the voting procedure.

At every stage of the meeting, shareholders are allowed to raise questions, advance proposals and even take the floor. All questions are answered and all proposals are given consideration as well. Since no questions or proposals were presented at the Annual General Assembly of Shareholders this year, these matters were not mentioned in the meeting minutes. Furthermore, all oral and written queries from the shareholders about the Company during the reporting period were answered prior to and after the General Assembly of Shareholders within the scope of the Company Information Policy.



Following the General Assembly, the meeting minutes were uploaded to the e-GEM, the minutes and the list of attendants were publicly disclosed via the Public Disclosure Platform, and was made available to shareholders by posting them under the heading "General Assembly Meetings" beneath the "Investor Relations" section of the Company website.

The General Assembly did not convene extraordinarily during the reporting period.

There is a Donations Policy in place, which sets out the principles and procedures applicable to the donations to be made by the Company. No changes were made to the policy during the reporting period.

As per article 19 of the Capital Market Law, the limit of the donations to be made by a company is to be set at the General Assembly. Under İŞ REIT's Company Donations Policy, the donation budget set aside for the Company's donations during 2014 and approved by the General Assembly is TL 115,000. The Company did not make any donations in 2014. This matter will be presented for the information of the General Assembly pursuant to the Corporate Governance Principle numbered 1.3.10 and article 6 of the CMB's Communiqué on Dividends (II-19.1).

None of the Board of Directors decisions passed during the reporting period required the affirmative votes of all of the independent Board members and needed to be referred to the General Assembly by reason of a negative vote and thus, required the incorporation of the act within the agenda.

During the General Assembly Meeting held during the year, Board of Directors Members were authorized to transact under articles 395 and 396 of the TCC concerning "prohibition on doing business with the Company, on borrowing from the Company" and "non-compete". During the reporting period, neither the Board Members, nor shareholders having management control, nor executives with administrative responsibility or their spouses or relatives by marriage unto the second degree engaged in any material transaction that might lead to a conflict of interest between the Company or its subsidiaries, performed a transaction of a commercial business nature on own or another's behalf that falls under the business scope of the Company or its subsidiaries, or joined another company dealing with the same kind of commercial affairs in the capacity of an unlimited partner.

#### **2.4. Voting Rights and Minority Rights**

The Company's capital is divided into 68,040,000,000 shares each with a nominal value of TL 0.01, which are made up of Group A shares that correspond to TL 972,000 and Group B shares that correspond to TL 679,428,000. Group A shareholders have the privilege of nominating candidates to the Board of Directors elections. One Member of the Board of Directors is elected from among the candidates nominated by Group B shareholders, with all of the remaining Members being elected from among the ones nominated by Group A shareholders. Candidates for the Board of Directors nominated by the parent company are presented for the information of the shareholders during the General Assembly and are appointed by the decision adopted in the General Assembly.

Article 14 of the CMB Communiqué on the Principles Regarding Real Estate Investment Companies (III-48.1) sets out that shareholders in a REIT may issue shares incorporating the privilege of nominating candidates for election of Board Members. REITs are not allowed to issue any securities that grant privileges other than the one to nominate candidates to the election of Board of Directors membership. Accordingly, the Company's articles of association contain no privileges regarding voting.

At the Company, each nominal value of TL 0.01 gives entitlement to one vote, and shareholders vote at General Assembly Meetings pro rata the total nominal value of the shares they hold, pursuant to article 434 of the Turkish Commercial Code. Principles in relation to voting at General Assembly Meetings are set out in the Company's internal directive on working principles and procedures of General Assembly, which has been laid down for approval at the General Assembly and has been publicly disclosed. The Company's articles of association grant no privileges in relation to voting.

There are no companies with which the Company has cross-shareholding relationship.

Minority shareholders are not represented in the Company's administration. The articles of association do not contain any provisions regarding minority rights.

#### **2.5. Entitlement to Dividends**

The Company's Dividend Policy has been reviewed in view of the CMB Communiqué (II-19.1) on Dividends published during the reporting period. No changes that would alter the main constituents or the essence of the policy were made to the Dividend Policy. The policy was supplemented with the following provision in relation to distribution of advances on dividends:

"The Company's articles of association address distribution of advances on dividends, and advances on dividends may be distributed to shareholders subject to the applicable capital market regulations and requirements."

The said modification was approved at the Annual General Assembly.

The current Dividend Policy of the Company is presented below:

The dividend distribution proposal of the Board of Directors is discussed at the General Assembly and it is decided whether to pay out dividends, as well as its manner and timing.

The Company's articles of association stipulate that first dividends in the rate and amount determined by the CMB are to be distributed from the distributable profit.

The Board of Directors adopted a dividend distribution policy based on the principle of proposing to distribute at least 30% of the distributable profit in bonus shares or in cash to the General Assembly, while keeping a close eye on:

- maintaining the delicate balance between shareholders' expectations and the Company's need to grow,
- the Company's profitability.

There are no privileges regarding distribution of profit, and dividend distribution is carried out within the legally prescribed period of time.

In the event that the Board of Directors proposes against distribution of profit to the General Assembly, information on the reasons therefor and the usage manner of retained earnings will be presented to the shareholders at the General Assembly, included in the annual report, and disclosed publicly.

The Company's articles of association address distribution of advances on dividends, and advances on dividends may be distributed to shareholders subject to the applicable capital market regulations and requirements.

The Company's current Dividend Policy is contained in the annual report and posted on the Company website under "Policies" under the heading "Corporate Governance" in the "Investor Relations" section.

At the Annual General Assembly for 2013 fiscal year, it was decided to distribute dividends in the total amount of TL 81,900,000 to shareholders, breaking down as cash dividends worth TL 31,500,000, so that TL 0.05 (gross=net) (5%) dividend will correspond to each share with a nominal value of TL 1, and bonus shares worth TL 50,400,000. Cash dividend payout to shareholders was completed on 27 March 2014 and bonus share distribution on 26 May 2014.

The Board of Directors' proposal for dividend distribution in relation to 2014 period profit will be submitted to the approval of shareholders at the Annual General Assembly for 2014 fiscal year.

## **2.6. Transfer of Shares**

The Company's articles of association do not contain any provisions restricting the transfer of shares.

## **PART III – PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1. Company Internet Site and Its Content**

The Company has its own website accessible at [www.isgyo.com.tr](http://www.isgyo.com.tr). The website covers the matters specified in the Corporate Governance Principles. The website is also prepared in English for use by foreign investors. Both the Turkish and English versions of the website are regularly and simultaneously updated to better inform the investors.

In accordance with the Central Registry Agency (MKK) data published via the Public Disclosure Platform (KAP), the Company's shareholding structure is updated to show also the non-corporate or corporate shareholders directly holding 5% or higher interest, or having voting rights. Upon public disclosure of financial statements and notes, summary financial statements drawn up in English are posted on the English website pursuant to the capital market legislation.

The corporate website covers the elements as described in the Corporate Governance Principles, and the information posted on the website are regularly reviewed. The website is also monitored with respect to its compliance with applicable regulations in terms of its format and content.

The corporate website has been allocated as required by the regulation governing the websites of equity companies published by the Ministry of Customs and Trade, and incorporates the "Information Society Services" section. Investors link to the MKK portal via the Information Society Services section and are able to access fundamental information about the Company.

Furthermore, under the service agreement made with Foreks Bilgi İletişim A.Ş., investors are provided with easy access to stock performance data, as well as to the Company's material event disclosures via a link on the "Investor Relations/Stock Performance" section. In addition, stock performance data is also provided in English.

### 3.2. Annual Reports

The Company's annual reports are prepared in the content that will give the public opinion access to accurate and complete information about the Company's activities within the frame of Corporate Governance Principles, as well as other Capital Market regulations and applicable regulation of the Ministry of Customs and Trade.

Care is taken to make sure that the annual report covers detailed information on Board Members and committees, as well as basic information about the Company's activities. In this frame, the annual report contains Board Members' résumés, their powers and responsibilities in the Company and the outside positions they hold, whether they make any transactions within the Company's main business scope under the Company's legal entity or on the Company's capital market instruments, whether they enter into a borrowing relationship with the Company. Other information covered by the report includes financial rights provided to Board Members and Independent Members' declarations of interest, operating principles of the Board of Directors, number of Board meetings held during the reporting period, attendance to meetings, number of decisions passed and information on the adoption manner of these decisions; formation and operating principles of the committees set up under the Board of Directors, their activities during the reporting period, and the numbers of their meetings and decisions, as well as the Board of Directors' assessment on the activities of committees.

In addition, the annual reports also address changes in legislation that might have material impact on the Company's activities; disclosure of conflicts of interest, if any, between the Company and outsourced service providers in fields such as investment consultancy and rating, and the measures adopted to prevent conflicts of interest; information on important lawsuits brought against the Company during the year and their potential outcomes; information on cross-shareholding relations in which more than 5% of the capital is held directly, and information on social benefits and professional training provided to employees, and on corporate social responsibilities activities in relation to Company activities that bring about other social and environmental implications.

## PART IV-STAKEHOLDERS

### 4.1. Keeping Stakeholders Informed

Open and honest communication channels have been established with Company employees and other stakeholders, with attention paid to ensure that all stakeholders are kept informed about issues that concern them. The Company pays due attention to protect the rights of stakeholders regulated by legislation and mutual contracts in its activities and transactions. In addition, the rights of all stakeholders are protected within the frame of the Code of Ethics published by the Board of Directors.

The sanctions applicable to Company employees with respect to adherence to Code of Ethics take place in internal guidelines. Company employees can convey any transaction that contradicts with the legislation and are ethically inappropriate to the Audit Unit. An Ethics Hotline was set up, which will be used for stakeholders to convey any transactions deemed to contradict with the laws or the Company's ethical values to the Committee for Audit made up of Independent Board Members. An email account has been assigned for this line and email address has been announced on the corporate website. The Ethics Hotline can be accessed from the link <http://www.isgyo.com.tr/EthicalContact.aspx> on the website.

The Company takes care to always cooperate with partners that espouse its Code of Ethics. In the professional relationships with customers, honesty and fairness are observed, reliability of agreements is upheld, and commitments are fulfilled in a timely manner. The Company attaches importance to building relationships with suppliers upon long-lasting trust.

### 4.2. Stakeholder Participation in Management

Keeping all lines of communication open and eliminating all possible encumbrances is a fundamental principle regarding participation of Company employees in management. There is no formal model established for direct participation of other stakeholders in management.

The Company maintains constant communication with employees, pays due regard to their needs, and creates various platforms and mechanisms by which employees can convey their opinions and comments.

Internal meetings are held, which are attended by Company employees when necessary, and they play a significant role in the decision-making process of senior management.

Expectations and demands from all stakeholders involved with the Company are addressed on the basis of Code of Ethics and resolved through mutual communication. Contractual and other demands, requests and problems of real and legal persons, which the Company is dealing with in relation to rental agreements or promise to sell real property agreements, are forwarded to the Company's relevant committees through the Corporate Communications, Sales, Leasing and Marketing Group, and solution-oriented suggestions are discussed and decided on by these committees.

#### 4.3. Human Resources Policy

The main objective of our Human Resources Policy is to select the human resource that is compatible with the Company's corporate structure, to ensure execution of necessary training, development and education activities aimed at creating a competitive edge, and to establish a shared corporate culture.

Accordingly, HR management is intended to recruit the qualified human resource that will carry out Company activities in the most effective manner and to ensure employee motivation so as to maintain constant success; continuously improve financial and social rights of employees; create a fair and professional working environment, and provide the necessary support to determine and fulfill the training needs of personnel.

The main principles of the our Human Resources Policy is spelled out as:

Holding a proactive and innovative perspective in relation to management of the Company's human resource; maintaining cooperation with all the units of the Company, and securing a fair business conduct based on success. In all these processes, our HR management supports innovation and creativity.

Respect for the human and equality are the core values in the execution of HR practices across the Company, including selection and placement, performance management, career planning, compensation and fringe benefits management, training, development and employee communications.

Aiming to enhance productivity of Company activities and the quality of business life, HR management carries out selection and placement activities within the frame of the principle of "placing the right person in the right job" from among high-potential, qualified candidates who are compatible with the corporate culture and values, specialized in their respective fields and open to development. In these efforts, HR management, in no way, discriminates on the basis of race, religion, language or sex.

Employees aiming to add value to their respective jobs, backed by the HR management, position themselves, gain access to self-development and manage their career objectives along with their managers. To our Company, "Each Employee is a Future Leader". In this journey, the HR management is the fellow traveler of all our "Employees".

The personal honor of each employee and all of their legally recognized rights are protected within the framework of the Company's Code of Ethics. All necessary measures have been taken to ensure a safe and healthy work environment.

During the reporting period, the Human Resources and Education Department received no complaints on account of discrimination.

#### 4.4. Code of Ethics and Social Responsibility

The Code of Ethics was devised by the Board of Directors in 2003 under the headings "Shareholders", "Operating Standards", "Employees" and "Customers-Suppliers-Shareholders", posted on the Company website and publicly disclosed. The Code of Ethics can be accessed on the Company website under the "Corporate Governance" heading in the "Investor Relations" section.

While headed towards generating high returns for its shareholders, which is a key objective, İŞ REIT also carries out various activities to contribute to the social life and the environment within the scope of its corporate social responsibility concept.

Along the line, the Company extends support to numerous artistic and sports events, in addition to the activities carried out in the sector. The activities carried out with a view to allowing the young generation gain experience in the sector and to socially equip them coincide with our corporate mission that puts human at its core.

Acting upon the conviction that sustainable growth in all areas is crucial, and with its mission of creating desirable spaces for contemporary people and cities, İŞ REIT continued to support the sector's development and social solidarity as well as the arts and sports in 2014.

İŞ REIT sponsored Konak Municipality Youth and Sports Club Women's Football Team, which competes in the Turkish Football Federation Women's 1. League, and granted TL 100,000 to the team for their player kit sponsorship in the 2014-2015 season. In keeping with the goal of taking an active role in propagating sports among all segments of the society without any discrimination between men and women, young and old, the Company sponsored the team for 2011-2012, 2012-2013, and 2014-2015 seasons. Claiming the national championship in the Women's 1. Football League, Konak Municipality Women's Football Team qualified to represent Turkey in the UEFA Women's Champions League.

İŞ REIT extended sponsorship support to the Regional Conference organized by Gündoğdu Rotary Club till 28 April 2014. The Company also supported the Regional Assembly held by Söke Rotary Club from 10 April through 13 April 2014. During the painstakingly formulated Rotary Club events, seminars were organized addressing various topics from personal development to the country's problems.

İş REIT opens the doors of the shopping centers in its portfolio to associations and foundations working to benefit the public by offering them the opportunity to set up stands and carry out publicity activities free-of-charge. The Company extends all necessary cooperation in this area.

İş REIT provides gratuitous support to projects in areas that it regards within the scope of its social responsibility such as education, health, culture, law, art, scientific research, environmental protection, and sport. Committed to consistently shaping its approaches, values, and policies within the framework of its corporate social responsibility, the Company will continue to engage in such activities and to provide them with support in the future as well.

In the conduct of all of its activities, İş REIT takes pains to be a socially responsible actor who abides by the law and is mindful of environmental values. No lawsuits were brought against the Company on account of environmental damage in 2014.

## PART V-BOARD OF DIRECTORS

### 5.1. Structure and Formation of the Board of Directors

<b>Members of the Board of Directors:</b>	
Levent Korba	Chairman, Non-Executive 21.03.2014-23.03.2015
M. Kemal Fettahoğlu	Vice Chairman, Non-Executive 21.03.2014-23.03.2015
H. Cemal Karaoğlu	Board Member, Non-Executive, Independent 21.03.2014-23.03.2015
D. Sevdil Yıldırım	Board Member, Non-Executive, Independent 21.03.2014-23.03.2015
Mete Uluyurt	Board Member, Non-Executive 21.03.2014-23.03.2015
Süleyman H. Özcan	Board Member, Non-Executive 08.12.2014-23.03.2015
Murat Doğan	Board Member, Non-Executive 08.12.2014-23.03.2015
<b>Senior Management:</b>	
Turgay Tanes	CEO

The powers and authorities of the Members of the Board of Directors are set out in the Company's articles of association. The Company is managed and externally represented by the Board of Directors. The Board of Directors performs the duties assigned to it by the General Assembly in accordance with the Turkish Commercial Code, the Capital Market Law and other applicable legislation. The Board of Directors is composed of seven members, two of which are independent.

In accordance with the provisions introduced by the new Turkish Commercial Code no. 6102, the Board of Directors developed internal bylaws concerning limited authority delegation, whereby the necessary requirements and arrangements were made for the Board of Directors Members' representation powers, which have then been registered and promulgated.

Within the frame of Corporate Governance Principles, a Nominating Committee was not set up at the Company, and its functions are fulfilled by the Corporate Governance Committee. Along the line, two Independent Members were nominated to the Corporate Governance Committee during the reporting period. The Corporate Governance Committee prepared evaluation reports establishing whether the candidates possessed the criteria of independence on 20 March 2014, and submitted them to the Board of Directors on the same dates. The Board of Directors finalized the list of nominees in the light of these evaluations and the finalized list of nominees was publicly disclosed.

During the reporting period, no events took place that compromised the independence of the Board Members. Declarations of interest by Board Members are on page 26.

Although there are no set rules on Board Members' undertaking other duties outside the Company, if they take on an executive role or hold a seat on the board of directors on, or offers consultancy service to, another company, this must not cause a conflict of interest. Also, as a basic principle, Independent Board Members must act so as to maintain the independence criteria described in the Principles. The external positions held by Board Members, their terms of office with the Company and distribution of positions are provided in the Members' résumés.



**Levent Korba**

**Chairman**

21.03.2014-23.03.2015

Levent Korba received his degree in English language from Buca Faculty of Education at Dokuz Eylül University in 1984. He joined İşbank in 1986 as a Candidate Officer in İzmir Branch. He became an Assistant Section Head in Bornova Branch in 1990, and a Sub-Manager and then Assistant Manager in Karabağlar Branch in 1995 and 1998, respectively. He was brought to the position of Manager of the Samsun Branch in 2002, Çukurova Regional Manager in 2004 and the Head of Branch Network Development Division in 2007. Holding an in-group position in addition to his office as the Chairman of the Board at İş REIT, Mr. Korba serves as Deputy Chief Executive of İşbank since 13 April 2011.

