

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

**Financial Statements As of and
For the Year Ended December 31, 2019
With Independent Auditors' Report Thereon**

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

January 30, 2020

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

İş Gayrimenkul Yatırım Ortaklığı
Anonim Şirketi

Table of contents

Independent Auditors' Report
Statement of Financial Position (Balance Sheet)
Statement of Profit or Loss
Statement of Other Comprehensive Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements



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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards (TFRS).

2) Basis for Opinion

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

3) Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Presentation of investment properties in the financial statements and significant information disclosed	
As explained in note 2 and 10, the Company recognizes investment properties at their fair values, after initial recognition. As of December 31, 2019, fair value amount of the investment properties disclosed in the financial statements has been valued at TL 3.985.933.501 by independent appraisal firms and details of the valuation have been disclosed in note 10. Due to the fact that investment properties are significant part of the Company's assets and	We assessed the qualifications, competencies and independence of the professional appraisers engaged by the management. In our audit, we assessed whether the valuation methods as applied by appraisers are acceptable for valuation of the underlying investment property. We reconciled the appraised value for independent sections in the valuation report with disclosed amount in note



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<p>applied valuation methods contain significant judgements and assumptions, we have considered the valuation of investment properties as a key audit matter.</p>	<p>10. In addition, we reconciled standing data included in the valuation report such as rental income, duration of lease contracts, occupancy rates and administration expenses to source documents.</p> <p>Among the other audit procedures we performed, we verified the assumptions used by the external appraisers in their valuations (including the discount rate, the market rent and the expected occupancy rates) against external data. For this assessment we involved valuation experts of a firm which is in our audit network to our audit procedures.</p> <p>Due to the high level of judgment in the valuation of investment property and the existence of alternative assumptions and valuation methods, we assessed if the result of the external valuation is within an acceptable range.</p> <p>We also examined the suitability of the information in the financial statements and explanatory note, given the importance of this information for users of the financial statements.</p>
<p>Inventories</p>	
<p>As of December 31, 2019, in the financial statements of the Company there has been inventories amounting to TL 502.965.011 in the current assets and TL 175.000.000 in the non-current assets. Inventories comprise of cost of land that is held to build housing projects for sale in the short-term and construction costs of housing units. Accounting policy regarding to inventories is disclosed in note 2, related inventory amounts are disclosed in note 11. Due to the fact that inventories are significant part of the Company's assets and matters such as accounting of purchase, conversion-capitalization and other necessary costs which are included to inventories, housing inventories to be sold are considered as key audit matter to our audit.</p>	<p>Within the scope of our audit procedures performed regarding to the subject stated above, it has been focused on the followings;</p> <ul style="list-style-type: none"> - Testing cost of development additions in the current year by comparing with documents such as invoice and progress payment - Review of borrowing costs capitalized to inventories in the current year and review the capitalization ceiling test - Testing of foreign currency differences capitalized and its verification with borrowing costs - Controlling of net realizable value of the inventories with valuation report and realized sales.



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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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

B) Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on January 30, 2020.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2019 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

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



January 30, 2020
İstanbul, Turkey

CONTENTS

Page

Statement of Financial Position (Balance Sheet)	1-2
Statement of Profit or Loss.....	3
Statement of Other Comprehensive Income.....	4
Statement of Changes in Equity	5
Statement of Cash Flows.....	6
Notes to the Financial Statements	
1 Organization and operations of the Company	7
2 Basis of presentation of financial statements	7
3 Equity accounted investees	25
4 Operating segments	25
5 Cash and cash equivalent	28
6 Financial investments / Derivatives	29
7 Loans and borrowings	30
8 Trade receivables and payables	32
9 Other receivables and payables	33
10 Investment property	33
11 Inventories	36
12 Tangible assets	37
13 Intangible assets	38
14 Provisions, contingent assets and liabilities	39
15 Provisions for employee benefits	40
16 Prepaid expenses, other assets, deferred revenue and other liabilities	41
17 Liabilities from contracts with customers	42
18 Shareholders' equity	43
19 Revenue and cost of revenue	45
20 Administrative expenses / Marketing, sales and distribution expenses	45
21 Expenses by nature	46
22 Other operating income / expense	46
23 Finance income /expense	47
24 Earnings per share	47
25 Related party disclosures	48
26 Nature and level of risks arising from financial instruments	54
27 Fair value of financial instruments	65
28 Subsequent events	66
Additional Note : Control of compliance with restrictions on the investment portfolio	67

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

As of December 31, 2019 Statement of Financial Position (Balance Sheet)

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

		<i>Audited</i>	<i>Audited</i>
	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current assets		1.249.783.479	752.744.479
Cash and cash equivalents	5	388.415.387	54.236.749
Financial investments	6	173.465.888	--
Trade receivables	8	116.530.503	107.442.054
<i>Trade receivables from related parties</i>	25	3.064.499	4.680.762
<i>Trade receivables from third parties</i>		113.466.004	102.761.292
Other receivables	9	5.685.288	718.345
<i>Other receivables from related parties</i>	25	--	35.610
<i>Other receivables from third parties</i>		5.685.288	682.735
Derivatives	6	42.367.396	59.536.713
Inventories	11	381.840.456	307.030.105
Inventories under development	11	121.124.555	209.357.229
Prepaid expenses	16	7.497.215	14.386.026
<i>Prepaid expenses to related parties</i>	25	2.286.461	2.788.312
<i>Prepaid expenses to third parties</i>		5.210.754	11.597.714
Other current assets	16	12.856.791	37.258
Non-current assets		4.466.573.407	4.469.588.445
Financial investments	6	221.249.112	--
Trade receivables	8	32.659.874	44.389.008
<i>Other trade receivables from third parties</i>		32.659.874	44.389.008
Inventories	11	175.000.000	174.550.000
Equity accounted investees	3	3.741.256	3.088.133
Investment properties	10	3.724.396.501	3.679.192.500
Investment properties under development	10	261.537.000	474.295.599
Tangible assets	12	38.460.738	33.814.159
Intangible assets	13	931.084	1.015.609
Prepaid expenses	16	8.597.842	5.982.425
<i>Prepaid expenses to third parties</i>		8.597.842	5.982.425
Other non-current assets	16	--	53.261.012
TOTAL ASSETS		5.716.356.886	5.222.332.924

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

As of December 31, 2019 Statement of Financial Position (Balance Sheet)