**M. Kemal Fettahoğlu**

**Vice Chairman**

21.03.2014-23.03.2015

M. Kemal Fettahoğlu got his degree in economics from the Middle East Technical University in 1990 and joined İşbank the same year as an assistant specialist in the Strategic Planning Department. After pursuing graduate studies in finance in London in 1997-1998, he worked as the Finance Manager and Capital Markets and Asset Management Manager at Petrol Ofisi from 2000 through 2003. He also assumed the responsibility of unit manager of İşbank's Economic Research, Enterprise Architecture and Branch Network Development divisions. Holding an in-group position in addition to his office as the Vice Chairman of the Board at İş REIT, Mr. Fettahoğlu has been serving as the head of İşbank's Construction and Real Estate Management Division since October 2011. Having been a member of İş REIT's Board of Directors since 2012, Mr. Fettahoğlu also holds a seat on the Board of Directors of İş-Koray.

**H. Cemal Karaoğlu**

**Independent Board Member**

21.03.2014-23.03.2015

H. Cemal Karaoğlu got his bachelor's degree in 1987 and his master's degree in 1991 in civil engineering from the Faculty of Engineering at the Middle East Technical University. He started his career under a research program at Imperial College in 1988. He worked as a project engineer at Yüksel Proje Uluslararası A.Ş. from 1989 to 1993. He was a board member at Başarı Yatırımlar Sanayi ve Ticaret A.Ş. from 1993 to 2003 and at Yüksel Proje Uluslararası A.Ş. from 2003 to 2008. He functioned as an engineer and executive in various fields, including constructional drawings, control services, and investment consultancy. He does not hold an in-group position apart from his seat on the Board of Directors at İş REIT. Serving as Deputy Chairman at Yüksel Proje Uluslararası A.Ş. since 2008, he is also on the Board of Directors of Başarı Yatırımlar San. ve Ticaret A.Ş. Holding a seat on İş REIT's Board of Directors since 2010, Mr. Karaoğlu also heads the Committee for Audit and the Committee for Early Detection of Risk.

**D. Sevdil Yıldırım**

**Independent Board Member**

21.03.2014-23.03.2015

D. Sevdil Yıldırım received her degree in business administration from the Middle East Technical University in 1988. She also has master's degrees in economics from the Middle East Technical University and in business administration from the London Business School. She worked at Capital Markets Board (CMB) in Research and Development and Auditing and Supervision departments in 1988 and 1999. In 1999, she joined Yapı Kredi Invest in order to set up the International Capital Markets Department, where she was promoted to Assistant General Manager in 2003. She joined Turkish Yatırım and BGC Partners as an assistant general manager in 2006 and 2007 respectively. She transferred to Yıldız Holding A.Ş. in 2009 to set up the Corporate Finance and Capital Markets Department. Mrs. Yıldırım was also involved in the establishment of Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş., the publicly held participation of Yıldız Holding, where she served as an Assistant General Manager and also on the Investment Committee Member until February 2012. She held vice president positions for several councils at DEİK (Foreign Economic Relations Board) from 2002 to 2012. In tandem with her seat as an independent member of the Board of Directors at İş REIT, she serves as an independent board member at TAV Havalimanları Holding A.Ş., a non-group position, and at Denizli Cam ve Sanayi A.Ş., an in-group position. Mrs. Yıldırım has been holding a seat on the Board of Directors of İş REIT since 2012 and she is also the head of Corporate Governance Committee as well as the member of the Committee for Audit.

**Mete Uluyurt**

**Board Member**

21.03.2014-23.03.2015

Mete Uluyurt graduated from Tarsus American High School in 1989 and from the Department of Economics at Bilkent University in 1994. He started his career on the Board of Internal Auditors of İşbank in 1996. Mr. Uluyurt was appointed as an Assistant Manager to the Budget and Planning Department in 2004. Having pursued his master's studies in business administration at Boğaziçi University in 2005, he worked as Vice Chairman of the Board of Internal Auditors, as Unit Manager in Change Management Department and as Unit Manager in the Department of Strategy and Corporate Performance Management. Holding an in-group position in addition to his seat on the Board of Directors at İş REIT, Mr. Uluyurt is currently working as Manager of Balmumcu Branch, to which position he was appointed in 2011.

**Süleyman H. Özcan****Board Member**

08.12.2014-23.03.2015

Süleyman H. Özcan got his degree in economics at Boğaziçi University, and started his career as an assistant internal auditor on the Board of Internal Auditors of İşbank in 1993. He was appointed as Assistant Manager in Treasurers Department in 2001 and then as manager in the same department. He also worked as Unit Manager in Project and Change Management Department and Department of Strategy and Corporate Performance Management respectively and served in various positions at some İşbank subsidiary companies. Holding an in-group position in addition to his seat on the Board of Directors of İş REIT, he has been working as Department Manager in Investor Relations Department since 26 March 2009. Mr. Özcan has been serving as a Member of the Board of Directors at İş REIT since 08 December 2014.

**Murat Doğan****Board Member**

08.12.2014-23.03.2015

Murat Doğan got his degree in industrial engineering from İstanbul Technical University in 2000, and joined İşbank as an assistant specialist in İşbank's Subsidiaries Division. He currently serves as Unit Manager for Property Development and Healthcare Companies in the division. Holding in-group positions in addition to his seat on the Board of Directors of İş REIT, Mr. Doğan is a Board member at Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş., İş Merkezleri Yönetim ve İşletim A.Ş., Erişim Müşteri Hizmetleri A.Ş., İş Altınhas İnşaat Taahhüt ve Tic. A.Ş., and Camış Yatırım Holding A.Ş. Having served as a member of the Company's Committee for Audit from 2010 to 2012, Mr. Doğan has been holding a seat on İş REIT's Board Of Directors since 08 December 2014. He is also a member of the Corporate Governance Committee and the Committee for Early Detection of Risk.

**Turgay Tanes****CEO**

Turgay Tanes graduated from the Department of Public Administration of the Faculty of Economics and Administrative Sciences at Gazi University in 1987. He started his career at İşbank as an assistant inspector on the Board of Inspectors in 1988. He became an assistant manager in the Subsidiaries Division in 1996 and worked as a group manager of Real Estate and Glass Sector Companies from 1999 to 2004 in the same division. Serving as the CEO of İş Real Estate Investment Trust Co. since 2004, Mr. Tanes also functions as the chairman of one of the subsidiaries of İşbank.

The Company has not yet determined a targeted ratio and timing in relation to the women members on the Board of Directors, nor has it devised a policy to this end. However, a woman member has been serving on the Board of Directors for the last three years.

**5.2. Operating Principles of the Board of Directors**

Agendas of the Board meetings are prepared as recommended by the CEO and with the knowledge of the Chairman of the Board. The Board of Directors carries out its activities within the frame of its publicly disclosed operating principles, and meetings are called by the Chairman or Vice Chairman as and when deemed necessary for the Company's business affairs. Board Members also have the right to call for a meeting of the Board of Directors according to article 13 of the Company's articles of association.

A Board of Directors Secretariat has been set up at the Company. This unit is responsible for and actively involved in organizing Board meetings, preparing and recording reports, documentation, and Board decisions, coordinating communication among Board Members, and performing similar functions.

The Board of Directors convened nine times during the period and passed 86 resolutions. All Board Members attended all of the Board meetings but one during the reporting period. Except for seven decisions, all decisions taken by the Board were passed unanimously. No dissenting opinions were expressed in any of the decisions taken during board meetings. Inasmuch as no votes were cast against any of the decisions that were taken, it was not necessary to make note of any opposition to them in meetings' minutes.

No Board Member enjoys any special voting rights and/or has the power to exercise a veto.

The insurance necessary to indemnify the losses that Members of the Board of Directors may cause to the Company by reason of their faults in the performance of their duties has been purchased by İşbank, the principal shareholder, so as to cover the Bank and its subsidiaries.

### 5.3. Number, Structures and Independence of the Committees Established Under the Board of Directors

As required both by the Capital Markets Board's Corporate Governance Principles and by the Company's Board of Directors Operating Principles, there are three committees within the Board: a Corporate Governance Committee, a Committee for Early Detection of Risk, and a Committee for Audit. These committees are headed by Independent Board Members. All of the members of the Committee for Audit are Independent Board Members as per the legal requirement. The heads and members of committees are presented below.

Corporate Governance Committee		
Head	Member	Member
D. Sevdil Yıldırım Independent Member	Murat Doğan Member	Ayşegül Şahin Kocameşe Head of Investor Relations

Committee for Early Detection of Risk	
Head	Member
H. Cemal Karaoğlu Independent Member	Murat Doğan Member

Committee for Audit	
Head	Member
H. Cemal Karaoğlu Independent Member	D. Sevdil Yıldırım Independent Member

The Board of Directors consists of seven members, two of whom are independent. Owing to the present structure of the Board of Directors, a Board Member may serve on more than one committee. All due consideration is given to the requirements of Corporate Governance Principles when selecting committee members.

Operating principles have been defined and publicly disclosed for each committee. Committees perform their functions within the frame of those principles. During the reporting period and after the conduct of the Company's annual meeting, the duties and responsibilities of Board Members were assigned and elections to committee seats were held as required by CMB Corporate Governance Communiqué, which were then publicly announced.

Neither a Nominating Committee nor a Remuneration Committee has been set up. The functions of these committees are performed by the Corporate Governance Committee.

A Corporate Governance Committee has been set up in compliance with the Capital Markets Board's rules and regulations concerning corporate governance and it has been charged with fulfilling the duties and responsibilities incumbent upon it under Corporate Governance Principles. This Committee regularly reviews the Company's corporate governance practices and it strives to make improvements in them. During the reporting period, this Committee, along with the Investor Relations Department, was actively engaged in the review of the Company's corporate governance rating. At regular intervals, the Committee reviews the Company's investor relations activities and strategies, and ensures that the Board of Directors is kept informed about such issues on a regular basis. In addition to these functions, the Committee is also active in such areas as providing coordination among other committees and supporting their activities when necessary. It is a principle of the Corporate Governance Committee to meet at least once a month before the regular monthly meeting of the Board of Directors; however it may also convene more frequently as circumstances require. During the reporting period, the Committee held 12 meetings and passed 11 decisions.

In line with the duties incumbent upon it as specified in its operating principles and in compliance with the principles of applicable capital market laws, regulations, and administrative provisions during the reporting period, the Committee for Audit actively works in such matters as publicly disclosing the Company's financial statements, having independent audits conducted, and ensuring that the Company's internal systems function effectively; all other aspects of the independent auditors' activities were also supervised. During the reporting period, the Committee held 6 meetings and passed 7 decisions.

In accordance with the CMB's rules and regulations concerning corporate governance, the Committee for Early Detection of Risk has been set up to early detect the risks that may threaten the Company's existence, development and survival, to implement the necessary measures for identified risks and to manage the risks. It is also charged with conducting reviews of the risk management systems at least on an annual basis. Through its activities during the reporting period, the Committee played an active role in the identification and analysis of important risks inherent in the Company's operations, improved the Company's existing practices through new risk arrangements created, and increased the efficiency of the Company's risk systems. During the reporting period, the Committee held 6 meetings and passed 3 decisions.

#### 5.4. Risk Management and Internal Control Mechanism

The Company's risk management activities are being carried out by the Risk Management Unit since 2005. This Unit reports to the Company's senior management in relation to the management of the risks inherent in the Company's operations within the frame of the Company's Risk Policy and other associated internal guidelines.

The Board of Directors and the Committee for Early Detection of Risk are kept informed about the Company's risk exposure by means of a comprehensive "Company Risk Report" that is prepared and submitted every three months. This report includes, among other things, information about the Company's business sector, key financial indicators, and the results of the unit's analysis and assessment of the risks that are inherent in the Company's activities. Detailed information is provided about business environment risk, a category of operational risk that the Company is particularly exposed to.

Furthermore, under article 378 of the Turkish Commercial Code no. 6102, an assessment was made of the duties and responsibilities charged to the Committee for Early Detection of Risk and to the Board of Directors with regard to risk management and early detection of risk. Accordingly, a "Committee for Early Detection of Risk Report" is prepared on a bimonthly basis and submitted to the Board of Directors for its information.

The "Company Risk Catalogue" that covers all of the risks inherent in the Company's activities are updated as dictated by changing market and business conditions, new types of risks are defined, potential risks are identified, and risk mitigation measures are proposed. These efforts are intended to enable senior management to take whatever measures are needed to ensure that the Company's risks are effectively managed and develop necessary control systems.

Within the scope of portfolio management activities, the Company invests both in money and capital market instruments. At the end of the reporting period, the investments in the real estate sector made up 95% of the total portfolio investments. The main risk inherent in these investments is the business environment risk. These risks include external factors such as changes in the regulatory framework and practices with a potential impact upon the Company's activities and the supply/demand situation in the sector. The Company adopts the necessary measures, makes use of the control systems and monitors the effectiveness of these systems, in order to minimize the risks that might arise from the business environment.

As of 31 December 2014, money and capital market investments made up only a 5% share of the overall investment portfolio. These investments are exposed to an inherent market risk, which is an expression of the potential losses that the Company may sustain on account of changes in interest rates, exchange rates, and equity prices. The Company's exposure to market risk on account of its money and capital market instruments and to the FC position held by the Company is regularly analyzed and monitored using the methods and principles set by the management, and the results are reported to the senior management.

Credit risk is an expression of the risks to which the Company is exposed on account of the failure of a counterparty to a contract concerning the purchase or sales of goods or services, to which the Company is a party, to fulfill the contractual requirements and/or to timely satisfy its contractual obligations, in part or in whole. The Company complies with internal guidelines in order to minimize its credit risk exposure in relation to transactions to which the Company is a party.

Liquidity risk is defined as the possibility of the loss the Company may suffer on account of imbalances in its cash flow, resulting in unavailability of cash holdings or cash inflow sufficient in volume and quality to fully and timely fulfill its cash disbursement obligations. The Company invests in cash resources, which are not allocated to its projects, in money and capital market instruments in a manner to ensure full and timely fulfillment of its cash disbursement obligations, and keeps a close eye to ensure that the amounts and maturities are compatible. The Company's short and long-term financing needs are determined by way of regularly prepared cash projections, while the relationship between the Company's revenues and project finance costs is closely watched both in terms of maturity and of the type and amount of foreign currency. The Company's cash status and financing strategies are shaped accordingly. The Company's liquidity is regularly analyzed and monitored using the methods and limits set by the management, and the results are reported to the senior management.

The Company's internal control system is set up to review, control, monitor and assess the Company's activities, and the fitness, adequacy and effectiveness of these controls in relation to these activities. The results are reported to relevant units. The Unit responsible for internal control activities functions in accordance with the "İş REIT Internal Control Unit Operating Principles Guidelines", which sets out the establishment and operation of the Company's Internal Control Unit, internal control activities, the duties, powers and responsibilities of the individuals assigned to the Internal Control Unit, and the Unit's operating principles and procedures.

The internal control system created at the Company is based on a risk-focused approach to control; therefore, the internal control activity basically deals with controls that are developed to minimize and eliminate the risks inherent in the Company's activities and the adequacy of these controls. The Unit submits quarterly and semi-annual reports to the Board of Directors.

Committees set up under the Board of Directors work actively and fulfill their duties and responsibilities set out in Corporate Governance Principles. Through its activities during the reporting period, the Committee for Early Detection of Risk played an active role in the identification and analysis of important risks inherent in the Company's operations, improved the Company's existing practices through new risk arrangements created, and increased the efficiency of the Company's risk systems. The Committee for Audit, on the other hand, reviewed the operation of the Company's internal systems, contributed to the betterment of processes that presented room for improvement, and effectively carried out audit activities. The Board of Directors regularly oversees the efficiency of the Company's internal systems and prepares an assessment report on the operation and efficiency of internal systems during the year.

### 5.5. Strategic Goals of the Company

İş REIT has a portfolio that is diversified with various components including land, offices, shopping malls, hotels and projects. Accordingly, the Company maintains its stable growth target by capitalizing on all investment opportunities, and thus, enriching its portfolio. To this end, İş REIT closely monitors all trends and preferences that affect the sectoral dynamics.

Mixed-use project concept that covers both residential and commercial units is preserved in the projects that are being developed and that are planning and licensing phase, thereby rendering the benefit derived on rental activities continuous, while also intending to generate high returns on sales and profit realization.

Within this scope, İş REIT's strategic goal in 2015 is, firstly, to carry on with the development, sales and letting activities of its existing investments; to bring its investments to completion within the set lead times, and to maximize the added value to be derived on these investments.

Besides the strategic goal mentioned above, İş REIT will continue to explore investment opportunities that will arise in areas that will increase its profitability and provide maximum benefit to its shareholders, and to capitalize on the same to the extent market conditions are appropriate. The main strategy of İş REIT is to increase dividends and productivity in line with the principles of its parent holding, İşbank Group. To this end, being a company that has been distributing cash dividends at certain ratios for many years, it is intended to increase the dividend ratio in the years ahead, in keeping with the growing investments.

İş REIT Board of Directors regularly monitors its targets and observes risk versus return balance in all of its activities. Within this frame, all strategic changes that result from the decisions passed during the year and deviations in estimations are evaluated on a monthly basis, save for in extraordinary cases. When necessary, the Company revises investment decisions and funding plans so as to adjust to these changes, and repositions itself according to changed circumstance.

### 5.6. Financial Rights

Pursuant to Corporate Governance Principles, the remuneration principles for the Board Members and executives with administrative responsibility are put into writing and presented for the information of shareholders at the General Assembly. The Company's Remuneration Policy is available on the Company's website, under "Policies" under the heading "Corporate Governance" in "Investor Relations" section.

The General Assembly determines remunerations of the Members of the Board of Directors. The benefits provided to the Board of Directors and senior management are publicly disclosed via the Financial Reports disclosed quarterly. In addition, this matter is also addressed in the related section of the Annual Report.

Besides the remuneration decided by the General Assembly, the Board Members were not granted rights that would give them financial benefits such as attendance fee, bonus or premium. Stock options or a payment plan based on the Company's performance are not used for the remuneration of Independent Board Members.

The financial benefits provided to the senior management cover salaries and bonuses. The financial rights provided to the senior management (CEO and Heads of Groups) last year amounted to TL 3,510 thousand gross.

During the reporting period, the Company engaged in no transactions such as lending, granting loans, extending credit through a third person under the name personal loan or providing guarantees, etc. involving Board Members or senior managers.



İş Gayrimenkul Yatırım Ortaklığı  
Anonim Şirketi

Financial Statements as of and  
For the Year Ended 31 December 2014

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

## Independent Auditors' Report



**Akis Bağımsız Denetim ve Serbest  
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Originally Prepared and Issued in Turkish

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

We have audited the accompanying statement of financial position of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") as of 31 December 2014 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *The Company Management's Responsibility for the Financial Statements*

The Company management is responsible for the preparation and fair presentation of these financial statements in accordance with the Turkish Accounting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error or fraud.

### *Independent Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is components of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

### **Report on Other Legal and Regulatory Requirements**

- 1) Pursuant to the fourth paragraph of Article 398 of the Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 29 January 2015.
- 2) Pursuant to the fourth paragraph 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 2014 are not in compliance with the TCC and provisions of the Company's articles of association in relation to financial reporting.
- 3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and requested documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member of KPMG International Cooperative

Orhan Akova, Certified Public Accountant  
Partner

29 January 2015  
İstanbul, Turkey

### **Additional paragraph for convenience translation to English:**

As explained in Note 2.1, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

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# Statement of Financial Position (Balance Sheet)

## As of 31 December 2014

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

	Notes	Audited 31 December 2014	Audited 31 December 2013
<b>ASSETS</b>			
<b>Current assets</b>		<b>251.625.938</b>	<b>233.029.758</b>
Cash and cash equivalents	5	123.909.277	101.043.123
Financial investments	6	15.126.664	4.235.850
Trade receivables	8	39.615.311	34.189.785
<i>Trade receivables from related parties</i>	24	976.207	11.678
<i>Other trade receivables</i>	8	38.639.104	34.178.107
Other receivables	9	5.191	10.814
Inventories	11	4.245.222	4.090.123
Prepaid expenses	16	52.342.375	79.655.842
<i>Prepaid expenses to related parties</i>	24	2.221.512	1.303.314
<i>Prepaid expenses to non-related parties</i>		50.120.863	78.352.528
Other current assets	16	16.381.898	9.804.221
<b>Non-current assets</b>		<b>1.608.240.919</b>	<b>1.435.690.679</b>
Trade receivables	8	7.401.911	22.730.613
Derivatives	6	41.674	300.392
Equity accounted investees	3	1.606.954	1.269.965
Inventories	11	63.128.870	31.439.900
Investment properties	10	1.534.963.085	1.378.609.041
Tangible assets	12	953.397	1.228.136
Intangible assets	13	145.028	112.632
<b>TOTAL ASSETS</b>		<b>1.859.866.857</b>	<b>1.668.720.437</b>

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

# Statement of Financial Position (Balance Sheet)

## As of 31 December 2014

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

	Notes	Audited 31 December 2014	Audited 31 December 2013
<b>LIABILITIES</b>			
<b>Short-term liabilities</b>		<b>67.056.328</b>	<b>162.016.127</b>
Current portion of long term borrowings	7	57.154.238	135.042.695
<i>Loans and borrowings from related parties</i>	24	57.154.238	27.978.637
<i>Other loans and borrowings</i>	7	-	107.064.058
Trade payables	8	5.391.798	22.306.537
<i>Trade payables to related parties</i>	24	2.717.592	7.207.460
<i>Other trade payables</i>	8	2.674.206	15.099.077
Other payables	9	483.232	390.402
Deferred income	16	1.708.879	1.112.223
<i>Deferred income to related parties</i>	23	734.017	361.574
<i>Other deferred income</i>	16	974.862	750.649
Short-term provisions	14-15	250.014	210.927
<i>Provision for employee benefits</i>	15	208.918	169.376
<i>Other short-term provisions</i>	14	41.096	41.551
Other short-term liabilities	16	2.068.167	2.953.343
<b>Long-term liabilities</b>		<b>581.319.890</b>	<b>350.618.434</b>
Loans and borrowings	7	420.372.647	215.530.226
<i>Loans and borrowings from related parties</i>	24	215.116.120	201.987.451
<i>Other loans and borrowings</i>		205.256.527	13.542.775
Other payables	9	35.990.000	35.990.000
Deferred revenue	16	124.125.448	98.291.356
Long term provisions	15	831.795	806.852
<i>Provision for employee benefits</i>	15	831.795	806.852
<b>EQUITY</b>		<b>1.211.490.639</b>	<b>1.156.085.876</b>
Share capital	17	680.400.000	630.000.000
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	17	179.250	42.164
<i>Re-measurements of defined benefit plans</i>		179.250	42.164
Other comprehensive income that are or may be reclassified to profit or loss	17	-	4.090
<i>Translation reserves</i>		-	4.090
Legal reserves	17	24.677.855	19.712.142
Prior years' profits	17	178.891.696	149.600.689
Net profit for the period		86.771.767	116.156.720
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1.859.866.857</b>	<b>1.668.720.437</b>

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



## Statement of Profit or Loss

## For the Year Ended 31 December 2014

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

	<i>Notes</i>	<i>Audited 1 January - 31 December 2014</i>	<i>Audited 1 January - 31 December 2013</i>
<b>Operating Activities</b>			
Revenue	18	234.078.530	371.164.150
Cost of revenue (-)	18	(119.785.317)	(225.076.140)
<b>Gross Profit</b>		<b>114.293.213</b>	<b>146.088.010</b>
General administrative expense (-)	19	(18.064.340)	(12.764.636)
Other operating income	21	26.062.240	42.053.117
Other operating expense (-)	21	(30.751.383)	(28.650.222)
<b>Operating Profit</b>		<b>91.539.730</b>	<b>146.726.269</b>
Share of profit of equity-accounted investees	3	828.318	502.577
<b>Operating Profit Before Finance Expense</b>		<b>92.368.048</b>	<b>147.228.846</b>
Finance income	22	(5.596.281)	(31.072.126)
<b>Operating Profit before Tax From Continuing Operations</b>		<b>86.771.767</b>	<b>116.156.720</b>
<b>Tax Expense From Continuing Operations</b>		-	-
- Corporate tax charge		-	-
- Deferred tax benefit		-	-
<b>Net Operating Profit for the Period From Continuing Operations</b>		<b>86.771.767</b>	<b>116.156.720</b>
<b>Discontinued Operations</b>			
Profit after tax for discontinued operations		-	-
<b>Net Profit for the Period</b>		<b>86.771.767</b>	<b>116.156.720</b>
Basic earnings per share from continuing operations (par value of TL 1)	23	0,1275	0,1707
Diluted earnings per share from continuing operations (par value of TL 1)	23	0,1275	0,1707

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

## Statement of Other Comprehensive Income For the Year Ended 31 December 2014

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

	<i>Audited</i> 1 January - 31 December 2014	<i>Audited</i> 1 January - 31 December 2013
<b>Net Profit for the Period</b>	<b>86.771.767</b>	<b>116.156.720</b>
<b>Other Comprehensive Income</b>		
<b>Other comprehensive income that will never be reclassified to profit or loss</b>		
<i>Re-measurements of defined benefit plans</i>	137.086	42.164
<b>Other comprehensive income that are or may be reclassified to profit or loss</b>		
<i>Translation reserves</i>	-	4.368
<b>Other comprehensive income</b>	<b>137.086</b>	<b>46.532</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>86.908.853</b>	<b>116.203.252</b>

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 31 December 2014

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

					Other comprehensive income that will never be reclassified to profit or loss
	Notes	Share capital	Inflation restatement difference on share capital	Share premium	Re-measurements of defined benefit obligation
<b>Balances at 1 January 2013</b>		<b>600.000.000</b>	<b>240.146.090</b>	<b>423.981</b>	<b>-</b>
Transfers		-	-	-	-
Total comprehensive income		-	-	-	42.164
Capital increase		30.000.000	-	-	-
Dividends paid		-	-	-	-
<b>Balance at 31 December 2013</b>	<b>17</b>	<b>630.000.000</b>	<b>240.146.090</b>	<b>423.981</b>	<b>42.164</b>
<b>Balances at 1 January 2014</b>		<b>630.000.000</b>	<b>240.146.090</b>	<b>423.981</b>	<b>42.164</b>
Transfers		-	-	-	-
Total comprehensive income		-	-	-	137.086
Effect of liquidation		-	-	-	-
Capital increase		50.400.000	-	-	-
Dividends paid		-	-	-	-
<b>Balance at 31 December 2014</b>	<b>17</b>	<b>680.400.000</b>	<b>240.146.090</b>	<b>423.981</b>	<b>179.250</b>

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

Other comprehensive income that are or may be reclassified to profit or loss	Retained Earnings				Total
	Translation reserves	Legal reserves	Prior years' profits	Net profit for the period	
	<b>(278)</b>	<b>16.520.757</b>	<b>147.383.676</b>	<b>65.408.398</b>	<b>1.069.882.624</b>
	-	3.191.385	62.217.013	(65.408.398)	-
	4.368	-	(30.000.000)	116.156.720	116.203.252
	-	-	(30.000.000)	-	-
	-	-	(30.000.000)	-	(30.000.000)
	<b>4.090</b>	<b>19.712.142</b>	<b>149.600.689</b>	<b>116.156.720</b>	<b>1.156.085.876</b>
	<b>4.090</b>	<b>19.712.142</b>	<b>149.600.689</b>	<b>116.156.720</b>	<b>1.156.085.876</b>
	-	4.965.713	111.191.007	(116.156.720)	-
	-	-	-	86.771.767	86.908.853
	(4.090)	-	-	-	(4.090)
	-	-	(50.400.000)	-	-
	-	-	(31.500.000)	-	(31.500.000)
	<b>-</b>	<b>24.677.855</b>	<b>178.891.696</b>	<b>86.771.767</b>	<b>1.211.490.639</b>

## Statement of Cash Flows

## For the Year Ended 31 December 2014

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

		<b>Audited</b> <b>1 January -</b> <b>31 December 2014</b>	<b>Audited</b> <b>1 January -</b> <b>31 December 2013</b>
	<b>Notes</b>		
<b>A. Cash flows from operating activities</b>			
<b>Net profit for the period</b>		<b>86.771.767</b>	<b>116.156.720</b>
Adjustments to depreciation and amortization	20	17.764.598	19.726.424
Adjustments to provision for employee severance indemnity	15	204.193	167.070
Adjustments to provision for unused vacation	15	39.542	47.556
Provisions released in relation to investment properties and other tangible assets	10	(16.800.687)	(12.116.327)
Share of profit of equity accounted investees	3	(828.318)	(502.577)
Impairment provision on investment properties and other tangible assets	10	-	1.082.940
Gain on sale of investment properties	18	(4.163.378)	(24.247.936)
Allowance for doubtful receivables (net)	8	(114.802)	618.305
Gain/(losses) from derivatives	22	258.721	(120.628)
Interest income	18	(3.683.692)	(4.972.316)
Interest expense	22	2.980.855	2.588.062
<b>Operating profit from before the changes in working capital</b>		<b>82.428.799</b>	<b>98.427.293</b>
<b>Changes in working capital</b>			
Increase in trade receivables		9.788.372	(12.506.881)
Decrease in other receivables		(786.381)	(2.202)
Increase in other current assets		21.158.908	(26.706.124)
Changes in inventories	11	(31.844.069)	43.983.341
Increase in trade and other payables		(16.821.909)	13.516.133
Decrease in other short-term liabilities		72.047.709	(35.882.719)
Employee benefits paid during the period	15	-	(5.213)
<b>Net cash provided by operating activities</b>		<b>135.971.429</b>	<b>80.823.628</b>
<b>B. Cash flows from investing activities</b>			
Proceeds from financial assets		(10.890.814)	4.280.086
Purchases of investment property, tangible assets and intangible assets	10,12,13	(289.232.865)	(374.510.144)
Proceeds from sale of investment property	18	89.506.013	116.538.900
Dividends received		500.000	500.000
Equity accounted investees		491.329	(22.596)
Interest received		3.109.921	4.761.177
<b>Net cash used in investing activities</b>		<b>(206.516.416)</b>	<b>(248.452.577)</b>
<b>C. Cash flows from financing activities</b>			
Dividends paid	17	(31.500.000)	(30.000.000)
Increase in financial liabilities		125.459.192	214.241.585
Interest paid		(1.486.083)	(1.830.054)
<b>Net cash used in financing activities</b>		<b>92.473.109</b>	<b>182.411.531</b>
<b>Increase in cash and cash equivalents before effect of changes in foreign currency rates</b>			
		<b>21.928.122</b>	<b>14.782.582</b>
Effect of changes in foreign currency rates over cash and cash equivalents		364.261	1.533.896
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>22.292.383</b>	<b>16.316.478</b>
Cash and cash equivalents at the beginning of the period		100.181.813	83.865.335
<b>Cash and cash equivalents at the end of the period</b>	5	<b>122.474.196</b>	<b>100.181.813</b>

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



# Notes to the Financial Statements For the Year Ended 31 December 2014

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

## 1. Organisation and operations of the Company

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") was established on 6 August 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 69 employees as of 31 December 2014 (31 December 2013: 67).

Kanyon Yönetim İşletim ve Pazarlama Limited Şirketi ("Kanyon") was established on 6 October 2004 by both 50% equal participations of the Company and Eczacıbaşı Holding Anonim Şirketi ("Eczacıbaşı Holding"). 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.

Nest in Globe B.V. ("Nest in Globe") was established on 7 July 2011 by both 50% equal participations of İş Gayrimenkul Yatırım Ortaklığı A.Ş and Kayı Holding Anonim Şirketi ("Kayı Holding"). The main objective and operations of the jointly controlled entity was to develop, to construct, to manage and to benefit from hotels and other commercial real estate in the Netherlands and abroad. In addition, rendering consultancy and management services, participating in tenders and submitting bids in connection with development, construction and management of hotels and other commercial real estate in the Netherlands and abroad were also the objectives of the Company. At the board meeting held on 28 April 2014, it was decided to liquidate Nest in Globe and to terminate the termination of the partnership agreement signed with Kayı Holding. Nest in Globe, has officially been liquidated on 16 July 2014.

## 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 13 June 2013 at the Official Gazette numbered 28676. TAS included Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The financial statements have been approved for issue by the Board of Directors on 29 January 2015. 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.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### 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 7 June 2013.

#### 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 17 March 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 1 January 2005. Accordingly, IAS 29 "Financial Reporting in Hyperinflationary Economies" was not applied since 1 January 2005.

#### Comparative Information and Restatement of Prior Period Financial Statements

The financial statements of the Company have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes with respective disclosures for the major differences.

As of 31 December 2013, "other short-term liabilities" amounting to TL 361.574, which was classified in "other short-term liabilities" have been reclassified in "deferred revenue" in the comparative financial statements.

#### Basis of consolidation

##### *Jointly controlled entities*

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

Jointly controlled entities which are constituted as Kanyon and Nest in Globe are 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, when applicable, in the statement of changes in equity. When the Company has rights only to the net assets of the arrangements, it accounts for its interest using the equity method according to IAS 28 *Investments in Associates and Joint Ventures*.

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

#### 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 recognised in profit or loss.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. As of 31 December 2014, foreign currency translation differences is nil (31 December 2013: TL (4.090)) and is the result of the equity method accounting of Nest in Globe, since the presentation and functional currency of Nest in Globe is Euro.

## Notes to the Financial Statements For the Year Ended 31 December 2014

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

### 2.2 Changes in accounting estimates and errors

The preparation of the financial statements in conformity with Communiqué No II - 14.1 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The estimates are used mainly in the following note:

#### Note 10 - Investment property

The fair values of the Company's investment property has been determined by the valuations of four independent third-party valuations companies in November and December 2014. These companies have been authorised by the Capital Markets Board and have relevant qualification and expertise on property valuation. According to the valuation reports in question, valuations are conducted in accordance with the International Valuation Standards and determined using the methods of benchmarking to the transaction prices of similar properties in the market or discounted revenues. As far as data obtained and information received from the Company cash flows are prepared. Through discounting cash flows at the rates calculated in the statements of cash flows which are prepared according to the assumptions made at the rates between 6%-11%, it is targeted to figure out the impacts of future risks on the values of the properties.

#### Note 15 - Employee benefits

### 2.3 Standards and interpretations those are not yet effective as of 31 December 2014

#### 2.3.1 Standards and interpretations that are effective in 2014

The Company applied all of the relevant and required TAS/TFRSs and related interpretations as of 31 December 2014.

#### 2.3.2 Standards and interpretations that are not yet effective as of 31 December 2014

A number of new standards, amendments to standards and interpretations are not yet effective as of 31 December 2014, and have not been applied in preparing these financial statements. None of these standards and interpretations is expected to have significant effect on the financial statements.

### 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 recognised on an accrual basis. Revenue can only be realised if the amount is reliably measured and the inflow of the economic benefits related with the transaction to the Company is probable. Revenue is recognised as the fair value of the consideration amount received or receivable.

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### *Revenue from sale of investment property*

Revenue is recognised 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 recognised 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 recognised once the sales contracts of the projects are in line with the above stated criteria.

#### *Interest income and expense*

Interest income is recognised 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 recognised through profit or loss by using the effective interest rate.

#### Other income and expense

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

#### *2.4.2 Investment property*

The Company's investment properties are those which are held either for rental income or capital appreciation or both and carried at cost less accumulated depreciation and impairment losses in the accompanying financial statements as of the reporting date.

Investment property under construction are those which are held either to earn income or for capital appreciation or for both, in the future. The Company accounts for such investment property under construction using the cost model until the date the construction is completed.

All costs directly associated with the purchase and construction of an investment property, and all subsequent capital expenditures for the development qualifying as acquisition costs are capitalised.

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

The properties under construction for future use as investment property are classified as investment properties starting from 1 January 2009, since the Company adopted improvements to TAS 40 Investment Property as part of the Improvements to IFRS project in May 2008.