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

		<i>Audited</i>	<i>Audited</i>
	Notes	December 31, 2019	December 31, 2018
LIABILITIES			
Short-term liabilities		1.232.364.908	1.091.581.932
Short term loans and borrowings	7	464.336.466	--
<i>Loans and borrowings to related parties</i>	25	288.256.265	--
<i>Loans and borrowings to third parties</i>		176.080.201	--
Current portion of long term loans and borrowings	7	352.420.787	742.664.172
<i>Loans and borrowings to related parties</i>	25	205.710.355	235.002.422
<i>Loans and borrowings to third parties</i>		146.710.432	507.661.750
Trade payables	8	216.937.006	34.901.072
<i>Trade payables to related parties</i>	25	209.645.274	16.360.219
<i>Trade payables to third parties</i>	8	7.291.732	18.540.853
Other payables	9	12.269.184	20.833.806
<i>Other payables to third parties</i>	9	12.269.184	20.833.806
Liabilities from contracts with customers		149.036.245	279.436.381
<i>Contractual obligations from sales of goods and services</i>	17	149.036.245	279.436.381
Deferred income (Excluding liabilities from contracts with customers)	16	22.831.188	7.283.080
<i>Deferred income from related parties</i>	25	52.091	257.870
<i>Deferred income from third parties</i>		22.779.097	7.025.210
Short-term provisions		5.435.702	5.205.156
<i>Provisions for employee benefits</i>	15	455.484	390.946
<i>Other short-term provisions</i>	14	4.980.218	4.814.210
Other short-term liabilities	16	704.787	1.258.265
Derivatives	6	8.393.543	--
Long-term liabilities		623.764.900	573.811.637
Loans and borrowings	7	621.751.194	572.183.948
<i>Loans and borrowings to related parties</i>	25	368.157.840	381.929.982
<i>Loans and borrowings to third parties</i>		253.593.354	190.253.966
Long term provisions		2.013.706	1.627.689
<i>Provisions for employee benefits</i>	15	2.013.706	1.627.689
EQUITY		3.860.227.078	3.556.939.355
Share capital	18	958.750.000	958.750.000
Inflation restatement difference on share capital	18	240.146.090	240.146.090
Share premium	18	423.981	423.981
Other comprehensive income that will never be reclassified to profit or loss		36.567.156	30.669.212
<i>Revaluation and classification of gains / losses</i>		36.951.956	31.053.049
<i>Other earnings/ losses</i>		(384.800)	(383.837)
Restricted reserves	18	65.949.792	59.561.684
Prior years' profits	18	2.261.000.280	1.925.777.515
Net profit for the period		297.389.779	341.610.873
TOTAL EQUITY AND LIABILITIES		5.716.356.886	5.222.332.924

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Profit or Loss For the Year Ended December 31, 2019

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

		<i>Audited</i>	<i>Audited</i>
		January 1 - December 31 2019	January 1 - December 31 2018
Revenue	19	1.206.509.521	1.098.332.491
Cost of revenue (-)	19	(955.966.119)	(837.501.802)
Gross profit		250.543.402	260.830.689
General administrative expense (-)	20	(26.958.460)	(24.458.694)
Marketing expenses (-)	20	(14.811.380)	(22.287.736)
Other operating income	22	342.541.290	341.170.105
Other operating expense (-)	22	(12.172.591)	(75.436.309)
Operating profit		539.142.261	479.818.055
Share of profit of equity-accounted investees	3	1.653.123	1.311.025
Operating Profit Before Finance Expense		540.795.384	481.129.080
Financial income	23	--	60.395.502
Financial expenses (-)	23	(243.405.605)	(199.913.709)
Operating Profit before Tax From Continuing Operations		297.389.779	341.610.873
Tax Expense From Continuing Operations			
- Corporate tax charge		--	--
- Deferred tax benefit		--	--
Net profit for the period		297.389.779	341.610.873
Earnings per share	24	0,0031	0,0036

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Other Comprehensive Income For the Year Ended December 31, 2019

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

		<i>Audited</i>	<i>Audited</i>
		January 1 - December 31 2019	January 1 - December 31 2018
	Notes		
Net profit for the period		297.389.779	341.610.873
Other comprehensive income			
Other comprehensive income that will never be reclassified to profit or loss		5.897.944	3.282.745
Revaluation and classification of gains / losses	12	5.898.907	3.443.040
Actuarial gain/(loss) arising from defined benefit plans	15	(963)	(160.295)
Other comprehensive income		5.897.944	3.282.745
TOTAL COMPREHENSIVE INCOME		303.287.723	344.893.618

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Changes in Equity For the Year Ended December 31, 2019

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

				Other comprehensive income that will never be reclassified to profit or loss						
	Notes	Share capital	Inflation restatement difference on share capital	Share premium	Other earnings/losses	Revaluation and classification of gains/losses	Legal reserves	Prior years' profits	Net profit for the period	Equity
Balances at January 1, 2018		913.750.000	240.146.090	423.981	(223.542)	27.610.009	46.188.875	1.872.724.737	179.956.837	3.280.576.987
Transfers		--	--	--	--	--	13.372.809	166.584.028	(179.956.837)	--
Total comprehensive income		--	--	--	(160.295)	3.443.040	--	--	341.610.873	344.893.618
Capital increase		45.000.000	--	--	--	--	--	(45.000.000)	--	--
Dividends		--	--	--	--	--	--	(68.531.250)	--	(68.531.250)
Balances at December 31, 2018	18	958.750.000	240.146.090	423.981	(383.837)	31.053.049	59.561.684	1.925.777.515	341.610.873	3.556.939.355
Balances at January 1, 2019		958.750.000	240.146.090	423.981	(383.837)	31.053.049	59.561.684	1.925.777.515	341.610.873	3.556.939.355
Transfers		--	--	--	--	--	6.388.108	335.222.765	(341.610.873)	--
Total comprehensive income		--	--	--	(963)	5.898.907	--	--	297.389.779	303.287.723
Balances at December 31, 2019	18	958.750.000	240.146.090	423.981	(384.800)	36.951.956	65.949.792	2.261.000.280	297.389.779	3.860.227.078

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi
Statement of Cash Flow For the Year Ended December 31, 2019
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