Depreciation of investment properties is recognised on a straight-line basis over the useful lives of the assets from the date of acquisition. Useful lives of investment properties are shown below:

Buildings	10-50 years
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## Notes to the Financial Statements For the Year Ended 31 December 2014

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

### 2.4.3 Tangible assets

Tangible assets acquired before 1 January 2005 are carried at restated cost as of 31 December 2005 and subsequent purchases are carried at cost, less accumulated depreciation and impairment.

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 must be recognised separately.

Gains and losses of sale of a tangible asset is determined by offsetting the carrying value with recovered amount and recognised 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 summarised below:

Machinery and equipment	4-5 years
Vehicles	4-5 years
Furniture and fixtures	4-5 years

#### Subsequent costs

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

#### Amortisation

Intangible assets are amortised principally on a straight-line basis considering the estimated useful lives. Related intangible assets are amortised 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 recognised 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 recognised through profit or loss.



## Notes to the Financial Statements For the Year Ended 31 December 2014

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

### 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 realisable 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.

### 2.4.7 Financial instruments

The Company has the following financial assets: cash and cash equivalents, financial investments and trade and other receivables; and has the following financial liabilities: loans and borrowings, trade and other payables.

#### i) Non-derivative financial assets

The Company initially recognises the financial assets on the date they are originated.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

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

#### *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.

#### *Financial assets at Fair value through profit or loss ("FVTPL")*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Held for trading financial assets recognised initially on the trade date by their carrying amount and adjusted to their fair value after initial recognition. Gain and losses of held for trading financial assets are recognised through profit or loss.

#### *Held-to-maturity investments*

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. As of 31 December 2014, the Company has no held-to-maturity investments in its portfolio.

#### *Available-for-sale financial assets ("AFS")*

Quoted equity investments and quoted certain debt securities held by the Company that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value.

Available-for-sale financial assets are recognised at the commitment date of purchase. Gains and losses resulted from changes at the fair value of these assets are recognised in equity.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income. As of 31 December 2014, the Company has no available for sale investments in its portfolio.

## Notes to the Financial Statements For the Year Ended 31 December 2014

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

### *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 amortised during the period of the agreement.

### *Trade receivables*

Trade receivables are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably. An impairment loss in respect of trade receivables is the difference between its carrying amount, and the collectable amount. Losses are recognised in profit or loss and reflected in an allowance account against trade receivables. The Company assumes that the carrying values of trade receivables are close to their fair value.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

### **ii) Non-derivative financial liabilities**

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

### *Financial liabilities*

Financial liabilities are recognised with fair values in initial registration date. Financial liabilities are recognised with their acquisition costs including transaction costs and evaluated through amortised 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.

### *Trade and other payables*

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### iii) 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 recognised initially at fair value; attributable transaction costs are recognised 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 recognised 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.

#### 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 recognised 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.

## Notes to the Financial Statements For the Year Ended 31 December 2014

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

### 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 authorised 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.

### 2.4.13 Provisions, contingent asset and liabilities

Provisions are recognised 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 recognised 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 Government incentives

None.

### 2.4.15 Taxation

#### 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 recognised.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### Kanyon

Current tax liability includes the tax payable on the taxable income for the period and the adjustments made to previous periods' tax liabilities, using tax rates enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates based on the laws that have enacted by the reporting date.

Deferred tax liabilities and assets are recognised in the financial statements from the enacted or substantially enacted tax rates to the extent that the temporary differences in the subsequent periods will be reversed. Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### 2.4.16 Employee benefits/Retirement pay provisions

In accordance with TAS 19 (2011) all actuarial gains and losses are recognised in other comprehensive income. The most important change in new TAS 19 (2011) 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 (2011) *Employee Benefits*.

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

#### 2.4.17 Share capital and dividends

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

#### 2.4.18 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.

#### 2.4.19 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 recognised 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 recognised in the profit or loss on a straight-line basis for the whole lease period in the agreement. Start-up costs for the realisation and optimisation of the operational lease agreement are added to the cost of the leased asset and amortised 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 recognised 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.

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### 2.4.20 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.

#### 2.4.21 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.

#### 2.4.22 Restrictions on the investment portfolio of real estate investment trusts

Information given in "Control of compliance with restrictions on the investment portfolio" notes are summarised and derived from the financial statements prepared in accordance with the Communiqué No: II - 14.1 and also within the framework of compliance control of the portfolio restrictions clause of Communiqué No: III - 48.1, "Communiqué on Principles Regarding Real Estate Investment Companies".

### 3. Equity accounted investees

	Ownership (%)	31 December 2014	Ownership (%)	31 December 2013
Kanyon	50	1.606.954	50	1.269.965
Nest in Globe	-	-	50	-
		<b>1.606.954</b>		<b>1.269.965</b>

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

<b>Kanyon</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Current assets	8.652.687	8.333.013
Non-current assets	2.983.024	1.646.836
Short-term liabilities	(6.548.296)	(6.752.722)
Long-term liabilities	(1.873.507)	(687.197)
<b>Net assets</b>	<b>3.213.908</b>	<b>2.539.930</b>
	<b>1 January- 31 December 2014</b>	<b>1 January- 31 December 2013</b>
Income for the period	76.380.745	65.701.349
Expense for the period (-)	(74.706.768)	(64.637.860)
	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Nest in Globe</b>		
Current assets	-	3.141
Non-current assets	-	-
Short-term liabilities	-	(12.095)
Long-term liabilities	-	-
<b>Net assets</b>	<b>-</b>	<b>(8.954)</b>
	<b>1 January- 31 December 2014</b>	<b>1 January - 31 December 2013</b>
<b>Nest in Globe</b>		
Income for the period	-	-
Expense for the period (-)	(17.341)	(67.291)

The Company recognized profit amounting to TL 828.318 resulting from consolidation of Kanyon with equity method for the year ended 31 December 2014 (31 December 2013: Kanyon Profit TL 531.745 and Nest in Globe Loss TL 29.168) in the accompanying statement of profit and loss.



## 31 Aralık 2014 Tarihinde Sona Eren Yıla Ait Finansal Tablolara İlişkin Dipnotlar

(Tutarlar aksi belirtilmedikçe Türk Lirası ("TL") cinsinden ifade edilmiştir.)

### 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.

	Ankara İş Kule Building	İstanbul İş Kuleleri Complex	Maslak Petrol Ofisi Building	Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Building	İş Bankası Antalya Merkez Building	Kanyon Shopping Mall	Real Hipermarket İstanbul Esenyurt
<b>31 December 2014</b>									
<b>Revenue</b>									
Rent income	8.712.263	38.422.307	4.162.855	552.279	3.727.983	3.139.416	1.570.296	27.569.923	5.676.044
Income from the right of construction	-	-	-	-	-	-	-	-	-
Income from the sales of real estate	-	-	-	-	-	-	-	-	-
Income from the sales of investment property	-	-	-	-	-	-	-	-	-
Tenant contribution and service income	-	641.365	-	-	-	-	-	134.225	-
Other income	-	38.708	-	-	-	-	-	76.210	-
<b>Total revenue</b>	<b>8.712.263</b>	<b>39.102.380</b>	<b>4.162.855</b>	<b>552.279</b>	<b>3.727.983</b>	<b>3.139.416</b>	<b>1.570.296</b>	<b>27.780.358</b>	<b>5.676.044</b>
<b>Cost of sales</b>									
Depreciation charges	2.752.430	5.959.694	918.941	230.806	291.858	263.499	83.525	2.274.870	688.045
Insurance expense	43.274	1.104.229	37.689	32.386	18.998	8.431	5.691	417.378	196.117
Administrative expense	86.598	496.410	-	-	-	-	-	12.022.019	-
Tax and duty and other charges	257.357	1.518.754	151.787	10.713	20.485	45.104	26.592	1.551.066	353.846
Cost of sales of investment property and real estate	-	-	-	-	-	-	-	-	-
Impairment on investment properties	-	-	-	-	-	-	-	-	-
Reversal of impairment on investment properties	(8.979.193)	-	-	(1.186.456)	-	-	-	-	-
Other	46.679	340.158	407.451	11.561	2.667	28.000	-	-	-
<b>Cost of sales</b>	<b>(5.792.855)</b>	<b>9.419.245</b>	<b>1.515.868</b>	<b>(900.990)</b>	<b>334.008</b>	<b>345.034</b>	<b>115.808</b>	<b>16.265.333</b>	<b>1.238.008</b>
<b>Gross profit</b>	<b>14.505.118</b>	<b>29.683.135</b>	<b>2.646.987</b>	<b>1.453.269</b>	<b>3.393.975</b>	<b>2.794.382</b>	<b>1.454.488</b>	<b>11.515.025</b>	<b>4.438.036</b>
<b>Capital investments</b>	<b>9.464</b>	<b>409.657</b>	<b>32.657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.995.916</b>	<b>-</b>

	İstanbul Esenyurt (Marmara Park)	İş Bankası Güneşli	İş Bankası Sirkeci	Lykia Lodge Kapadokya Hotel	Antalya Kemer Imperial Hotel	Taksim Lamartine	Tuzla Çınarlıbahçe Residences	Zeytinburnu Land	Other real estate	Total
	-	5.768.187	3.380.969	1.286.917	-	1.518.747	-	-	-	105.488.186
10.871.897	-	-	-	-	-	-	-	-	-	10.871.897
-	-	-	-	-	-	-	13.184.050	-	-	13.184.050
-	-	-	-	-	-	-	-	93.669.391	-	93.669.391
-	-	-	-	-	-	97.614	14.921	-	-	888.125
-	-	-	-	-	-	-	-	-	-	114.918
	<b>10.871.897</b>	<b>5.768.187</b>	<b>3.380.969</b>	<b>1.286.917</b>	<b>-</b>	<b>1.616.361</b>	<b>13.198.971</b>	<b>93.669.391</b>	<b>-</b>	<b>224.216.567</b>
2.460.073	399.351	74.908	621.495	-	208.036	22.409	-	-	-	17.249.940
-	39.954	21.558	25.188	-	18.776	4.168	-	-	-	1.973.837
-	-	-	3.512	-	223.969	569.326	-	-	-	13.401.834
-	252.767	63.217	30.300	70.664	114.550	1.700	-	-	53.332	4.522.234
-	-	-	-	-	-	9.060.988	89.506.013	-	-	98.567.001
-	-	-	-	-	-	-	-	-	-	-
(2.427.014)	-	-	-	-	-	-	-	-	(4.208.024)	(16.800.687)
-	1.777	-	27.405	-	5.415	45	-	-	-	871.158
	<b>33.059</b>	<b>693.849</b>	<b>159.683</b>	<b>707.900</b>	<b>70.664</b>	<b>570.746</b>	<b>9.658.636</b>	<b>89.506.013</b>	<b>(4.154.692)</b>	<b>119.785.317</b>
	<b>10.838.838</b>	<b>5.074.338</b>	<b>3.221.286</b>	<b>579.017</b>	<b>(70.664)</b>	<b>1.045.615</b>	<b>3.540.335</b>	<b>4.163.378</b>	<b>4.154.692</b>	<b>104.431.250</b>
	-	-	-	<b>150.566</b>	-	<b>3.778</b>	<b>4.683.002</b>	<b>281.947.825</b>		<b>289.232.865</b>

## 31 Aralık 2014 Tarihinde Sona Eren Yıla Ait Finansal Tablolara İlişkin Dipnotlar

(Tutarlar aksi belirtilmedikçe Türk Lirası ("TL") cinsinden ifade edilmiştir.)

	Ankara İş Kule Building	İstanbul İş Kuleleri Complex	Seven Seas Hotel	Maslak Petrol Ofisi Building	Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Building	İş Bankası Antalya Merkez Building	Kanyon Shopping Mall
<b>31 December 2013</b>									
<u>Revenue</u>									
Rent income	8.307.399	34.975.495	5.280.363	3.958.404	508.262	3.517.463	2.962.133	1.481.621	26.342.056
Income from the right of construction	-	-	-	-	-	-	-	-	-
Income from the sales of real estate	-	-	-	-	-	-	-	-	-
Income from the sales of investment property	-	-	64.042.500	-	-	-	-	-	-
Tenant contribution and service income	-	605.891	-	-	-	-	-	-	178.845
Other income	-	21.633	-	-	-	-	-	-	48.256
<b>Total revenue</b>	<b>8.307.399</b>	<b>35.603.019</b>	<b>69.322.863</b>	<b>3.958.404</b>	<b>508.262</b>	<b>3.517.463</b>	<b>2.962.133</b>	<b>1.481.621</b>	<b>26.569.157</b>
<u>Cost of sales</u>									
Depreciation charges	2.733.723	6.102.545	1.389.073	919.045	231.033	291.727	263.499	83.525	2.230.034
Insurance expense	48.137	871.389	35.392	38.759	31.077	20.167	11.547	6.594	390.487
Administrative expense	12.859	592.651	-	-	192.737	-	-	-	9.746.816
Tax and duty and other charges	228.312	841.245	664.849	132.858	11.193	20.875	42.330	25.260	893.205
Cost of sales of investment property and real estate	-	-	56.377.740	-	-	-	-	-	-
Impairment on investment properties	-	-	-	-	1.082.940	-	-	-	-
Reversal of impairment on investment properties	(4.710.290)	-	-	-	-	-	-	-	-
Other	83.778	-	-	-	11.480	-	-	-	-
<b>Cost of sales</b>	<b>(1.603.481)</b>	<b>8.407.830</b>	<b>58.467.054</b>	<b>1.090.662</b>	<b>1.560.460</b>	<b>332.769</b>	<b>317.376</b>	<b>115.379</b>	<b>13.260.542</b>
<b>Gross profit</b>	<b>9.910.880</b>	<b>27.195.188</b>	<b>10.855.809</b>	<b>2.867.742</b>	<b>(1.052.198)</b>	<b>3.184.694</b>	<b>2.644.757</b>	<b>1.366.242</b>	<b>13.308.615</b>
<b>Capital investments</b>	<b>23.432</b>	<b>591.394</b>	<b>-</b>	<b>49.200</b>	<b>973</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>793.033</b>

	Real Hipermarket İstanbul Esenyurt	İstanbul Esenyurt (Marmara Park)	İş Bankası Güneşli	İş Bankası Sirkeci	Lykia Lodge Kapadokya Hotel	Antalya Kemer Imperial Hotel	Taksim Lamartine	Tuzla Çınarlıbahçe Residences	Other real estate	Total
	4.766.400	-	4.951.458	2.906.903	1.747.209	4.400.302	545.514	-	-	106.650.982
	-	9.463.443	-	-	-	-	-	-	-	9.463.443
	-	-	-	-	-	-	-	130.770.237	-	130.770.237
	-	-	-	-	-	52.496.400	-	-	-	116.538.900
	-	-	-	-	-	-	9.266	32.710	-	826.712
	-	-	-	-	104.271	-	-	-	-	174.160
	<b>4.766.400</b>	<b>9.463.443</b>	<b>4.951.458</b>	<b>2.906.903</b>	<b>1.851.480</b>	<b>56.896.702</b>	<b>554.780</b>	<b>130.802.947</b>	<b>-</b>	<b>364.424.434</b>
	687.421	2.460.074	403.415	74.909	612.280	706.164	70.134	-	-	19.258.601
	175.952	26.544	44.675	33.211	24.910	40.110	13.846	-	-	1.812.797
	17.152	-	-	-	-	-	195.902	366.497	-	11.124.614
	333.379	-	217.010	36.135	23.648	628.918	42.438	-	-	4.141.655
	-	-	-	-	-	35.913.224	-	107.374.468	-	199.665.432
	-	-	-	-	-	-	-	-	-	1.082.940
	-	(2.427.015)	-	-	-	-	-	-	(4.979.022)	(12.116.327)
	-	-	11.170	-	-	-	-	-	-	106.428
	<b>1.213.904</b>	<b>59.603</b>	<b>676.270</b>	<b>144.255</b>	<b>660.838</b>	<b>37.288.416</b>	<b>322.320</b>	<b>107.740.965</b>	<b>(4.979.022)</b>	<b>225.076.140</b>
	<b>3.552.496</b>	<b>9.403.841</b>	<b>4.275.188</b>	<b>2.762.648</b>	<b>1.190.642</b>	<b>19.608.286</b>	<b>232.460</b>	<b>23.061.982</b>	<b>4.979.022</b>	<b>139.348.294</b>
	-	-	<b>4.200</b>	-	<b>1.695</b>	-	<b>3.419.574</b>	<b>3.882.115</b>	<b>439.294.253</b>	<b>448.059.869</b>

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### Reconciliation of income, assets and liabilities

	1 January - 31 December 2014	1 January - 31 December 2013
<b>Sales revenue</b>		
Segment revenue	224.216.567	364.424.434
Undistributed revenue	9.861.963	6.739.716
<b>Total revenue</b>	<b>234.078.530</b>	<b>371.164.150</b>
<b>Cost of sales</b>		
Segment costs	119.785.317	225.076.140
<b>Total cost of sales</b>	<b>119.785.317</b>	<b>225.076.140</b>
<b>Assets</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Segment assets	1.602.337.177	1.414.139.065
Other assets	47.017.222	51.307.425
Non-segment related assets	210.512.458	203.273.947
<b>Total assets</b>	<b>1.859.866.857</b>	<b>1.668.720.437</b>
<b>Liabilities</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Segment liabilities	643.898.703	511.616.782
Other liabilities	4.477.515	1.017.779
<b>Total liabilities</b>	<b>648.376.218</b>	<b>512.634.561</b>

### 5. Cash and cash equivalents

	31 December 2014	31 December 2013
Demand deposits	12.581	693.059
Time deposits	68.741.576	74.024.676
Mutual funds	55.140.342	26.302.476
Receivables from reverse repos	14.778	18.886
Other cash equivalents	-	4.026
<b>Total cash and cash equivalents in the statement of financial position</b>	<b>123.909.277</b>	<b>101.043.123</b>
Interest accrued on cash and cash equivalents	(1.435.081)	(861.310)
<b>Total cash and cash equivalents in the statement of cash flows</b>	<b>122.474.196</b>	<b>100.181.813</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

			31 December 2014
Time deposits:			
Currency	Interest rate (%)	Maturity	
TL	8,05%-10,20%	January 2015	45.174.184
US Dollar	2,05%-2,10%	January 2015	22.588.786
Euro	1,70%	January 2015	978.606
			<b>68.741.576</b>

			31 December 2013
Time deposits:			
Currency	Interest rate (%)	Maturity	
US Dollar	2,75%-3,00%	January 2014	41.876.342
TL	8,85%- 8,95%	January 2014	24.090.820
Euro	3,00%	January - February 2014	8.057.514
			<b>74.024.676</b>

	31 December 2014		31 December 2013	
	Cost	Fair value	Cost	Fair value
Mutual funds	53.837.574	55.140.342	25.645.760	26.302.476
	<b>53.837.574</b>	<b>55.140.342</b>	<b>25.645.760</b>	<b>26.302.476</b>

Receivables from reverse repos			31 December 2014
Currency	Interest rate (%)	Maturity	
TL	9,80%	January 2015	14.778
			<b>14.778</b>

Receivables from reverse repos			31 December 2013
Currency	Interest rate (%)	Maturity	
TL	6,81%	January 2014	18.886
			<b>18.886</b>

#### 6. Financial investments/Derivatives

	31 December 2014	31 December 2013
<b>Short-term financial investments</b>		
Financial assets at fair value through profit or loss	15.126.664	4.235.850
	<b>15.126.664</b>	<b>4.235.850</b>

	31 December 2014	31 December 2013
<b>Derivative instruments</b>		
Derivative assets held for trading (Note 24)	41.674	300.392
	<b>41.674</b>	<b>300.392</b>



## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

The financial investments are held for trading and measured at fair value. The fair value is derived using the highest bid price for the respective financial asset in BIST as of 31 December 2014 or, in the absence of a quoted price at that date, the most recent transaction price; in the absence of these, asset is carried at cost.