		<i>Restated (Note 2.2)</i>	
		<i>Audited</i>	
		<i>Audited</i>	
	Notes	January 1- December 31 2019	January 1- December 31 2018
A. Cash flows from operating activities			
Net profit for the period		297.389.779	341.610.873
<i>Profit adjustments for:</i>			
Adjustments to depreciation and amortization	12, 13	2.011.049	1.754.156
Adjustments to impairment or cancellation		2.114.831	44.551.397
- Adjustments to impairment of receivables	8	1.597.600	1.246.896
- Adjustments to impairment of inventories	11	517.231	43.304.501
Adjustments for provisions		1.777.795	471.074
- Adjustments to provision for employee severance indemnity	15	569.798	471.074
- Adjustments to provision for legal cases	14	1.207.997	--
Adjustments for (gain)/losses on fair value		(319.510.314)	(355.782.765)
- Adjustments to (gain)/losses on fair value of investment property	10	(326.897.431)	(295.387.274)
- Adjustments to (gain)/losses on fair value of derivatives	23	7.387.117	(60.395.491)
Adjustments for retained earnings of investments valued by equity method		(1.653.123)	(1.311.025)
- Adjustments for retained earnings of subsidiaries	3	(1.653.123)	(1.311.025)
Adjustments for loss or gain on sales of non-current assets		(17.872.140)	4.275.408
- Adjustments for loss or gain on sales of tangible assets		1.383	--
- Adjustments for loss or gain on sales of intangible assets		12.853	--
- Adjustments for loss or gain on sales of investment property	19	(17.886.376)	4.275.408
Adjustments to interest income and expense		191.374.845	100.808.351
- Adjustments to interest income	19	(11.253.551)	(8.976.171)
- Adjustments to interest expense	23	202.628.396	109.784.522
Adjustments to foreign exchange differences		29.770.606	87.522.118
Operating profit from before the changes in working capital		185.403.328	223.899.587
<i>Changes in working capital</i>			
Changes in trade receivables		1.043.085	(89.409.840)
- Changes in trade receivables from related parties		1.616.263	(3.080.001)
- Changes in trade receivables from third parties		(573.178)	(86.329.839)
Changes in other receivables		(3.966.943)	1.109.898
- Changes in other receivables from related parties		1.035.610	714.390
- Changes in other receivables from third parties		(5.002.553)	395.508
Changes in inventories		20.706.304	411.687.392
Changes in derivative assets		(5.438.816)	(119.447)
Changes in prepaid expenses		4.273.394	59.203.880
Changes in trade payables		8.570.046	(54.626.146)
- Changes in trade payables from related parties		19.819.167	(28.995.484)
- Changes in trade payables from third parties		(11.249.121)	(25.630.662)
Changes in other payables		(8.564.622)	11.844.192
- Changes in other payables from third parties		(8.564.622)	11.844.192
Changes in derivative liabilities		8.393.543	--
Changes in liabilities from contracts with customers		(130.400.136)	(447.805.216)
- Changes in contractual obligations from sales of goods and services		(130.400.136)	(447.805.216)
Changes in deferred income (Excluding liabilities from contracts with customers)		15.548.108	(3.656.325)
Other changes in working capital		38.846.012	55.803.853
- Changes in other assets		40.441.479	56.830.357
- Changes in other liabilities		(1.595.467)	(1.026.504)
		134.413.303	167.931.828
Cash generated from operating activities			
Employee termination benefits paid	15	(120.206)	(703.641)
Interest received	5, 19	10.576.209	8.898.940
Net cash provided by / (used in) operating activities		144.869.306	176.127.127
B. Cash flows from investing activities			
Cash outflows for the acquisition of shares of other entities or funds or debt instruments		(42.500.000)	--
Cash outflows arising from purchase of investment properties	10	(12.299.508)	(69.189.538)
Cash inflows arising from sales of investment properties		352.572.964	64.836.843
Cash outflows arising from purchases of tangible and intangible assets	12, 13	(688.432)	(1.287.425)
- Cash outflows arising from purchases of tangible assets		(95.764)	(582.426)
- Cash outflows arising from purchases of intangible assets		(592.668)	(704.999)
Net cash used in investing activities		297.085.024	(5.640.120)
C. Cash flows from financing activities			
Dividends paid	18	--	(68.531.250)
Cash inflows arising from derivatives		15.221.016	4.844.126
Borrowings received	7	1.667.066.244	363.254.000
Borrowings paid	7	(1.569.220.442)	(324.935.297)
Interest paid	7	(222.098.021)	(174.548.331)
Net cash provided by financing activities		(109.031.203)	(199.916.752)
Increase / (decrease) in cash and cash equivalents before effect of changes in foreign currency rates		332.923.127	(29.429.745)
Effect of changes in foreign currency rates over cash and cash equivalents		578.169	471.671
Net increase / (decrease) in cash and cash equivalents		333.501.296	(28.958.074)
Cash and cash equivalents at the beginning of the period	5	53.467.044	82.425.118
Cash and cash equivalents at the end of the period	5	386.968.340	53.467.044

The accompanying notes form an integral part of these financial statements

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

1. Organization and operations of the Company

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

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

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

The Company has 72 employees as of December 31, 2019 (December 31, 2018: 79).

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

2. Basis of presentation of financial statements

2.1 Basis of presentation

Statement of compliance

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

The financial statements as at December 31, 2019 have been approved for issue by the Board of Directors on January 30, 2020. The General Assembly and the legal authorities have the authority to amend the statutory financial statements and these financial statements.

Additional paragraph for convenience translation into English

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

Preparation of financial statements

The accompanying financial statements have been presented in accordance with the TAS taxonomy announced by POA as of April 15, 2019.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.1 Basis of presentation (continued)

Functional and presentation currency

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

Basis of measurement

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

Preparation of financial statements in Hyperinflationary Periods

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

Interest in Joint Arrangements

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

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

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

Foreign currency transactions

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.2 Changes in accounting policies and estimates

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

Statement of cash flow for the year ended December 31, 2019 is restated and presented comparatively in accordance with IAS 7 Statement of Cash Flows. The restatement has no effect on the prior years' profit and net profit for the period.

	Previously reported	Effect of restatement	Restated
Adjustments to interest income and expense	102.934.269	(2.125.918)	100.808.351
- Adjustments to interest income	111.910.440	(2.125.918)	109.784.522
Adjustments to foreign exchange differences	(471.671)	87.993.789	87.522.118
Changes in inventories	367.023.153	44.664.239	411.687.392
Cash outflows arising from purchase of investment properties	(92.342.187)	23.152.649	(69.189.538)
Borrowings received	398.356.624	(35.102.624)	363.254.000
Borrowings paid	(298.264.787)	(26.670.510)	(324.935.297)
Interest paid	(82.636.706)	(91.911.625)	(174.548.331)

2.3 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs

i) The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows:

TFRS 16 Leases

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

IFRS 16 Leases (continued)

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

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

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

In December 2017, POA issued amendments to TAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

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

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

TFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the Company.

Annual Improvements – 2015–2017 Cycle

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

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

The amendments are effective from annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

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

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

Prepayment Features with Negative Compensation (Amendments to TFRS 9)

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

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

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

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

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

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

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Company will wait until the final amendment to assess the impacts of the changes.

TFRS 17 - The new Standard for insurance contracts

The PAO issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

Definition of a Business (Amendments to TFRS 3)

In May 2019, the PAO issued amendments to the definition of a business in TFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

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

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

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

In June 2019, the PAO issued amendments to TAS 1 Presentation of Financial Statements and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

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

Amendments to TFRS 9, TAS 39 and TFRS 7- Interest Rate Benchmark Reform

The amendments issued to TFRS 9 and TAS 39 which are effective for periods beginning on or after January 1, 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in TFRS 9 and TAS 39 is aimed to be disclosed in financial statements based on the amendments made in TFRS 7.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.3 The new standards, amendments and interpretations (continued)

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

There are no standards, interpretations and amendments to existing IFRS standards issued by the IASB and not yet adapted/issued by the POA.

2.4 Summary of significant accounting policies

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

2.4.1 Accounting of income and expense

Revenue

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

Rent income from investment properties under operating leases

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

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

Revenue from sale of investment property

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

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

Interest income and expense

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

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

Other income and expense

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.2 Investment property

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

Terrains and buildings which hired to use for production of goods and services or administrative use or to be sold or rented in the ordinary course of business or in the purpose of appreciation, or for both are classified as investment properties and are evaluated by fair value measurement. Profit or loss that inflicting by a change in the fair value of an investment property, is included to the comprehensive income statement in its consisting time. (Note 22)

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

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

2.4.3 Tangible assets

As of December 31 2004 the Company were reflecting tangible assets purchased before January 1 2005 on cost restated for the effects of inflation. In the following period were reflecting purchase cost, after allocating accumulated depreciation and permanent impairment provisions to the financial statements. Due to the changes in accounting policies since September 30, 2015, valuation of real estate in use recorded under tangible fixed assets was amended from cost model to the revaluation model in accordance with “TAS 16- Tangible Assets”.

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

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

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

Depreciation

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.3 Tangible assets (continued)

Subsequent costs

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

2.4.4 Intangible assets

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

Amortization

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

2.4.5 Impairment of non-financial assets

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

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

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

2.4.6 Inventories

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments

i) Financial assets

Classification

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

Recognition and Measurement

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

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments (continued)

i) Financial assets (continued)

Derecognition

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

Impairment

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

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

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

Trade receivable

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

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

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments (continued)

i) Financial assets (continued)

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.

Reverse repurchase agreements

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

ii) Financial liabilities

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

iii) Non-derivative financial liabilities

Trade and other payables

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

iv) Derivative financial instruments

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

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

iv) Paid-in capital

Ordinary shares

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.8 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 recognized in profit or loss.

2.4.10 Borrowing costs

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

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

2.4.11 Earnings per share

Earnings per share is calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (Note 24).

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.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.12 Events after the reporting period

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

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

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

2.4.13 Provisions, contingent asset and liabilities

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

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

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

The Company

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.14 Taxes calculated on the basis of the company’s earnings (continued)

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

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

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

2.4.15 Employee benefits / Retirement pay provisions

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

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

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

2.4.16 Share capital and dividends

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

2.4.17 Related parties

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.18 Leasing

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

The Company, as lessor in the operational lease transactions

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

The Company, as lessee in the operational lease transactions

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

The Company, as lessee in the finance lease transactions

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

2.4.19 Statement of cash flows

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

2.4.20 Segment reporting

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

2. Basis of presentation of financial statements (continued)

2.5 Restrictions on the investment portfolio of real estate investment trusts

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

2.6 Accounting estimates

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

- *Note 10 Investment property*
- *Note 11 Inventories*
- *Note 14 Provision for litigation*
- *Note 15 Provision for employee benefits*

Working capital ratio

As of 31 December 2019, current assets of the Company are amount to TL 1.249.783.479 and short term liabilities of the Company are amount to TL 1.232.364.908. Current assets exceeded short term liabilities TL 14.418.571. In addition, there are advances received are amount to TL 149.036.245 arising from house sales are included to short term liabilities.

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

The Company anticipates that approximately 235 million TL of rental income will be collected from the investment properties in the following year.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended December 31, 2019

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

3. Equity accounted investees

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

	Ownership (%)	December 31, 2019	Ownership (%)	December 31, 2018
Kanyon	50	3.741.256	50	3.088.133
		3.741.256		3.088.133

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

Kanyon	December 31, 2019	December 31, 2018
Current assets	26.376.993	24.125.281
Non-current assets	1.255.149	1.753.880
Short-term liabilities	(19.227.326)	(18.945.317)
Long-term liabilities	(922.304)	(757.578)
Net assets	7.482.512	6.176.266

Kanyon	January 1 – December 31, 2019	January 1 – December 31, 2018
Income for the period	73.089.144	66.157.145
Expense for the period (-)	(69.782.898)	(63.535.095)

The Company recognized profit amounting to TL 1.653.123 resulting from consolidation of Kanyon with equity method for the year ended December 31, 2019 (December 31, 2018: TL 1.311.025) in the accompanying statement of profit and loss.