31 December 2014			
<u>Financial assets at fair value through profit or loss</u>	<u>Cost</u>	<u>Fair value</u>	<u>Carrying value</u>
<u>Financial assets held for trading</u>			
Government bonds	13.448.963	13.842.845	13.842.845
Private sector bonds	1.238.432	1.283.819	1.283.819
	<b>14.687.395</b>	<b>15.126.664</b>	<b>15.126.664</b>
31 December 2013			
<u>Financial assets at fair value through profit or loss</u>	<u>Cost</u>	<u>Fair value</u>	<u>Carrying value</u>
<u>Financial assets held for trading</u>			
Government bonds	3.160.900	3.150.051	3.150.051
Private sector bonds	104.498	102.039	102.039
Quoted share certificates	1.090.295	983.760	983.760
	<b>4.355.693</b>	<b>4.235.850</b>	<b>4.235.850</b>

Interest rates of government bonds held-for-trading at 31 December 2014 are in-between 6,78% - 14,10% (31 December 2013: between 5,69% - 13,07%).

#### 7. Loans and borrowings

The details of financial borrowings as of 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
<u>Short-term loans and borrowings:</u>		
Short-term portion of long-term borrowings	57.154.238	135.042.695
	<b>57.154.238</b>	<b>135.042.695</b>
<u>Long-term loans and borrowings:</u>		
Long-term bank borrowings	215.116.120	215.530.226
Bonds issued	205.256.527	-
	<b>420.372.647</b>	<b>215.530.226</b>
<b>Total loans and borrowings</b>	<b>477.526.885</b>	<b>350.572.921</b>

The details of loans and borrowings as of 31 December 2014 and 31 December 2013 are as follows:

31 December 2014				
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	14.551.472	6.844.349	34.200.988
US Dollar	Libor + 4,25	47.930.350	1.048.982	110.096.706
TL	11,90	120.079.333	49.260.907	70.818.426
			<b>57.154.238</b>	<b>215.116.120</b>
31 December 2013				
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
US Dollar	Libor + 2,50 - Libor + 4,25	56.508.847	107.064.058	13.542.775
Euro	Euribor+3,50	16.975.000	7.121.012	42.726.075
TL	11,90	180.119.000	20.857.625	159.261.376
			<b>135.042.695</b>	<b>215.530.226</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

Loans of the Company are used from a related party, İş Bankası (Note 23). The Company received a counter guarantee amounting to USD 160 million. The investment properties are pledged in favour of İş Bankası amounting to USD 161,5 million within the scope of the allocation of the counter guarantee.

The Company borrowed a four-year loan of TL 180.000.000 from İş Bankası in order to finance the purchase of Zeytinburnu Land. As a security to the loan, a first-degree collateral of TL 250.000.000 on the land purchased has been granted to İş Bankası. However, 25% of the Land, whose ownership is shared between the Company and Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (Timur Gayrimenkul-NEF) in the rates of 75% and 25% respectively, has been sold to Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi on 19 September 2014. Following the sales transaction, the ownership shares of the Company and Timur Gayrimenkul has become 50%-50%. As of 31 December 2014, TL 60.000.000 of the loan borrowed for the Land has been repaid and the balance payable decreased to TL 120.000.000.

As of 31 December 2014 details of issued bonds are as follows:

ISIN CODE	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Registered Value
TRISGY41617	100.000.000	10 April 2014	7 April 2016	102.676.597
TRISGY71614	100.000.000	11 June 2014	8 June 2016	102.579.930
				<b>205.256.527</b>

Within its limits of issue limits of TL 200.000.000, the Company has issued 2-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 200.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 8 April 2014 and 9 July 2014, respectively. Benchmark Annual Compound Interest Rate used to price the bond is calculated as the average of the weighted average annual compound interest rate of the "benchmark treasury bill" issued by the Undersecretariat of Treasury of Republic of Turkey which is quoted in the Debt Securities Market within the last 3 business day.

The interest rate for the third period coupon payment of the bond with the code 'TRISGY41617 ISIN' was determined as 2.91% and will be realized on 8 January 2015. The interest rate for the second coupon payment period of the bond with the code 'TRISGY71614 ISIN' was determined as 2.84% and will be realized on 9 January 2015.

#### 8. Trade receivables and payables

##### Short-term trade receivables and payables

	31 December 2014	31 December 2013
<u>Trade receivables</u>		
Notes receivable (*)	27.257.085	27.796.592
Rediscount of notes receivables (-)	(162.516)	(120.849)
Income accruals	10.154.386	5.612.972
Receivables from customers	1.376.154	745.299
Doubtful receivables	719.857	834.659
Provision for doubtful receivables (-)	(719.857)	(834.659)
Due from related parties (Note 24)	976.207	11.678
Other	13.995	144.093
	<b>39.615.311</b>	<b>34.189.785</b>
<u>Trade payables</u>		
Payables to suppliers	2.674.206	15.099.077
Due to related parties (Note 24)	2.717.592	7.207.460
	<b>5.391.798</b>	<b>22.306.537</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### Long-term trade receivables

	31 December 2014	31 December 2013
Trade receivables:		
Notes receivable <sup>(*)</sup>	8.269.201	22.958.180
Rediscount of notes receivables (-)	(867.290)	(227.567)
	<b>7.401.911</b>	<b>22.730.613</b>

(\*) As of 31 December 2014, notes receivable from customers are related to Ege Perla Project and Kartal Manzara Adalar Project (31 December 2013: Ege Perla Project).

As of 31 December 2014, provision for doubtful trade receivables is TL 719.857 (31 December 2013: TL 834.659). Provision for doubtful receivables is determined based on the historical collection performance.

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

	31 December 2014	31 December 2013
Opening balance, 1 January	(834.659)	(216.354)
Charge for the period	(103.708)	(712.461)
Provisions released	218.510	94.156
Closing balance	<b>(719.857)</b>	<b>(834.659)</b>

#### 9. Other receivables and payables

	31 December 2014	31 December 2013
Other receivables:		
Other short-term receivables	5.191	10.814
	<b>5.191</b>	<b>10.814</b>
Other payables - short-term		
Deposits and guarantees given	464.816	371.986
Other short-term payables	18.416	18.416
	<b>483.232</b>	<b>390.402</b>
Other payables - long-term		
Other long-term payables <sup>(*)</sup>	35.990.000	35.990.000
	<b>35.990.000</b>	<b>35.990.000</b>

(\*) The TL 35.990.000 (31 December 2013: TL 35.990.000), is the amount to be paid to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi in relation to the purchase of the land registered in Kartal District Section 53, block 2274, lots 395, 397, 398, 399 and 408 and block 2846, lot 1 and block 2847 lot 1. The consideration will be paid to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi via the proceeds on the sale of houses as part of a revenue sharing agreement based on the project development to be performed on the acquired land.

#### 10. Investment property

As of 31 December 2014 and 31 December 2013, the details of investment properties are as follows:

	31 December 2014	31 December 2013
Investment property under operating lease	729.998.117	738.449.838
Investment property under construction and other	804.964.968	640.159.203
<b>Total</b>	<b>1.534.963.085</b>	<b>1.378.609.041</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

As of 31 December 2014, total insurance amount on investment properties is TL 867.185.894 (31 December 2013: TL 657.540.368).

	31 December 2014		31 December 2013	
	Net Carrying Value	Fair Value	Net Carrying Value	Fair Value
<b>Investment Property</b>				
Ankara İş Kule Building	106.236.226	107.300.000	100.000.000	100.000.000
Ataşehir Finans Merkezi Land	106.362.160	122.455.000	101.771.396	107.000.000
İstanbul Esenyurt (Marmarapark)	49.686.110	106.600.000	49.719.169	96.600.000
İstanbul İş Kuleleri Complex	246.408.162	600.000.000	251.973.594	550.000.000
İş Bankası Ankara Kızılay Building	13.156.191	29.500.000	13.419.690	24.271.000
İş Bankası Ankara Merkez Building	15.349.998	31.590.000	15.636.606	25.500.000
İş Bankası Antalya Merkez Building	6.636.417	17.200.000	6.719.942	14.575.000
İş Bankası Güneşli Building	34.594.060	46.600.000	34.993.411	43.000.000
İş Bankası Sirkeci Building	20.512.721	37.200.000	20.587.629	32.000.000
İzmir Ege Perla Project <sup>(*)</sup>	71.607.227	167.652.000	36.050.717	42.504.555
Kanyon Shopping Mall	102.142.528	390.000.000	102.421.482	365.000.000
Kartal Project	65.651.035	167.800.000	45.591.582	132.050.000
Levent Land	3.806.500	3.806.500	1.174.655	1.174.655
Lykia Lodge Kapadokya Hotel	15.557.916	21.505.000	16.028.845	19.000.000
Mallmarine Shopping Mall	10.142.650	10.142.650	9.187.000	9.187.000
Maslak Petrol Ofisi Building	41.717.371	82.248.600	42.603.655	72.605.000
Real Hipermarket Building	42.388.324	81.000.000	43.076.370	79.500.000
Taksim Lamartine Building	23.638.233	44.295.000	23.842.488	41.000.000
Tuzla Çınarlı Bahçe Project	1.831.210	6.286.000	8.239.957	12.316.983
Tuzla Karma Project	134.293.897	174.500.000	72.981.498	104.500.000
Tuzla Teknoloji ve Operasyon Merkezi Project	214.579.889	304.100.000	112.398.259	120.500.000
Üsküdar Land	25.205.946	25.665.000	23.258.500	23.258.500
Zeytinburnu Land <sup>(**)</sup>	183.458.314	187.962.500	246.932.596	241.200.000
<b>Total</b>	<b>1.534.963.085</b>	<b>2.765.408.250</b>	<b>1.378.609.041</b>	<b>2.256.742.693</b>

<sup>(\*)</sup> As of September 2012, the licence works for the construction of work for Ege Perla Project located in İzmir has been completed and relevant licence has been obtained from the Municipality of Konak Town.

<sup>(\*\*)</sup> According to the Board of Directors resolution dated 9 October 2013, the Company decided to jointly purchase the plot total 130.024,5 m<sup>2</sup> area in İstanbul, Zeytinburnu District (former Topkapı Şişecam factory) with Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi ("NEF") with an amount of TL 320.000.000 excluding VAT, from Türkiye Şişe ve Cam Fabrikaları Anonim Şirketi and Anadolu Cam Sanayi Anonim Şirketi in order to develop a project with NEF. 75% and 25% of the plot would be purchased on behalf of the Company and NEF, respectively. However, on 7 August 2014, the Board of Directors decided to sell a 25% share of the company's ownership to NEF, on 19 September 2014 the transfer of land was completed and both the Company and NEF have equal ownership shares of 50%. The fair value of the land has been determined as the fair value as at 19 September 2014. In total, 15.036.607 TL of financing costs of the project were capitalized in 2014.

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

	Opening Balance 1 January 2014	Purchases	Disposals	Impairment/ Reversal of Impairment	Transfers	Closing balance 31 December 2014
<b>Cost</b>						
Ankara İş Kule Building	147.395.869	9.464	-	8.979.192	-	156.384.525
Ataşehir Finans Merkezi Land	101.771.396	4.590.764	-	-	-	106.362.160
İstanbul Esenyurt (Marmarapark)	64.375.164	-	-	2.427.014	-	66.802.178
İstanbul İş Kuleleri Complex	340.992.420	409.657	(15.394)	-	-	341.386.683
İş Bankası Ankara Kızılay Building	16.309.980	-	-	-	-	16.309.980
İş Bankası Ankara Merkez Building	19.000.000	5.252	-	-	-	19.005.252
İş Bankası Antalya Merkez Building	8.126.612	-	-	-	-	8.126.612
İş Bankası Güneşli Building	39.042.432	-	-	-	-	39.042.432
İş Bankası Sirkeci Building	23.107.500	-	-	-	-	23.107.500
İzmir Project	36.050.717	35.556.510	-	-	-	71.607.227
Kanyon Shopping Mall	121.811.266	1.995.916	-	-	-	123.807.182
Kartal Project	45.591.582	20.059.453	-	-	-	65.651.035
Levent Land	1.174.655	44.208	-	2.587.637	-	3.806.500
Lykia Lodge Kapadokya Hotel	18.138.058	150.566	-	-	-	18.288.624
Mallmarine Shopping Mall	12.958.669	-	-	1.186.456	-	14.145.125
Maslak Petrol Ofisi Building	56.702.617	32.657	-	-	-	56.735.274
Real Hipermarket Building	47.479.607	-	-	-	-	47.479.607
Taksim Lamartine Building	23.912.622	3.777	-	-	-	23.916.399
Tuzla Çınarlı Bahçe Project	8.239.957	4.683.002	-	-	(11.069.340)	1.853.619
Tuzla Karma Project	72.981.498	61.312.399	-	-	-	134.293.897
Tuzla Teknoloji ve Operasyon Merkezi Project	112.398.259	102.181.630	-	-	-	214.579.889
Üsküdar Land	23.258.500	327.058	-	1.620.388	-	25.205.946
Zeytinburnu Land	246.932.596	26.031.731	(89.506.013)	-	-	183.458.314
<b>Total</b>	<b>1.587.751.976</b>	<b>257.394.044</b>	<b>(89.521.407)</b>	<b>16.800.687</b>	<b>(11.069.340)</b>	<b>1.761.355.960</b>

	Opening Balance 1 January 2014	Charge for the period	Disposals	Closing balance 31 December 2014
<b>Accumulated Depreciation</b>				
Ankara İş Kule Building	47.395.869	2.752.430	-	50.148.299
İstanbul İş Kuleleri Complex	89.018.826	5.959.694	-	94.978.521
Çınarlıbahçe Market	-	22.409	-	22.409
Maslak Petrol Ofisi Building	14.098.962	918.941	-	15.017.903
Mallmarine Shopping Mall	3.771.669	230.806	-	4.002.475
İş Bankası Ankara Merkez Building	3.363.394	291.858	-	3.655.252
İş Bankası Ankara Kızılay Building	2.890.290	263.499	-	3.153.789
İş Bankası Antalya Merkez Building	1.406.670	83.525	-	1.490.195
Kanyon Shopping Mall	19.389.784	2.274.870	-	21.664.654
Real Hipermarket Building	4.403.237	688.045	-	5.091.281
İstanbul Esenyurt (Marmarapark)	14.655.995	2.460.073	-	17.116.068
İş Bankası Güneşli Building	4.049.021	399.351	-	4.448.372
İş Bankası Sirkeci Building	2.519.871	74.908	-	2.594.779
Lykia Lodge Kapadokya Hotel	2.109.213	621.495	-	2.730.708
Taksim Project	70.134	208.036	-	278.170
<b>Total</b>	<b>209.142.935</b>	<b>17.249.940</b>	<b>-</b>	<b>226.392.875</b>
<b>Net Carrying Value</b>	<b>1.378.609.041</b>	<b>-</b>	<b>-</b>	<b>1.534.963.083</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