4. Operating segments

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

4. Operating segments (continued)

	Ankara İş Kule Building	Istanbul İş Kuleleri Complex	Maslak Office Building	Mugla Marmaris Mallmarine Shopping Mall	Istanbul Kanyon Shopping Mall	Istanbul Marmara Park Shopping Mall	Nevşehir Kapadokya Lodge Hotel	Taksim Office Lamartine	Tuzla Technology and Operating Center	Istanbul Tuzla Combined	İzmir Ege Perla Shpping Mall	İzmir Ege Perla Residence/ Office	Kartal Manzara Adalar	Topkapı Inistanbul	Other Real Estates	Total
December 31, 2019																
Sales Revenue																
Income from sales of investment property	--	--	--	--	--	--	51.300.034	--	--	310.000.000	--	--	352.215.000	--	2.645.000	716.160.034
Income from sales of residential units	--	--	--	--	--	--	--	--	--	--	--	6.272.241	26.313.142	196.595.598	--	229.180.981
Rent income	5.465.523	39.566.280	856.561	1.040.638	42.600.041	--	4.562.660	2.183.601	92.931.256	23.965.855	5.854.584	495.693	70.849	--	193.695	219.787.236
Income from right of construction	--	--	--	--	--	26.842.341	--	--	--	--	--	--	--	--	--	26.842.341
Income fees and service	--	--	50.311	--	86.645	--	--	--	--	238.109	--	652.940	--	--	--	1.028.005
Other income	--	325.271	--	--	447.567	--	--	--	--	10.588	--	273.305	492.682	--	--	1.549.413
Real estate revenue	5.465.523	39.891.551	906.872	1.040.638	43.134.253	26.842.341	55.862.694	2.183.601	92.931.256	334.214.552	5.854.584	7.694.179	379.091.673	196.595.598	2.838.695	1.194.548.010
Cost of Sales																
Cost of sales of investment property	--	--	--	--	--	--	31.036.413	--	--	268.925.814	--	--	395.659.836	--	2.651.595	698.273.658
Cost of sales of residential units	--	--	--	--	--	--	--	--	--	--	--	5.939.913	25.568.136	172.483.337	--	203.991.386
Administrative expense	--	8.821.183	123.049	--	8.291.760	--	161.932	181.941	--	1.014.755	11.503.392	1.362.883	7.134.071	--	67.942	38.662.908
Tax and duty and other charges	339.161	2.438.385	246.064	27.951	2.073.213	1.096.790	41.030	120.133	1.241.064	653.346	875.398	14.390	1.451.203	344.562	6.369	10.969.059
Insurance expense	26.421	739.587	22.283	26.708	378.134	--	18.728	15.494	834.243	498.733	655.264	4.988	98.581	--	3.935	3.323.099
Other expense	5.124	98.189	4.591	--	113.051	22.000	--	--	233.764	54.323	119.542	93.033	1.539	--	853	746.009
Cost of Sales	370.706	12.097.344	395.987	54.659	10.856.158	1.118.790	31.258.103	317.568	2.309.071	271.146.971	13.153.596	7.415.207	429.913.366	172.827.899	2.730.694	955.966.119
Gross Profit	5.094.817	27.794.207	510.885	985.979	32.278.095	25.723.551	24.604.591	1.866.033	90.622.185	63.067.581	(7.299.012)	278.972	(50.821.693)	23.767.699	108.001	238.581.891
Capital investments	3.055.291	1.956.852	212.132	--	1.030.497	--	--	--	18.630	9.094	3.337.031	--	113.566.811	76.585.420	8.841.723	208.613.481

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

4. Operating segments (continued)

	Ankara İş Kule Building	Istanbul İş Kuleleri Complex	Maslak Office Building	Mugla Marmaris Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	Istanbul Kanyon Shopping Mall	Istanbul Marmara Park Shopping Mall	Nevşehir Kapadokya Lodge Hotel	Taksim Office Lamartine	Tuzla Technology and Operating Center	Istanbul Tuzla Combined	İzmir Ege Perla Shpping Mall	İzmir Ege Perla Residence/ Office	Kartala Manzara Adalar	Topkapı İstanbul	Other Real Estates	Total
December 31, 2018																	
Sales Revenue																	
Income from sales of residential units	--	--	--	--	--	--	--	--	--	--	--	--	24.056.794	368.091.354	397.133.626	--	789.281.774
Rent income	973.877	38.283.533	5.818.977	911.708	1.843.090	38.835.859	--	2.181.787	1.820.594	76.379.761	18.597.188	7.380.222	246.008	332.982	--	1.987.914	195.593.500
Income from sales of investment property	--	--	--	--	49.885.000	--	--	--	--	--	--	--	--	30.300.000	--	--	80.185.000
Income from right of construction	--	--	--	--	--	--	21.808.806	--	--	--	--	--	--	--	--	--	21.808.806
Income fees and service	--	91.554	--	--	--	136.756	--	--	224.583	--	206.527	678.418	--	--	--	--	1.337.838
Other income	--	203.060	--	--	--	133.132	--	--	--	--	--	--	147.064	55.608	--	358	539.222
Real estate revenue	973.877	38.578.147	5.818.977	911.708	51.728.090	39.105.747	21.808.806	2.181.787	2.045.177	76.379.761	18.803.715	8.058.640	24.449.866	398.779.944	397.133.626	1.988.272	1.088.746.140
Cost of sales																	
Cost of sales of residential units	--	--	--	--	--	--	--	--	--	--	--	--	19.302.835	336.858.745	345.179.249	--	701.340.829
Cost of sales of investment property	--	--	--	--	49.860.000	--	--	--	--	--	--	--	--	34.600.408	--	--	84.460.408
Administrative expense	852.541	8.149.426	--	--	--	7.424.383	--	--	189.903	--	917.871	11.367.278	1.161.944	--	--	28.050	30.091.396
Tax and duty and other charges	303.186	2.196.703	219.764	24.985	3.709	1.858.862	2.485.279	36.463	110.239	1.109.430	582.740	947.519	137.983	7.549.071	--	5.619	17.571.552
Insurance expense	24.780	730.124	20.636	23.573	4.229	332.050	--	20.613	13.140	925.024	519.102	497.195	3.579	--	--	2.414	3.116.459
Other	85.790	158.094	--	--	80.000	135.025	24.144	14.752	6.534	13.374	20.041	258.391	--	119.693	--	5.320	921.158
Cost of Sales	1.266.297	11.234.347	240.400	48.558	49.947.938	9.750.320	2.509.423	71.828	319.816	2,047,828	2,039,754	13,070,383	20,606,341	379,127,917	345,179,249	41,403	837,501,802
Gross Profit	(292.420)	27.343.800	5.578.577	863.150	1.780.152	29.355.427	19.299.383	2.109.959	1.725.361	74.331.933	16.763.961	(5.011.743)	3.843.525	19.652.027	51.954.377	1.946.869	251.244.338
Prepared based on IFRS 8 “Operating Segments”																	
Capital investments	38.653.848	841.469	350.207	--	100.000	5.465.836	--	742.936	351.024	79.858	16.473	9.339.552	--	199.830.746	136.053.057	30.178.485	422.003.491

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

4. Operating segments (continued)

Reconciliation of income, assets and liabilities

Sales Revenue	January 1 – December 31, 2019	January 1 – December 31, 2018
Segment revenue	1.194.548.010	1.088.746.140
Undistributed revenue	11.961.511	9.586.351
Total Revenue	1.206.509.521	1.098.332.491

Cost of Sales	January 1 – December 31, 2019	January 1 – December 31, 2018
Segment Costs	955.966.119	837.501.802
Total cost of sales	955.966.119	837.501.802

Assets	December 31, 2019	December 31, 2018
Segment assets	4.663.898.512	4.844.425.433
Other assets	149.190.377	151.831.062
Non-segment related assets	903.267.997	226.076.429
Total assets	5.716.356.886	5.222.332.924

Liabilities	December 31, 2019	December 31, 2018
Segment liabilities	1.619.474.210	1.602.825.846
Other liabilities	236.655.598	62.567.723
Total liabilities	1.856.129.808	1.665.393.569

5. Cash and cash equivalents

	December 31, 2019	December 31, 2018
Time deposits	353.698.955	45.406.340
Demand deposits	30.224.490	4.776.633
Mutual funds	4.491.942	3.951.277
Other cash equivalents	--	102.499
	388.415.387	54.236.749
Interest accrued on cash and cash equivalents	(1.447.047)	(769.705)
Total cash and cash equivalents in the statement of cash flows	386.968.340	53.467.044