	Opening Balance 1 January 2014	Purchases	Disposals	Impairment/ Reversal of Impairment	Closing balance 31 December 2013
<b>Cost</b>					
Ankara İş Kule Building	142.662.146	23.432	-	4.710.291	147.395.869
Antalya Kemer Imperial Hotel	39.324.251	-	(39.324.251)	-	-
Ataşehir Finans Merkezi Land	95.000.000	3.918.686	-	2.852.710	101.771.396
İstanbul Esenyurt (Marmarapark)	61.948.150	-	-	2.427.014	64.375.164
İstanbul İş Kuleleri Complex	340.401.026	591.394	-	-	340.992.420
İş Bankası Ankara Kızılay Building	16.309.980	-	-	-	16.309.980
İş Bankası Ankara Merkez Building	19.000.000	-	-	-	19.000.000
İş Bankası Antalya Merkez Building	8.126.612	-	-	-	8.126.612
İş Bankası Güneşli Building	39.038.232	4.200	-	-	39.042.432
İş Bankası Sirkeci Building	23.107.500	-	-	-	23.107.500
İzmir Project	19.508.200	16.542.517	-	-	36.050.717
Kanyon Shopping Mall	121.018.233	793.033	-	-	121.811.266
Kartal Project	38.504.066	7.087.516	-	-	45.591.582
Levent Land	1.090.000	7.735	-	76.920	1.174.655
Lykia Lodge Kapadokya Hotel	18.136.363	1.695	-	-	18.138.058
Mallmarine Shopping Mall	14.040.636	973	-	(1.082.940)	12.958.669
Maslak Petrol Ofisi Building	56.653.417	49.200	-	-	56.702.617
Real Hipermarket Building	47.479.607	-	-	-	47.479.607
Seven Seas Hotel	103.887.630	-	(103.887.630)	-	-
Taksim Lamartine Building	20.493.048	3.419.574	-	-	23.912.622
Tuzla Çınarlı Bahçe Project	4.357.842	3.882.115	-	-	8.239.957
Tuzla Karma Project	32.927.338	40.054.160	-	-	72.981.498
Tuzla Teknoloji ve Operasyon Merkezi Project	62.554.341	49.843.918	-	-	112.398.259
Üsküdar Land	21.000.000	209.108	-	2.049.392	23.258.500
Zeytinburnu Land	-	246.932.596	-	-	246.932.596
<b>Total</b>	<b>1.346.568.618</b>	<b>373.361.852</b>	<b>(143.211.881)</b>	<b>11.033.387</b>	<b>1.587.751.976</b>
	Opening balance 1 January 2013	Charge for the period	Disposals		Closing balance 31 December 2013
<b>Accumulated Depreciation</b>					
Ankara İş Kule Building	44.662.146	2.733.723	-	-	47.395.869
Antalya Kemer Imperial Hotel	2.704.863	706.164	(3.411.027)	-	-
İstanbul Esenyurt (Marmarapark)	12.195.922	2.460.073	-	-	14.655.995
İstanbul İş Kuleleri Complex	82.916.280	6.102.546	-	-	89.018.826
İş Bankası Ankara Kızılay Building	2.626.791	263.499	-	-	2.890.290
İş Bankası Ankara Merkez Building	3.071.667	291.727	-	-	3.363.394
İş Bankası Antalya Merkez Building	1.323.145	83.525	-	-	1.406.670
İş Bankası Güneşli Building	3.645.606	403.415	-	-	4.049.021
İş Bankası Sirkeci Building	2.444.962	74.909	-	-	2.519.871
Kanyon Shopping Mall	17.159.750	2.230.034	-	-	19.389.784
Lykia Lodge Kapadokya Hotel	1.496.933	612.280	-	-	2.109.213
Mallmarine Shopping Mall	3.540.636	231.033	-	-	3.771.669
Maslak Petrol Ofisi Building	13.179.917	919.045	-	-	14.098.962
Real Hipermarket Building	3.715.816	687.421	-	-	4.403.237
Seven Seas Hotel	46.120.817	1.389.073	(47.509.890)	-	-
Taksim Lamartine Building	-	70.134	-	-	70.134
<b>Total</b>	<b>240.805.251</b>	<b>19.258.601</b>	<b>(50.920.917)</b>		<b>209.142.935</b>
<b>Net Carrying Value</b>	<b>1.105.763.367</b>				<b>1.378.609.041</b>



## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

The fair values of the Company's investment properties at 31 December 2014 have been arrived at on the basis of valuations carried out in November 2014 by four independent appraiser firms. 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. Appraisal studies are in compliance with International Valuation Standards and are figured out by reference to market evidence of transaction prices for similar properties or discounted future cash flows.

As of the reporting date, there are no restrictions on the sale of investment properties and no liabilities incurred from agreements related to the purchase, construction, development and maintenance. As of the reporting date, the investment properties are pledged in favour of İş Bankası amounting to USD 161.500.000 and TL 250.000.000.

During the period, the property rental income earned by the Company from its investment properties amounted to TL 105.488.186 (31 December 2013: TL 106.650.982). Direct operating expenses arising on the investment properties in the current period amounted to TL 21.218.317 (31 December 2013: TL 25.410.708).

#### 11. Inventories

##### Short-term inventories

###### Completed residential units

Çınarlı Bahçe Tuzla residences <sup>(\*)</sup>

	31 December 2014	31 December 2013
	4.245.222	4.090.123
	<b>4.245.222</b>	<b>4.090.123</b>

##### Long-term inventories

###### Non-completed residential units

Izmir Ege Perla <sup>(\*\*)</sup>

	31 December 2014	31 December 2013
	63.128.870	31.439.900
	<b>63.128.870</b>	<b>31.439.900</b>

<sup>(\*)</sup> The Company has started the Çınarlı Bahçe Tuzla project registered in Istanbul, Tuzla District on a plot total 41.000 m<sup>2</sup> area in the last quarter of 2011. The project consists of 7 blocks with 476 residences, a grocery and a kindergarten, and pre-sales of project has started on October 2011. As of 31 December 2014, 463 residences have been completed and delivered to customers. The Company has reclassified 30 residences within Çınarlı Bahçe Project which were classified under investment property as of 31 December 2013, into inventories.

<sup>(\*\*)</sup> The Company has started the Ege Perla Izmir project registered in Izmir, Konak District on a plot total 18.392 m<sup>2</sup> area in the third quarter of 2012. The project consists of 2 blocks with 111 residences, 65 offices and one shopping mall, and pre-sales of project has started on October 2012. As of 31 December 2014, preliminary sales contracts have been signed for total 99 residences and the Company received advances amounting to TL 111.279.222 (31 December 2013: TL 92.713.675) (Note 16).

Furthermore, the Company has started the Manzara Adalar project in Istanbul, Kartal, in December 2014. Sales agreements for 19 residences have been signed and advances have been received amounting to TL 9.578.740 as of 31 December 2014 (31 December 2013: None) (Note 16).

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### 12. Tangible assets

	Machinery and equipment	Vehicles	Fixtures	Total
<b>Cost</b>				
Opening balance as of 1 January 2014	85.950	269.977	2.219.596	2.575.523
Purchases	-	-	109.813	109.813
<b>Closing balance as of 31 December 2014</b>	<b>85.950</b>	<b>269.977</b>	<b>2.329.409</b>	<b>2.685.336</b>
<b>Accumulated Depreciation</b>				
Opening balance as of 1 January 2014	85.950	206.847	1.054.590	1.347.387
Current year charge	-	36.868	347.684	384.552
<b>Closing balance as of 31 December 2014</b>	<b>85.950</b>	<b>243.715</b>	<b>1.402.274</b>	<b>1.731.939</b>
<b>Net book value as of 1 January 2014</b>	<b>-</b>	<b>63.130</b>	<b>1.165.006</b>	<b>1.228.136</b>
<b>Net book value as of 31 December 2014</b>	<b>-</b>	<b>26.262</b>	<b>927.135</b>	<b>953.397</b>
<b>Cost</b>				
Opening balance as of 1 January 2013	85.950	269.977	1.124.981	1.480.908
Purchases	-	-	1.094.615	1.094.615
<b>Closing balance as of 31 December 2013</b>	<b>85.950</b>	<b>269.977</b>	<b>2.219.596</b>	<b>2.575.523</b>
<b>Accumulated Depreciation</b>				
Opening balance as of 1 January 2013	85.414	169.979	737.718	993.111
Current year charge	536	36.868	316.872	354.276
<b>Closing balance as of 31 December 2013</b>	<b>85.950</b>	<b>206.847</b>	<b>1.054.590</b>	<b>1.347.387</b>
<b>Net book value as of 1 January 2013</b>	<b>536</b>	<b>99.998</b>	<b>387.263</b>	<b>487.797</b>
<b>Net book value as of 31 December 2013</b>	<b>-</b>	<b>63.130</b>	<b>1.165.006</b>	<b>1.228.136</b>

As of 31 December 2014 and 31 December 2013, there is no pledge on tangible assets.

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### 13. Intangible assets

	Computer programs	Total
<b>Cost</b>		
Opening balance as of 1 January 2014	1.742.015	1.742.015
Purchases	162.502	162.502
<b>Closing balance as of 31 December 2014</b>	<b>1.904.517</b>	<b>1.904.517</b>
<b>Accumulated Depreciation</b>		
Opening balance as of 1 January 2014	1.629.383	1.629.383
Current year charge	130.106	130.106
<b>Closing balance as of 31 December 2014</b>	<b>1.759.489</b>	<b>1.759.489</b>
<b>Net book value as of 1 January 2014</b>	<b>112.632</b>	<b>112.632</b>
<b>Net book value as of 31 December 2014</b>	<b>145.028</b>	<b>145.028</b>
<b>Cost</b>		
Opening balance as of 1 January 2013	1.688.338	1.688.338
Purchases	53.677	53.677
<b>Closing balance as of 31 December 2013</b>	<b>1.742.015</b>	<b>1.742.015</b>
<b>Accumulated Depreciation</b>		
Opening balance as of 1 January 2013	1.515.836	1.515.836
Current year charge	113.547	113.547
<b>Closing balance as of 31 December 2013</b>	<b>1.629.383</b>	<b>1.629.383</b>
<b>Net book value as of 1 January 2013</b>	<b>172.502</b>	<b>172.502</b>
<b>Net book value as of 31 December 2013</b>	<b>112.632</b>	<b>112.632</b>

As of 31 December 2014 and 31 December 2013, the Company does not have any internally generated intangible assets.

### 14. Provisions, contingent assets and liabilities

	31 December 2014	31 December 2013
Provisions	41.096	41.551
	<b>41.096</b>	<b>41.551</b>
	<b>31 December 2014</b>	<b>31 December 2013</b>
Letters of guarantee received <sup>(*)</sup>	180.342.934	165.146.173
	<b>180.342.934</b>	<b>165.146.173</b>

<sup>(\*)</sup> Letters of guarantee consist of the letters received from tenants and suppliers of the Company.

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

Details of collaterals, pledges and mortgages ("CPM") given by the Company as of 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
A. CPM given for companies own legal personality <sup>(*)</sup>	630.807.732	710.318.855
B. CPM given in behalf of fully consolidated companies	-	-
C. CPM given for continuation of its economic activities on behalf of third parties <sup>(**)</sup>	18.974.266	18.857.366
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	-	-
<b>Total</b>	<b>649.781.998</b>	<b>729.176.221</b>

<sup>(\*)</sup> CPM given for the Company's own legal personality consists of letters of guarantee amounting to TL 377.205 and USD 54.000.000 and pledge amounting to USD 161.500.000 and TL 250.000.000. As of 31 December 2013, the investment properties are pledged in favour of İş Bankası amounting to USD 161.500.000 and TL 250.000.000. As of 31 December 2013, the Company has 1<sup>st</sup> degree mortgage on its investment properties held amounting to USD 161.500.000 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, 1<sup>st</sup> degree mortgage was constituted in favour of İş Bankası from investment properties portfolio of the Company, İş Bankası Ankara Kızılay Building amounting to USD 11.000.000, İş Bankası Sirkeci Building amounting to USD 14.500.000, Kule-2 and Kule Çarşısı amounting to USD 136.000.000.

The Company borrowed a four-year loan of TL 180.000.000 from İş Bankası in order to finance the purchase of Zeytinburnu Land. As a security to the loan, a first-degree collateral of TL 250.000.000 on the land purchased has been granted to İş Bankası. However, 25% of the Land, whose ownership is shared between the Company and Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (Timur Gayrimenkul-NEF) in the rates of 75% and 25% respectively, has been sold to Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi on 19 September 2014. Following the sales transaction, the ownership shares of the Company and Timur Gayrimenkul has become 50%-50%. As of 31 December 2014, TL 60.000.000 of the loan borrowed for the Land has been repaid and the balance payable decreased to TL 120.000.000.

<sup>(\*\*)</sup> 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 31 December 2014, the ratio of CPM given by the Company to the Company's shareholders' equity is 1,6% (31 December 2013: 1,6%).

#### 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 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Less than 1 year	60.915.270	106.288.144
Between 1-5 years	76.892.296	223.500.647
More than 5 years	12.580.450	607.360.641
	<b>150.388.016</b>	<b>937.149.432</b>

#### 15. Provision for employee benefits

	31 December 2014	31 December 2013
Short-term employee benefits		
Unused vacation provisions	208.918	169.376
	<b>208.918</b>	<b>169.376</b>
Long-term employee benefits		
Severance pay indemnity	831.795	806.852
	<b>831.795</b>	<b>806.852</b>

Under Turkish Labour 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 6 March 1981 dated, 2422 numbered and 25 August 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 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 3.438,22 for each period of service as of 31 December 2014 (31 December 2013: TL 3.254,44).

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

TAS 19 (2011) - Employee Benefits requires the development of actuarial methods for the determination of the retirement pay liability. For the year ended 31 December 2014, the Company recognises all of its actuarial gains and losses under actuarial gains or losses in defined benefit plans which is under other comprehensive income non-reclassifiable in the profit or loss which is under equity. 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 31 December 2014, 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 5% and a discount rate of 8%, resulting in a real discount rate of approximately 2,86% (31 December 2013: 6,10% inflation rate, 9,80% discount rate, 3,49% real discount rate). The anticipated rate of for features is considered. As the maximum liability is revised semi-annually, the maximum amount of TL 3.438,22 effective from 31 December 2014 has been taken into consideration in calculation of provision from employment termination benefits.

	31 December 2014	31 December 2013
Opening balance at 1 January	806.852	687.159
Service cost	82.957	113.953
Interest cost	79.072	53.117
Payments	-	(5.213)
Actuarial difference	(137.086)	(42.164)
<b>Closing balance at period end</b>	<b>831.795</b>	<b>806.852</b>

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

##### Other current assets

	31 December 2014	31 December 2013
Job advances (*)	50.912.867	78.347.608
Prepaid expenses (**)	1.429.508	1.308.234
	<b>52.342.375</b>	<b>79.655.842</b>

(\*) The Company signed an agreement with Nida İnşaat - A Yapı (joint venture) for the construction work of Ege Perla project located in Konak, İzmir. As of 31 December 2014, job advances paid to Nida İnşaat - A Yapı under the agreement terms are TL 33.377.454 (31 December 2013: TL 46.759.698).

The Company signed an agreement with Koray İnşaat Sanayi ve Ticaret A.Ş. for the construction work of Tuzla Technology and Operation Center Project located in G22B17A1C, parcels 1 and 2. As of 31 December 2014 job advances paid to Koray İnşaat Sanayi ve Ticaret A.Ş. under the agreement terms are TL 15.578.290 (31 December 2013: TL 30.996.991).

The work advances item consists of TL 792.004 of advances to related parties.

(\*\*) As of 31 December 2014, prepaid expenses mainly consist of prepaid insurance expenses with related parties amounting TL 1.429.528 (31 December 2013: TL 1.303.314).

##### Other current assets

	31 December 2014	31 December 2013
Deferred VAT	16.365.646	9.675.983
Prepaid taxes and dues payable	16.252	128.238
	<b>16.381.898</b>	<b>9.804.221</b>

##### Other short-term liabilities

	31 December 2014	31 December 2013
Taxes and funds payable	1.953.993	1.960.114
Payable Social Security cuts	114.174	-
Fees accrued expenses related to housing and land	-	993.229
	<b>2.068.167</b>	<b>2.953.343</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

**Deferred revenue (Short-term)**

	31 December 2014	31 December 2013
Income relating to future periods (***)	921.807	697.593
Short-term deferred revenue to related (Note 24)	734.017	361.574
Advances received	53.055	53.056
	<b>1.708.879</b>	<b>1.112.223</b>

**Deferred revenue (Long-term)**

	31 December 2014	31 December 2013
Deferred revenue (****)	120.857.962	94.584.024
Advances received (***)	3.267.486	3.707.332
	<b>124.125.448</b>	<b>98.291.356</b>

(\*\*\*) Consists of the contribution received from Real Hipermarketler Zinciri A.Ş. in relation to the Real Project and other rental payments received for future periods.

(\*\*\*\*) Mainly consists of the advances received from the sale of the properties in Çınarlı Bahçe Tuzla Project and Ege Perla Project (Note 11).

**17. Shareholders' equity**Share capital

The composition of the paid-in share capital as of 31 December 2014 and 31 December 2013 is as follows:

	31 December 2014		31 December 2013	
	(%)		(%)	
İş Bankası	42,23	287.366.592	42,23	266.080.192
Anadolu Hayat Emeklilik A.Ş.	7,11	48.365.504	7,11	44.782.874
Anadolu Anonim Türk Sigorta A.Ş.	4,77	32.473.778	4,77	30.068.312
İş Net Elektronik Hizm. A.Ş.	1,33	9.019.722	1,33	8.351.594
Other	2,60	17.667.484	2,60	16.358.784
Publicly traded	41,96	285.506.920	41,96	264.358.244
<b>Historic share capital</b>	<b>100,00</b>	<b>680.400.000</b>	<b>100,00</b>	<b>630.000.000</b>

At the Annual General Meeting on 21 March 2014 the Company's capital of TL 680.000.000 has been decided to be removed by increasing the total amount to be covered from the profit of TL 50.400.000 in 2013. Related capital increase decision, approved by the Capital Markets Board on 5 June 2014, has been registered by Istanbul Trade Registry Office.

The total number of ordinary shares consists of 680.400.000 (31 December 2013: 630.000.000) shares with a par value of TL 1 per share. All of the shares are issued to name and TL 972.000 (31 December 2013: TL 900.000) of the total amount is Group A and TL 679.428.000 (31 December 2013: TL 629.100.000) 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.

The total number of ordinary shares of Kanyon consists of 40.000 shares with a par value of TL 25 per share. 20.000 shares are Group A shares pertaining to Eczacıbaşı Holding A.Ş.. The other 20.000 are Group B shares belonging to İş Gayrimenkul Yatırım Ortaklığı A.Ş. Three members of Management Committee are selected among the candidates nominated by Group A shareholders while the remaining three are selected among the candidates of Group B shareholders.

In its meeting on 28 April 2014, the Board of Directors has decided to liquidate Nest in Globe and therefore, to terminate the shareholder agreement signed with Kayı Holding. Nest in Globe has been officially liquidated on 16 July 2014.

Adjustment to share capital

Adjustment to share capital amount is TL 240.146.090 as of 31 December 2014 and 31 December 2013. 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 31 December 2014, 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 (31 December 2013: TL 423.981).



## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### Restricted reserves

	31 December 2014	31 December 2013
Legal reserves	24.677.855	19.712.142
	<b>24.677.855</b>	<b>19.712.142</b>

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

	31 December 2014	31 December 2013
Prior years' profits	178.891.696	149.600.689
	<b>178.891.696</b>	<b>149.600.689</b>

#### Dividend distribution

For the period ended 31 December 2014, 2013 net distributable profit amounting to TL 31.500.000 after first legal reserve and second legal reserve has been committed to be distributed on a cash basis, and dividend of shares traded on BIST has been distributed on 25 March 2014, the other dividend of shares that are not traded on Istanbul Stock Exchange has been distributed on 27 March 2014.

According to CMB's decision on 27 January 2010 numbered 02/51, corporations traded on the stock exchange market are not obliged to distribute a specified amount of dividends. For corporations that will distribute dividends, in relation to the resolutions in their general meeting the dividends may be in cash, may be free by adding the profit into equity, or may be partially from both. It is also permitted not to distribute determined first party dividends falling below 5 percent of the paid-in capital of the company but, corporations that increased capital before distributing the previous year's dividends and as a result their shares are separated as "old" and "new" are obliged to distribute 1<sup>st</sup> party dividends in cash.

In this content, profit distribution amount calculated with the CMB's minimum compulsory profit distribution regulations on net distributable profit amount according to CMB regulations will be distributed if the amount is sufficient, if not statutory net distributable profit amount will be distributed. Dividend distribution will not be performed if there is loss in the financial statements prepared in accordance with the CMB regulations or in the statutory financial statements.

In the Ordinary General Shareholders' Meeting held on 21 March 2014, the distribution of 2013 net profit was determined as follows:

	Amount
First legal reserve (TCC 466/1) 5%	4.965.713
Dividend	31.500.000
Second legal reserve (TCC 466/2)	-
Capital increase through bonus issues (*)	50.400.000
Transferred to prior years' profits	29.291.007
<b>Total</b>	<b>116.156.720</b>

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### Foreign currency translation differences

Foreign currency translation differences is the result of TL translation of equity items of the Company's subsidiary, Nest in Globe. In its meeting on 28 April 2014, the Board of Directors has decided to liquidate Nest in Globe and therefore, to terminate the shareholder agreement signed with Kayı Holding. As a result, there has been nil foreign currency translation differences as of 31 December 2014.

### Other losses/gains

Other losses/gains are composed of actuarial differences in the amount of TL 179.250 (31 December 2013: TL 42.164).

### 18. Revenue and cost of revenue

	1 January- 31 December 2014	1 January- 31 December 2013
Income from sales of real estate	13.184.050	130.770.237
Income from sales of investment property	93.669.391	116.538.900
Rent income	105.488.187	106.650.982
Income from right of construction	10.871.897	9.463.443
Tenant contribution and service income	888.125	826.712
Other revenue	114.917	174.160
<b>Total real estate revenues</b>	<b>224.216.567</b>	<b>364.424.434</b>
Interest income on bank deposits	4.748.794	4.430.178
Gain on buy/sell of marketable securities	3.247.061	1.767.400
Interest income from government bonds, treasury bills and private sector bonds	1.841.523	517.658
Interest income from reverse repos	24.585	24.480
<b>Total debt instruments revenue</b>	<b>9.861.963</b>	<b>6.739.716</b>
<b>Total revenue</b>	<b>234.078.530</b>	<b>371.164.150</b>
<b>Cost of revenue</b>		
Cost of sales of investment property	(89.506.013)	(92.290.964)
Depreciation charges	(17.249.940)	(19.258.601)
Administrative expenses	(13.401.834)	(11.124.614)
Cost of sales of real estate	(9.060.987)	(107.374.468)
Taxes and dues	(4.522.236)	(4.141.655)
Insurance expenses	(1.973.837)	(1.812.797)
Reversal of impairment on investment properties	16.800.687	12.116.327
Impairment on investment properties	-	(1.082.940)
Other	(871.157)	(106.428)
	<b>(119.785.317)</b>	<b>(225.076.140)</b>

### 19. General administrative expenses

	1 January- 31 December 2014	1 January- 31 December 2013
Personnel expenses	7.266.917	5.797.265
Outsourced service expenses	9.053.405	5.592.715
Taxes and duties	1.344.162	288.528
Depreciation and amortisation	514.658	467.823
Provision for doubtful receivables	(114.802)	618.305
	<b>18.064.340</b>	<b>12.764.636</b>

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### 20. Expenses by nature

#### Personnel expenses

General administrative expenses

1 January- 31 December 2014	1 January- 31 December 2013
7.266.917	5.797.265
<b>7.266.917</b>	<b>5.797.265</b>

#### Depreciation and amortization

Cost of sales

General administrative expenses

1 January- 31 December 2014	1 January- 31 December 2013
17.249.940	19.258.601
514.658	467.823
<b>17.764.598</b>	<b>19.726.424</b>

### 21. Other operating income/expense

Details of other operating income/expense for the years ended 31 December 2014 and 2013 are as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
Foreign exchange gains	25.514.596	41.172.459
Other	547.644	880.658
	<b>26.062.240</b>	<b>42.053.117</b>
	1 January- 31 December 2014	1 January- 31 December 2013
Foreign exchange losses	(30.751.383)	(28.526.480)
Other	-	(123.742)
	<b>(30.751.383)</b>	<b>(28.650.222)</b>

### 22. Finance income/expense

	1 January- 31 December 2014	1 January- 31 December 2013
Foreign exchange losses	(2.356.705)	(28.604.692)
Interest expense on loans and borrowings	(1.951.042)	(1.898.161)
Other interest expense	(1.029.813)	(689.901)
Derivative gains/(losses), net	(258.721)	120.628
	<b>(5.596.281)</b>	<b>(31.072.126)</b>

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### 23. Earnings per share

	1 January - 31 December 2014	1 January - 31 December 2013
Number of shares in circulation during the period	630.000.000	600.000.000
Bonus shares <sup>(*)</sup>	50.400.000	30.000.000
Number of shares in circulation as of 31 December (total)	680.400.000	630.000.000
Weighted average number of shares in circulation <sup>(**)</sup>	680.400.000	630.000.000
Net profit attributable to the equity holders of the parent	86.771.767	116.156.720
<b>Earnings per share</b>	<b>0,1275</b>	<b>0,1707</b>
<b>Diluted earnings per share</b>	<b>0,1275</b>	<b>0,1707</b>

<sup>(\*)</sup> Capital increase is realized from internal sources and increase in number of share is used for computation of prior period earnings per share.<sup>(\*\*)</sup> As of 31 December 2014 capital of the Company consists of 680.400.000 shares that are valued 1 cent for each one.

### 24. Related party disclosures

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

Details of related party balances are as follows:

Balances at İş Bankası	31 December 2014	31 December 2013
Demand deposits	12.581	693.059
Time deposits	68.741.576	74.024.676
Receivables from reverse repo transactions	14.778	18.886
	<b>68.768.935</b>	<b>74.736.621</b>

The Company has letters of guarantee amounting TL 6.305.382 (31 December 2013: TL 377.205 and USD 54.000.000) from İş Bankası. In addition, 1<sup>st</sup> degree mortgage is instituted by the Company in favour İş Bankası amounting to USD 161.500.000 and TL 250.000.000 on some investment properties.

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

As of 31 December 2014 and 2013, the Company has mutual funds, established by İş Yatırım Menkul Değerler A.Ş., İş Bankası and İş Portföy Yönetimi A.Ş.

	31 December 2014			
	Trade receivables	Other receivables	Trade payables	Deferred revenue
<i>Balances with related parties</i>	Short-term	Short-term	Short-term	
Anadolu Anonim Türk Sigorta A.Ş.	48	1.429.508	760.730	-
Anadolu Cam Sanayii A.Ş.	-	-	-	33.388
Anadolu Hayat Emeklilik A.Ş.	-	-	-	47.857
Avea İletişim Hizmetleri A.Ş.	3.525	-	38.980	47.966
Camiş Madencilik A.Ş.	-	-	-	10.241
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	-	-	3.880
İş Merkezleri Yönetim ve İşletim A.Ş.	928.563	-	146.595	10.739
İş Net Elektronik Hizmetler A.Ş.	-	-	2.360	-
İş Portföy Yönetimi A.Ş.	-	-	65.771	-
İş Yatırım Menkul Değerler A.Ş.	-	-	-	32.431
İş Finansal Kiralama A.Ş.	-	792.004	-	-
Kanyon Yönetim İşl. Paz. Ltd. Şti.	-	-	1.554.531	288.145
Paşabahçe Cam San. Ve Tic. A.Ş.	407	-	-	64.297
Paşabahçe Mağazaları A.Ş.	-	-	-	2.270
Soda Sanayii A.Ş.	-	-	8.433	26.002
Şişecam Dış Ticaret A.Ş.	-	-	-	5.300
Şişecam Sigorta Hizmetleri A.Ş.	-	-	-	2.761
T İş Bankası A.Ş.	7.005	-	-	4.452
Trakya Cam Sanayii A.Ş.	36.659	-	-	39.042
Türkiye Şişe ve Cam Fabrikaları A.Ş.	-	-	-	115.246
Payables to shareholders (dividend)	-	-	304	-
Other	-	-	139.888	-
	<b>976.207</b>	<b>2.221.512</b>	<b>2.717.592</b>	<b>734.017</b>

	31 December 2014	
	Loans and borrowings	
<i>Balances with related parties</i>	Short-Term	Long-Term
T. İş Bankası A.Ş.	57.154.238	215.116.120
<i>Transactions with related parties</i>	Interest expense on loans	
T. İş Bankası A.Ş.		1.946.891

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

As of 31 December 2014, the Company's financial assets at fair value through profit or loss include private sector bonds belonging to related parties comprising the following:

<b>Balances with related parties</b>	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Nominal value</b>	<b>Fair value</b>	<b>Nominal value</b>	<b>Fair value</b>
İş Bankası	-	-	364.750	348.750
İş Finansal Kiralama A.Ş.	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>364.750</b>	<b>348.750</b>

<b>Balances with related parties</b>	<b>31 December 2013</b>			
	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Trade payables</b>	<b>Deferred revenue</b>
	<b>Short-term</b>	<b>Short-term</b>	<b>Short-term</b>	<b>Short-term</b>
Kanyon Yönetim İşl. Paz. Ltd. Şti.	-	-	1.343.585	1.743
Türkiye Şişe ve Cam Fab. A.Ş.	-	-	192.999	87.017
Paşabahçe Cam San. Ve Tic. A.Ş.	-	-	784	56.833
Anadolu Hayat Emeklilik A.Ş.	-	-	-	33.841
Anadolu Anonim Türk Sigorta A.Ş.	11.678	1.303.314	840.737	-
Avea İletişim Hizmetleri A.Ş.	-	-	53.932	40.066
Trakya Cam Sanayii A.Ş.	-	-	-	34.510
Anadolu Hayat Emeklilik A.Ş.	-	-	-	-
İş Yatırım Menkul Değerler A.Ş.	-	-	-	28.667
Anadolu Cam Sanayii A.Ş.	-	-	4.270.447	25.270
Soda Sanayii A.Ş.	-	-	-	22.983
Camiş Madencilik A.Ş.	-	-	-	9.052
İş Merkezleri Yönetim ve İşletim A.Ş.	-	-	344.285	9.491
Paşabahçe Mağazaları A.Ş.	-	-	2.768	2.007
Şişecam Sigorta Hizmetleri A.Ş.	-	-	-	1.881
İş Bankası	-	-	5	4.779
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	-	-	3.430
İş Net Elektronik Hizmetler A.Ş.	-	-	2.360	-
Softtech Yazılım Teknolojileri A.Ş.	-	-	15.140	-
Due to shareholders	-	-	192	-
Other	-	-	140.226	-
	<b>11.678</b>	<b>1.303.314</b>	<b>7.207.460</b>	<b>361.574</b>

<b>Balances with related parties</b>	<b>31 December 2013</b>	
	<b>Loans and borrowings</b>	
	<b>Short-term</b>	<b>Long-term</b>
İş Bankası	27.978.637	201.987.451

<b>Transactions with related parties</b>	<b>31 December 2013</b>	
	<b>Interest expense on loans</b>	
	<b>Short-term</b>	<b>Long-term</b>
İş Bankası	-	1.898.161

As of 31 December 2014, the Company entered into an interest option derivative transaction with İş Bankası and TL 41.674 (31 December 2013: TL 300.392) accrual of this derivative transaction is recognised in the Company's statement of financial position and also TL 258.721 derivative trading gains (31 December 2013: TL (120.628) derivative trading loss) is recognized in the Company's profit or loss for this transaction.

In addition, the Company paid commission amounting to USD 210.000 (31 December 2013: USD 378.000) +BITT to İş Bankası for the letter of guarantees amounting to USD 54.000.000.



## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

Transactions with related parties	1 January - 31 December 2014				
	Purchases <sup>(*)</sup>	Interest received	Rent income	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş.	2.180.518	-	-	89.001	-
Anadolu Cam Sanayi A.Ş.	-	-	2.058.972	40.641	-
Anadolu Hayat Emeklilik A.Ş.	179.078	-	3.526.715	49.793	-
Avea İletişim Hizmetleri A.Ş.	53.505	-	64.262	-	-
Camiş Madencilik A.Ş.	-	-	603.180	12.465	-
İş Finansal Kiralama A.Ş.	-	6.160	780	-	-
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	-	374.641	4.723	-
İş Merkezleri Yönetim ve İşletim A.Ş.	1.992.639	-	2.352.848	13.072	-
İş Net Elektronik Hizmetler A.Ş.	11.174	-	11.127	-	76.420
İş Portföy Yönetimi A.Ş.	-	-	33.943	-	146.769
İş Yatırım Menkul Değerler A.Ş.	-	-	4.020.024	39.477	7.329
Paşabahçe Cam San. Ve Tic. A.Ş.	-	-	3.792.471	78.266	-
Paşabahçe Mağazacılık A.Ş.	1.468	-	628.642	2.763	2.971
Soda Sanayi A.Ş.	46.104	-	1.530.284	31.650	-
Softtech Yazılım Teknolojileri A.Ş.	-	-	-	-	124.437
Şişecam Dış Ticaret A.Ş.	-	-	415.272	6.451	-
Şişecam Sigorta Hizmetleri A.Ş.	-	-	226.483	5.247	-
T.Şişe ve Cam Fabrikaları A.Ş.	-	-	7.266.321	138.397	-
Trakya Cam Sanayi A.Ş.	-	-	2.299.429	47.524	-
Türkiye İş Bankası A.Ş.	-	4.773.371	19.881.989	6.263	13.590
	<b>4.464.486</b>	<b>4.779.531</b>	<b>49.087.383</b>	<b>565.733</b>	<b>371.516</b>

<sup>(\*)</sup> Anadolu Anonim Türk Sigorta A.Ş. balance is related to the insurance of investment properties. İş Merkezleri Yönetim ve İşletim A.Ş. balances are related to operational charges related to İş Kule Building and Mallmarine Shopping Centre, which are the Company's investment properties.

Transactions with related parties	1 January - 31 December 2013				
	Purchases <sup>(*)</sup>	Interest received	Rent income	Other income	Other expenses
İş Bankası	-	4.477.447	17.458.804	239.983	26.169
Anadolu Anonim Türk Sigorta A.Ş.	1.930.322	-	4.138.652	69.493	-
Anadolu Hayat Emeklilik A.Ş.	139.553	-	2.678.160	40.518	-
İş Finansal Kiralama A.Ş.	-	6.588	-	-	-
İş Merkezleri Yönetim ve İşletim A.Ş.	2.622.197	-	904.787	10.474	-
İş Yatırım Menkul Değerler A.Ş.	-	-	3.425.067	34.323	16.624
T.Şişe ve Cam Fabrikaları A.Ş.	18.378.605	-	5.397.571	102.211	-
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	-	317.632	1.143	-
İş Net Elektronik Hizmetler A.Ş.	44.468	-	9.538	-	79.282
İş Portföy Yönetimi A.Ş.	-	-	22.251	-	31.970
Paşabahçe Mağazacılık A.Ş.	14.214	-	591.970	2.402	28.147
Avea İletişim Hizmetleri A.Ş.	48.051	-	59.815	-	-
Paşabahçe Cam San. ve Tic. A.Ş.	-	-	3.524.696	68.047	-
Trakya Cam Sanayi A.Ş.	-	-	2.136.752	41.319	-
Soda Sanayi A.Ş.	-	-	1.422.260	29.494	-
Anadolu Cam Sanayi A.Ş.	221.621.396	-	1.564.106	30.256	-
Camiş Madencilik A.Ş.	-	-	560.601	10.838	-
Şişecam Sigorta Hizmetleri A.Ş.	-	-	116.753	2.258	-
Softtech Yazılım Teknolojileri A.Ş.	-	-	-	-	173.835
	<b>244.798.806</b>	<b>4.484.035</b>	<b>44.329.415</b>	<b>682.759</b>	<b>356.027</b>

<sup>(\*)</sup> Anadolu Anonim Türk Sigorta A.Ş. balance is related to the insurance of investment properties. İş Merkezleri Yönetim ve İşletim A.Ş. balances are related to operational charges related to İş Kule Building and Mallmarine Shopping Mall.

## Notes to the Financial Statements For the Year Ended 31 December 2014

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

As of 31 December 2014 TL 13.881.331 of bonds issued have been purchased by related parties as follows:

### **Transactions with related parties**

	<b>31 Dec 2014</b>
Anadolu Anonim Türk Sigorta A.Ş.	6.530.232
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	2.607.986
Milli Reasürans T.A.Ş.	1.632.558
İş Portföy Yönetimi A.Ş.	1.221.852
İş Yatırım Menkul Değerler A.Ş.	1.176.447
İş Yatırım Ortaklığı A.Ş.	646.863
T.İş Bankası A.Ş.	65.395
	<b>13.881.331</b>

### **Benefits provided to key management personnel:**

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

	<b>1 January- 31 December 2014</b>	<b>1 January- 31 December 2013</b>
Salaries and other short term benefits	3.288.174	3.063.810
Employee termination benefits	363.633	314.905
	<b>3.651.807</b>	<b>3.378.715</b>

## **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 Financial Statements

### For the Year Ended 31 December 2014

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

#### b.1) Credit risk management

Exposure to maximum credit risk as of reporting date	Receivables							
	Trade receivables		Other Receivables		Bank deposits	Financial investments <sup>(***)</sup>	Derivative instruments	Other <sup>(****)</sup>
	Related parties	Other parties	Related parties	Other parties				
31 December 2014	Related parties	Other parties	Related parties	Other parties	Bank deposits	Financial investments <sup>(***)</sup>	Derivative instruments	Other <sup>(****)</sup>
Maximum net credit risk as of the reporting date (A+B+C+D+E) <sup>(*)</sup>	976.207	46.041.015	-	5.191	68.754.157	15.126.664	41.674	55.155.120
- The part of maximum risk under guarantee with collateral etc. <sup>(**)</sup>	-	749.404	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	976.207	45.640.456	-	5.191	68.754.157	15.126.664	41.674	55.155.120
B. Net book value of financial assets which are overdue but not impaired	-	400.558	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
- Past due (gross carrying amount)	-	719.857	-	-	-	-	-	-
- Impairment (-)	-	(719.857)	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-

<sup>(\*)</sup> Items such as guarantees received which increase the credibility are not included in the determination of the balance.