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

5. Cash and cash equivalents

<u>Time deposits::</u>			December 31, 2019
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	
US Dollar	1,50%	February 2020	1.702.478
TL	9,25-10,30%	January 2020	351.996.477
			353.698.955

			December 31, 2019	
			Cost	Fair Value
Mutual Funds			4.483.900	4.491.942
Total			4.483.900	4.491.942

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

			December 31, 2018	
			Cost	Fair Value
Mutual funds			3.950.930	3.951.277
			3.950.930	3.951.277

6. Financial investments / Derivatives

Short-term financial investments

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss		
İş Asset Management 2nd Real Estate Investment Fund	173.465.888	--
Total	173.465.888	--

Shares of fund participation in regards to revenue share payment to Tecim Yapı Elemanları Ltd. Şti., which is the former land owner of Kartal Manzara Adalar project, is presented in short-term financial investments.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

6. Financial investments / Derivatives

Long-term financial investments

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss		
İş Asset Management 2nd Real Estate Investment Fund	221.249.112	--
Total	221.249.112	--

The company is invested to participation shares of İş Asset Management 2nd Real Estate Investment Fund amounting to TL 352.215.000 in kind and TL 42.500.000 in cash (Note 25) on December 31, 2019.

Derivatives

	December 31, 2019	December 31, 2018
Financial assets held for trading		
Derivative instruments	42.367.396	59.536.713
Total	42.367.396	59.536.713

	December 31, 2019	December 31, 2018
Financial liabilities held for trading		
Derivative instruments	8.393.543	--
Total	8.393.543	--

7. Loans and borrowings

The details of financial borrowings and financial leasing as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Short-term borrowings		
Short-term bank borrowings	288.256.265	--
Issued commercial papers	176.080.201	--
Total	464.336.466	--

	December 31, 2019	December 31, 2018
Current portion of long term borrowings		
Current portion of long term borrowings	246.435.387	234.092.940
Bonds issued	105.985.400	508.571.232
Total	352.420.787	742.664.172

	December 31, 2019	December 31, 2018
Long-term borrowings:		
Long-term bank borrowings	418.287.652	471.899.456
Bonds issued	203.463.542	100.284.492
Total	621.751.194	572.183.948

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

7. Loans and borrowings (continued)

The details of loans and borrowings as of December 31, 2019 and 2018 are as follows:

December 31, 2019				
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	2.425.236	16.129.273	--
US Dollar	Libor + 4,25	35.840.945	55.661.791	157.240.589
TL	11,75-17,90	723.947.651	462.900.588	261.047.063
Total			534.691.652	418.287.652

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

In 2019, the Company has obtained cash loan varied in 10 days to 2 years maturity, with an interest rate of between 12,00% - 17,90%, amounting to TL 610.000.000 in total.

As of December 31, 2019 and 2018 details of issued bonds are as follows:

December 31, 2019					
ISIN CODE	Interest rate (%)	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Net Book Value
TRSISGY12113	TRLIBOR + 2,00	100.000.000	January 24, 2019	January 25, 2021	103.241.618
TRSISGY32111	Benchmark + 2,50	100.000.000	March 23, 2018	March 23, 2021	100.221.924
TRSISGYK2014	14,88	50.000.000	October 22, 2019	November 13, 2020	44.401.310
TRSISGYA2016	12,48	68.800.000	December 2, 2019	December 11, 2020	61.584.090
Total					309.448.942

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

As of December 31, 2019 details of issued commercial papers are as follows:

December 31, 2019					
ISIN CODE	Interest rate (%)	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Net Book Value
TRFISGY52017	11,40	80.000.000	December 2, 2019	May 29, 2020	76.448.136
TRFISGY12011	13,90	100.000.000	October 8, 2019	January 10, 2020	99.632.065
Total					176.080.201

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

7. Loans and borrowings (continued)

As of December 31, 2019 and 2018, the movement of loans and borrowings as follows:

	December 31, 2019	December 31, 2018
Opening balance, 1 January	1.314.848.120	1.185.482.549
Borrowings received	1.667.066.244	363.254.000
Borrowings paid	(1.569.220.442)	(324.935.297)
Interest paid	(222.098.021)	(174.548.331)
Interest accrual	217.563.771	177.601.410
Currency translation difference	30.348.775	87.993.789
Closing balance	1.438.508.447	1.314.848.120

8. Trade receivables and payables

Short-term trade receivables and payables

	December 31, 2019	December 31, 2018
<u>Trade receivables</u>		
Receivables from customers	59.724.729	60.509.118
Income accruals	51.931.388	40.249.157
Notes receivable	1.862.704	2.012.483
Rediscount of notes receivables (-)	(52.817)	(9.466)
Doubtful receivables	5.411.764	3.814.164
Provision for doubtful receivables (-)	(5.411.764)	(3.814.164)
Due from related parties (Note 25)	3.064.499	4.680.762
Total	116.530.503	107.442.054
<u>Trade payables</u>		
Payables to suppliers	7.291.732	18.540.853
Due to related parties (Note 25)	209.645.274	16.360.219
Total	216.937.006	34.901.072

As of December 31, 2019, provision for doubtful trade receivables is TL 5.411.764 (December 31, 2018: TL 3.814.164). Provision for doubtful receivables is determined based on the historical collection performance.

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

	December 31, 2019	December 31, 2018
Opening balance, 1 January	(3.814.164)	(2.567.268)
Charge for the period	(5.209.962)	(3.385.835)
Provisions released	3.612.362	2.138.939
Closing balance	(5.411.764)	(3.814.164)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

8. Trade receivables and payables (continued)

Long Term Trade Receivables

	December 31, 2019	December 31, 2018
Trade receivables		
Receivables from customers	27.655.032	37.940.124
Income accruals	5.004.842	6.448.884
Closing balance	32.659.874	44.389.008

9. Other receivables and payables

	December 31, 2019	December 31, 2018
Other short-term receivables (*)	5.685.288	718.345
Total	5.685.288	718.345

(*) The amount is consist of receivables from tax office amounting to TL 3.501.450 (December 31, 2018: None) and receivables from colletive building amangement of projects amounting to TL 2.102.238 (December 31, 2018: TL 368.592).

	December 31, 2019	December 31, 2018
Other payables – short-term		
Deposits and guarantees given	11.465.776	17.013.919
Other short-term payables (*)	803.408	3.819.887
Total	12.269.184	20.833.806

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

10. Investment property

As of December 31, 2019 and 2018, details of investment properties are as follows:

	December 31, 2019	December 31, 2018
Investment property under operating lease	3.724.396.501	3.679.192.500
Investment property under construction and other	261.537.000	474.295.599
Total	3.985.933.501	4.153.488.099

As of December 31, 2019, total insurance amount on investment properties is TL 3.104.003.145 (December 31, 2018: TL 2.576.267.652).