<sup>(\*\*)</sup> Collaterals consist of notes, cheques and mortgages.

<sup>(\*\*\*)</sup> Since share certificates are not exposed to credit risk, share certificates are not included in financial investments.

<sup>(\*\*\*\*)</sup> Cash and cash equivalents, consisting of mutual funds, government bonds, receivables from reverse repo and other liquid assets with less than 3 months maturity, are included.

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

Exposure to maximum credit risk as of reporting date	Receivables							
	Trade receivables		Other Receivables		Bank deposits	Financial investments <sup>(***)</sup>	Derivative instruments	Other <sup>(****)</sup>
	Related parties	Other parties	Related parties	Other parties				
31 December 2013								
Maximum net credit risk as of the reporting date (A+B+C+D+E) <sup>(*)</sup>	11.678	51.295.468	-	10.814	74.717.735	3.252.090	300.392	26.325.388
- The part of maximum risk under guarantee with collateral etc. <sup>(**)</sup>	-	5.622.416	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	11.678	50.936.809	-	10.814	74.717.735	3.252.090	300.392	26.325.388
B. Net book value of financial assets which are overdue but not impaired	-	358.939	-	-	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-	-	-
- Past due (gross carrying amount)	-	834.659	-	-	-	-	-	-
- Impairment (-)	-	(834.659)	-	-	-	-	-	-
- 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.

(\*\*\*) Since share certificates are not exposed to credit risk, share certificates are not included in financial investments.

(\*\*\*\*) Cash and cash equivalents, consisting of mutual funds, government bonds, receivables from reverse repo and other liquid assets with less than 3 months maturity, are included.

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

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:

31 December 2014	Receivables		Total
	Trade Receivables	Other Receivables	
Past due 1-30 days	279.408	-	279.408
Past due 1-3 months	93.984	-	93.984
Past due 3-12 months	27.166	-	27.166
Past due 1-5 years	-	-	-
<b>Total overdue receivables</b>	<b>400.558</b>	<b>-</b>	<b>400.558</b>
<b>Total collateralised portion</b>	<b>400.558</b>	<b>-</b>	<b>400.558</b>

31 December 2013	Receivables		Total
	Trade Receivables	Other Receivables	
Past due 1-30 days	271.227	-	271.227
Past due 1-3 months	74.878	-	74.878
Past due 3-12 months	6.984	-	6.984
Past due 1-5 years	5.850	-	5.850
<b>Total overdue receivables</b>	<b>358.939</b>	<b>-</b>	<b>358.939</b>
<b>Total collateralised portion</b>	<b>358.939</b>	<b>-</b>	<b>358.939</b>

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

#### Collaterals that are past due but not impaired

	31 December 2014		31 December 2013	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Letters of guarantee	359.661	359.661	322.958	322.958
Letters of blockage	-	-	718	718
Cash collaterals	40.897	40.897	35.263	35.263
	<b>400.558</b>	<b>400.558</b>	<b>358.939</b>	<b>358.939</b>

#### 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.

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

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 realised 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.

#### 31 December 2014

<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non derivative Financial liabilities</b>						
Loans and borrowings	477.526.885	495.874.501	25.128.428	89.752.119	375.439.187	5.554.767
Trade payables	5.391.798	5.391.798	5.391.798	-	-	-
Other payables	36.473.232	36.473.232	-	483.232	35.990.000	-
<b>Total liabilities</b>	<b>519.391.915</b>	<b>537.739.531</b>	<b>30.520.226</b>	<b>90.235.351</b>	<b>411.429.187</b>	<b>5.554.767</b>

<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial liabilities</b>						
Derivatives cash inflow	41.674	42.627	-	-	-	42.627
Derivatives cash outflow	(155.633)	(155.633)	-	-	-	(155.633)

#### 31 December 2013

<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non derivative Financial liabilities</b>						
Loans and borrowings	350.572.921	426.483.441	1.042.678	140.367.936	261.100.524	23.972.303
Trade payables	22.306.537	22.306.537	22.306.537	-	-	-
Other payables	36.433.458	36.433.458	-	443.458	35.990.000	-
<b>Total liabilities</b>	<b>409.312.916</b>	<b>485.223.436</b>	<b>23.349.215</b>	<b>140.811.394</b>	<b>297.090.524</b>	<b>23.972.303</b>

<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Derivative financial liabilities</b>						
Derivatives cash inflow	300.392	300.392	-	-	-	300.392
Derivatives cash outflow	(155.630)	(155.630)	-	-	-	(155.630)

#### 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.



İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

The exchange rates applied as of 31 December 2014 and 31 December 2013 are as follows:

	US Dollar	Euro
31 December 2014	2,3189	2,8207
31 December 2013	2,1343	2,9365

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

#### 31 December 2014

	TL Equivalent (Functional currency)	US Dollar	Euro	GBP
1. Trade Receivables	-	-	-	-
2a. Monetary Financial Assets	23.568.473	9.741.165	346.937	300
2b. Non Monetary Financial Assets	-	-	-	-
3. Other	40.341.259	17.396.723	-	-
<b>4. CURRENT ASSETS</b>	<b>63.909.732</b>	<b>27.137.888</b>	<b>346.937</b>	<b>300</b>
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non Monetary Financial Assets	-	-	-	-
7. Other	3.916.230	1.688.831	-	-
<b>8. NON CURRENT ASSETS</b>	<b>3.916.230</b>	<b>1.688.831</b>	<b>-</b>	<b>-</b>
<b>9. TOTAL ASSETS</b>	<b>67.825.962</b>	<b>28.826.719</b>	<b>346.937</b>	<b>300</b>
10. Trade Payables	753.619	320.352	3.813	-
11. Financial Liabilities	7.893.331	452.362	2.426.472	-
12a. Other Monetary Liabilities	-	-	-	-
12b. Other Non Monetary Liabilities	657.762	162.013	100.000	-
<b>13. SHORT TERM LIABILITIES</b>	<b>9.304.712</b>	<b>934.727</b>	<b>2.530.285</b>	<b>-</b>
14. Trade Payables	-	-	-	-
15. Financial Liabilities	144.297.695	47.477.988	12.125.000	-
16a. Other Monetary Liabilities	-	-	-	-
16b. Other Non Monetary Liabilities	114.558.274	47.987.930	1.162.500	-
<b>17. LONG TERM LIABILITIES</b>	<b>258.855.969</b>	<b>95.465.918</b>	<b>13.287.500</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>268.160.681</b>	<b>96.400.645</b>	<b>15.817.785</b>	<b>-</b>
19. Net asset/liability position of Off balance sheet derivatives (19a-19b)	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-
19.b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-
20. Net foreign currency asset/liability position	(200.334.719)	(67.573.926)	(15.470.848)	-
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(129.376.172)	(38.509.537)	(14.208.348)	-
22. Fair Value of foreign currency hedged Financial assets	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

**31 December 2013**

	TL Equivalent (Functional currency)	US Dollar	Euro
1. Trade Receivables	-	-	-
2a. Monetary Financial Assets	50.626.824	19.858.024	2.807.371
2b. Non Monetary Financial Assets	-	-	-
3. Other	57.642.174	27.057.919	-
<b>4. CURRENT ASSETS</b>	<b>108.268.998</b>	<b>46.915.943</b>	<b>2.807.371</b>
5. Trade Receivables	-	-	-
6a. Monetary Financial Assets	-	-	-
6b. Non Monetary Financial Assets	-	-	-
7. Other	22.730.611	10.756.772	-
<b>8. NON CURRENT ASSETS</b>	<b>22.730.611</b>	<b>10.756.772</b>	<b>-</b>
<b>9. TOTAL ASSETS</b>	<b>130.999.609</b>	<b>57.672.715</b>	<b>2.807.371</b>
10. Trade Payables	836.428	384.188	5.604
11. Financial Liabilities	114.316.008	50.224.896	2.425.000
12a. Other Monetary Liabilities	-	-	-
12b. Other Non Monetary Liabilities	569.103	129.060	100.000
<b>13. CURRENT LIABILITIES</b>	<b>115.721.539</b>	<b>50.738.144</b>	<b>2.530.604</b>
14. Trade Payables	-	-	-
15. Financial Liabilities	56.137.913	6.283.952	14.550.000
16a. Other Monetary Liabilities	-	-	-
16b. Other Non Monetary Liabilities	93.153.351	41.908.832	1.262.500
<b>17. LONG TERM LIABILITIES</b>	<b>149.291.264</b>	<b>48.192.784</b>	<b>15.812.500</b>
<b>18. TOTAL LIABILITIES</b>	<b>265.012.803</b>	<b>98.930.928</b>	<b>18.343.104</b>
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	(134.013.193)	(41.258.213)	(15.535.733)
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(120.663.525)	(37.035.012)	(14.173.233)
22. Fair Value of foreign currency hedged Financial assets	-	-	-
23. Hedged foreign currency assets	-	-	-
24. Hedged foreign currency liabilities	-	-	-

## Notes to the Financial Statements

### For the Year Ended 31 December 2014

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

#### 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.

<b>31 December 2014</b>		
	<b>Appreciation of foreign currency</b>	<b>Devaluation of foreign currency</b>
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset/liability	(8.929.976)	8.929.976
Portion hedged against US Dollar risk (-)	-	-
<b>US Dollar net effect</b>	<b>(8.929.976)</b>	<b>8.929.976</b>
<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability	(4.007.749)	4.007.749
Portion hedged against Euro risk (-)	-	-
<b>Euro net effect</b>	<b>(4.007.749)</b>	<b>4.007.749</b>
<b>31 December 2013</b>		
	<b>Appreciation of foreign currency</b>	<b>Devaluation of foreign currency</b>
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset/liability	(7.904.383)	7.904.383
Portion hedged against US Dollar risk (-)	-	-
<b>US Dollar net effect</b>	<b>(7.904.383)</b>	<b>7.904.383</b>
<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability	(4.161.970)	4.161.970
Portion hedged against Euro risk (-)	-	-
<b>Euro net effect</b>	<b>(4.161.970)</b>	<b>4.161.970</b>

## Notes to the Financial Statements For the Year Ended 31 December 2014

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

### 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.

As of 31 December 2014, the maturity of the Company's assets and liabilities for refinancing is in line with the maturity analysis provided in the liquidity risk management section stated above. Therefore, the notes to the financial statements do not include a separate interest rate risk table.

The government bonds classified as financial asset at fair value through profit or loss in the accompanying financial statements is subject to interest rate risk. 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 31 December 2014, the net profit would decrease by TL 122.923 and increase by TL 125.416, respectively (31 December 2013: TL 33.517 and increase by TL 34.226).

The 1% increase or decrease in TL interest rates for floating interest rate financial instruments of the Company would not affect the profit before tax with the assumption of other variables stay constant according to analyses of the Company as of 31 December 2014 (31 December 2013:None).

### Interest rate position table

		31 December 2014	31 December 2013
<b>Fixed Interest Rate Financial Instruments</b>			
	Financial assets classified at fair value through profit or loss	13.842.845	3.252.090
	Time deposits at banks	68.741.576	74.024.676
Financial Assets	Receivables from reverse repo transactions	14.778	18.886
Financial Liabilities		120.000.000	180.119.000
<b>Floating Interest Rate Financial Instruments</b>			
Financial Liabilities		357.526.885	170.453.920

### b.3.3) Equity price risk

The Company is also exposed to equity price risk arising from equity investments. As of 31 December 2014, if Equity Price Index of the BIST was 10% higher/lower and all other variables were held constant; the price changes in equity investments classified as financial assets at fair value without risk (31 December 2013: TL 98.376) on profit before tax.

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### 26. Fair value of financial instruments

	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Carrying value	Note
<b>31 December 2014</b>						
<b><u>Financial Assets</u></b>						
Cash and cash equivalents	68.754.157	55.155.120	-	-	123.909.277	5
Financial investments	-	15.126.664	-	-	15.126.664	6
Trade receivables	-	-	38.639.104	-	38.639.104	8
Due from related parties	-	-	976.207	-	976.207	24
Other financial assets	-	-	797.195	-	5.191	9
<b><u>Financial Liabilities</u></b>						
Loans and borrowings	-	-	-	262.410.765	262.410.765	7
Loans and borrowings from related parties	-	-	-	215.116.120	215.116.120	24
Trade payables	-	-	-	2.674.206	2.674.206	8
Trade payables to related parties	-	-	-	2.717.592	2.717.592	24
Other payables	-	-	-	36.473.232	36.473.232	9
<b>31 December 2013</b>						
<b><u>Financial Assets</u></b>						
Cash and cash equivalents	74.717.735	26.325.388	-	-	101.043.123	5
Financial investments	-	4.235.850	-	-	4.235.850	6
Trade receivables	-	-	34.178.107	-	34.178.107	8
Due from related parties	-	-	11.678	-	11.678	24
Other financial assets	-	-	10.814	-	10.814	9
<b><u>Financial Liabilities</u></b>						
Loans and borrowings	-	-	-	107.064.058	107.064.058	7
Loans and borrowings from related parties	-	-	-	243.508.863	243.508.863	7
Trade payables	-	-	-	15.099.077	15.099.077	8
Trade payables to related parties	-	-	-	7.207.460	7.207.460	26
Other payables	-	-	-	36.380.402	36.380.402	9

The Company management assumes that the book value of financial assets represents their respective fair values.

#### 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.

# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

### 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.

### 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:

Financial assets	31 December 2014	Fair Value Level As of the Reporting Date		
		Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss <sup>(*)</sup>				
Held for trading	70.267.006	70.267.006	-	-
Derivatives held for trading	41.674	-	41.674	-
	<b>70.308.680</b>	<b>70.267.006</b>	<b>41.674</b>	-
Financial assets	31 December 2013	Fair Value Level As of the Reporting Date		
		Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss <sup>(*)</sup>				
Held for trading	30.538.326	30.538.326	-	-
Derivatives held for trading	300.392	-	300.392	-
	<b>30.838.718</b>	<b>30.538.326</b>	<b>300.392</b>	-

<sup>(\*)</sup> The balance consists of government bonds, private sector bonds, equity certificates, mutual funds under cash and cash equivalents and derivative assets held for trading purposes.

### 27. Events after the reporting period

None.



# Notes to the Financial Statements

## For the Year Ended 31 December 2014

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

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

The main accounts of separate financial statements		Related regulation	31 December 2014	31 December 2013
<b>A</b>	Capital and money market instruments	III-48.1. Article 24/(b)	139.035.941	105.278.973
<b>B</b>	Real estates, rights supported by real estates and real estate projects	III-48.1. Article 24/(a)	1.602.337.177	1.414.139.064
<b>C</b>	Affiliates	III-48.1. Article 24/(b)	500.000	287.548
	Due from related parties (other receivables)	III-48.1. Article 23/(f)	-	-
	Other assets		116.886.785	148.036.914
<b>D</b>	<b>Total assets</b>	III-48.1. Md. 3/(k)	<b>1.858.759.903</b>	<b>1.667.742.499</b>
<b>E</b>	Loans and borrowings	III-48.1. Article 31	477.526.885	350.572.921
<b>F</b>	Other financial liabilities	III-48.1. Article 31	41.096	1.034.780
<b>G</b>	Financial lease obligations	III-48.1. Article 31	-	-
<b>H</b>	Due to related parties (other payables)	III-48.1. Article 23/(f)	-	-
<b>I</b>	Equity	III-48.1. Article 31	1.210.383.684	1.155.065.774
	Other liabilities		170.808.237	161.069.024
<b>D</b>	<b>Total liabilities and equity</b>	III-48.1. Article. 3/(k)	<b>1.858.759.903</b>	<b>1.667.742.499</b>

Other separate financial information		Related regulation	31 December 2014	31 December 2013
<b>A1</b>	Capital and money market instruments amount held for 3-year real estate payments	III-48.1. Article 24/(b)	-	-
<b>A2</b>	Time balances/demand balances TL/foreign currency	III-48.1. Article 24/(b)	68.754.157	74.717.735
<b>A3</b>	Foreign capital market instruments	III-48.1. Article 24/(d)	-	-
<b>B1</b>	Foreign real estates, rights supported by real estates and real estate projects	III-48.1. Article 24/(d)	-	-
<b>B2</b>	Inactive land	III-48.1. Article 24/(c)	29.012.446	24.433.155
<b>C1</b>	Foreign affiliates	III-48.1. Article 24/(d)	-	237.548
<b>C2</b>	Participating to operating company	III-48.1. Article 28	500.000	50.000
<b>J</b>	Non-cash loans	III-48.1. Article 31	25.279.648	134.486.771
<b>K</b>	Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Article 22/(e)	-	-

Portfolio restrictions	Related regulation	31 December 2014	31 December 2013	Min/Max ratio
<b>1</b> Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Article 22/(e)	0%	0%	Max 10%
<b>2</b> Real estates, rights supported by real estates and real estate projects	III-48.1. Article 24/(a), ( b)	86%	85%	Min 51%
<b>3</b> Capital and money market instruments and subsidiaries	III-48.1. Article 24/(b)	8%	6%	Max 49%
<b>4</b> Foreign real estates, rights supported by real estates and real estate projects, affiliates and capital market instruments	III-48.1. Article 24/(d)	0%	0%	Max 49%
<b>5</b> Inactive land	III-48.1. Article 24/(c)	2%	1%	Max 20%
<b>6</b> Participating to operating company	III-48.1. Article 28	0%	0%	Max 10%
<b>7</b> Borrowings limits	III-48.1. Article 31	42%	42%	Max 500%
<b>8</b> Time balances/demand balances TL/foreign currency	III-48.1. Article 22/(e)	4%	4%	Max 10%

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