In 2019, finance expense is capitalized amounting to TL 14.935.375 (2018: TL 67.816.888) at investment properties and inventories of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

10. Investment property (continued)

	January 1, 2019 opening balance	Purchases	Disposals	Transfers	Fair value difference	December 31, 2019 closing balance
Investment property under operating lease						
Ankara İş Kule Building	149.630.000	3.055.291	--	--	(820.291)	151.865.000
Istanbul Marmarapark Shopping Mall	185.675.000	--	--	--	16.464.000	202.139.000
Istanbul İş Kuleleri Complex	938.885.000	1.956.852	--	--	127.921.148	1.068.763.000
Izmir Ege Perla Sopping Mall	252.680.000	3.337.031	--	--	14.082.969	270.100.000
Kapadokya Lodge Hotel (***)	27.000.000	--	(29.740.000)	--	2.740.000	--
Muğla Marmaris Mallmarine Shopping Mall	14.975.000	--	--	--	1.249.000	16.224.000
Maslak Office Building	112.540.000	212.132	--	--	2.170.868	114.923.000
Taksim Office Lamartine	53.035.000	--	--	--	4.007.000	57.042.000
Tuzla Çınarlı Bahçe (****)	2.600.000	--	(2.600.000)	--	--	--
Kanyon Shopping Mall	575.512.500	1.030.497	--	--	37.936.046	614.479.043
Istanbul Tuzla Combined (*)	290.160.000	9.094	(264.260.000)	--	(2.209.094)	23.700.000
Tuzla Technology and Operation Center	1.076.500.000	18.630	--	--	121.481.370	1.198.000.000
Kartal Manzara Adalar (**)	--	1.368.408	(216.835.700)	222.878.220	(7.410.928)	--
Levent Land	--	--	--	6.443.458	718.000	7.161.458
	3.679.192.500	10.987.935	(513.435.700)	229.321.679	318.330.088	3.724.396.501
Investment property under construction						
Istanbul Finance Center Project	200.103.000	6.970.591	--	--	2.973.408	210.047.000
Kartal Manzara Adalar	222.878.220	--	--	(222.878.220)	--	--
Levent Land	6.401.879	41.579	--	(6.443.458)	--	--
Üsküdar Land	44.912.500	983.565	--	--	5.593.935	51.490.000
	474.295.599	7.995.736	--	(229.321.679)	8.567.343	261.537.000
Total	4.153.488.099	18.983.671	(513.435.700)	--	326.897.431	3.985.933.501

(*) On December 16, 2019, 21 residential units which has a gross area of 31.402m² of Istanbul Tuzla Karma in the Company's real estate portfolio has been sold amounting to TL 310.000.000 + VAT to Türkiye Şişe ve Cam Fabrikaları A.Ş. (Note 25).

(**) On December 31, 2019, offices and commercial areas situated in Kartal Manzara Adalar in the Company's portfolio has been sold amounting to TL 352.215.000 TL + VAT on condition that invested in kind to İş Asset Management 2nd Real Estate Investment Fund's participation shares (Note 25).

(***) On December 24, 2019, Kapadokya Lodge Hotel in the Company's real estate portfolio has been sold amounting to TL 51.300.434 TL + VAT.

(****) On October 28, 2019, commercial area situated in Tuzla Çınarlıbahçe in the Company's real estate portfolio has been sold amounting to TL 2.645.000 + VAT.

As of December 31, 2019, the Company has 1st and 2nd degree mortgage on the investment properties amounting to USD 136.000.000 and TL 879.000.000 which are established in favor of İş Bank. In the current period, the Company obtained rent income amounting to TL 246.629.577 (December 31, 2018: TL 217.402.306) of its investment property. Total direct operating expenses related to these properties amounting to TL 53.356.513 (December 31, 2018: TL 51.700.565).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

10. Investment property (continued)

The fair values of the Company’s investment properties at December 31, 2019 have been arrived at on the basis of valuations carried out in December 2019 by four independent appraiser firms which are not related party of the Company. Appraisal firms are accredited independent firms licensed by the Capital Markets Board of Turkey, and have appropriate qualifications and recent experience in appraising properties in the relevant locations. According to the appraisal reports, the valuations made in accordance with the International Valuation Standards have been performed according to the methods specified in the table below.

	2019	2018
Investment property under operating lease		
Ankara İş Kule Building	Sales comparison approach	Sales comparison approach
Istanbul Marmara Park Shopping Mall	Sales comparison approach	Sales comparison approach
İstanbul İş Kuleleri Complex	Sales comparison approach	Sales comparison approach
Kapadokya Lodge Hotel	Cost approach	Cost approach
Muğla Marmaris Mallmarine Shopping Mall	Sales comparison approach	Sales comparison approach
Maslak Office Building	Sales comparison approach	Sales comparison approach
Taksim Office Lamartine	Sales comparison approach	Sales comparison approach
Tuzla Çınarlı Bahçe Project	Sales comparison approach	Sales comparison approach
Kanyon Shopping Mall	Discounted cash flow approach	Discounted cash flow approach
Tuzla Combined Project	Directly capitalization approach	Directly capitalization approach
Tuzla Technology and Operation Center	Discounted cash flow and directly capitalization approach	Directly capitalization approach
Ege Perla Shopping Mall	Discounted cash flow and sales comparison approach	Sales comparison approach
Investment property under construction		
İstanbul Finance Center Project	Sales comparison and cost approach	Sales comparison and cost approach
Kartal Manzara Adalar	Sales comparison approach	Sales comparison approach
Levent Land	Fair value based on estate tax	Fair value based on estate tax
Üsküdar Land	Sales comparison approach	Sales comparison approach

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

(*) Among the buildings included in the portfolio of the Company are İş Bankası Ankara Merkez Building, 18 residential units at Kartal Manzara Adalar E Block and Kartal parcel no 395 were sold amounting to TL 49.885.000 including VAT, TL 25.800.000 including VAT and TL 5.310.000 including VAT respectively.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

11. Inventories

<i>Short-term inventories</i>	December 31, 2019	December 31, 2018
<i>Inventories</i>		
Kartal Manzara Adalar (*)	327.629.649	240.163.575
Topkapı İnistanbul (**)	10.606.763	18.259.806
İzmir Ege Perla (***)	43.604.044	48.606.724
<i>Inventories under development</i>		
Topkapı İnistanbul (**)	121.124.555	209.357.229
Total	502.965.011	516.387.334

<i>Long-term inventories</i>	December 31, 2019	December 31, 2018
Tuzla Land	218.821.732	217.854.501
Impairment provision on inventories (-)	(43.821.732)	(43.304.501)
Total	175.000.000	174.550.000

(*) There are 975 residential units in Kartal Manzara Adalar Project, as of December 31, 2019, 621 residential units has been delivered to the customers. Balance of advances given related with the Project is amounting to TL 1.467.674 (December 31, 2018: TL 6.111.468) (Note 17). According to the revenue share agreement, the amount of land share price which is committed to Tecim Yapı Elemanları Ltd. Şti. is reconciled and TL 107.535.193 is added to residential units' cost.

(**) There are 2.741 residential units in Topkapı İnistanbul Project, as of December 31, 2019, 2.121 residential units has been delivered to the customers. Balance of advances given related with the Project is amounting to TL 146.315.939 (December 31, 2018: TL 271.066.101) (Note 17).

(***) There are 243 residential units in İzmir Ege Perla Project, as of December 31, 2019, 177 residential units has been delivered to the customers. Balance of advances given related with the Project is amounting to TL 1.252.632 (December 31, 2018: 2.258.812 TL) (Note 17).

Movement of provision for inventories for the year is as follows:

	December 31, 2019	December 31, 2018
Opening balance, 1 January	(43.304.501)	--
Charge for the period (-)	(517.231)	(43.304.501)
Provisions released	--	--
Closing balance	(43.821.732)	(43.304.501)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

12. Tangible assets

	Buildings (*)	Machinery and equipment	Vehicles	Fixtures	Total
Cost					
Opening balance as of January 1, 2019	35.639.936	85.950	374.647	3.403.788	39.504.321
Purchases	--	--	--	95.764	95.764
Disposals	--	--	--	(3.558)	(3.558)
Fair value difference	5.898.907	--	--	--	5.898.907
Closing balance as of December 31, 2019	41.538.843	85.950	374.647	3.495.994	45.495.434
Accumulated Depreciation					
Opening balance as of January 1, 2019	2.839.936	85.950	31.220	2.733.056	5.690.162
Current year charge	1.058.907	--	74.929	212.873	1.346.709
Disposal	--	--	--	(2.175)	(2.175)
Closing balance as of December 31, 2019	3.898.843	85.950	106.149	2.943.754	7.034.696
Net book value as of January 1, 2019	32.800.000	--	343.427	670.732	33.814.159
Net book value as of December 31, 2019	37.640.000	--	268.498	552.240	38.460.738
Cost					
Opening balance as of January 1, 2018	32.189.207	85.950	--	3.203.698	35.478.855
Purchases	7.689	--	374.647	200.090	582.426
Disposals	--	--	--	--	--
Fair value difference	3.443.040	--	--	--	3.443.040
Closing balance as of December 31, 2018	35.639.936	85.950	374.647	3.403.788	39.504.321
Accumulated Depreciation					
Opening balance as of January 1, 2018	1.892.431	85.950	--	2.494.721	4.473.102
Current year charge	947.505	--	31.220	238.335	1.217.060
Disposal	--	--	--	--	--
Closing balance as of December 31, 2018	2.839.936	85.950	31.220	2.733.056	5.690.162
Net book value as of January 1, 2018	30.296.776	--	--	708.977	31.005.753
Net book value as of December 31, 2018	32.800.000	--	343.427	670.732	33.814.159

(*) As of December 31, 2019, İş Kuleleri Kule:2 10th and 11th floor offices are the most important tangible assets item of the Company which are currently used for registered address with amounting to TL 37.640.000. These areas get share from the mortgages amounting to USD 136 million and TL 185 million established in İş Kuleleri and Kule Çarşısı (December 31, 2018: USD 136 million and TL 185 million).

As of December 31, 2019, the Company has tangible assets which is fully depreciated amounting to TL 2.672.758.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

	Computer Programs	Total
<u>Cost</u>		
Opening balance as of January 1, 2019	4.102.413	4.102.413
Purchases	592.668	592.668
Disposals	(20.051)	(20.051)
Closing balance as of December 31, 2019	4.675.030	4.675.030
<u>Accumulated Depreciation</u>		
Opening balance as of January 1, 2019	3.086.804	3.086.804
Current year charge	664.340	664.340
Disposals	(7.198)	(7.198)
Closing balance as of December 31, 2019	3.743.946	3.743.946
Net book value as of January 1, 2019	1.015.609	1.015.609
Net book value as of December 31, 2019	931.084	931.084
<u>Cost</u>		
Opening balance as of January 1, 2018	3.397.414	3.397.414
Purchases	704.999	704.999
Closing balance as of December 31, 2018	4.102.413	4.102.413
<u>Accumulated Depreciation</u>		
Opening balance as of January 1, 2018	2.549.708	2.549.708
Current year charge	537.096	537.096
Closing balance as of December 31, 2018	3.086.804	3.086.804
Net book value as of January 1, 2018	847.706	847.706
Net book value as of December 31, 2018	1.015.609	1.015.609

As at December 31, 2019 and 2018, the Company has no intangible assets which is capitalized in the business area.

As at December 31, 2019, the Company has intangible assets which is fully depreciated amounting to TL 2.465.375.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

14. Provisions, contingent assets and liabilities

	December 31, 2019	December 31, 2018
Debt provisions (*)	3.772.221	4.814.210
Legal case provisions	1.207.997	--
Total	4.980.218	4.814.210

	December 31, 2019	December 31, 2018
Letters of guarantee received (**)	136.439.755	145.521.342
Mortgage received	28.462.440	25.245.505
Total	164.902.195	170.766.847

(*) As of December 31, 2019, debt provisions consists of title deed fee accruals of delivered residential units and accrued residential unit taxes to be paid to T. İş Bankası A.Ş. related with Ege Perla project home and office sales.

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

Details of collaterals, pledges and mortgages (“CPM”) given by the Company as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
A. CPM given for companies own legal personality (*)	1.646.196.096	1.438.626.831
B. CPM given in behalf of fully consolidated companies	--	--
C. CPM given for continuation of its economic activities on behalf of third parties (**)	80.638.494	163.362.012
D. Total amount of other CPM's	--	--
- Total amount of CPM's given on behalf of majority shareholder	--	--
- Total amount of CPM's given on behalf of other Group companies which are not in scope of B and C	--	--
- Total amount of CPM's given on behalf of third parties which are not in scope of C	--	--
Total	1.726.834.590	1.601.988.843

(*) CPM given for the Company's own legal personality consists of letters of guarantee amounting to TL 40.671.104 and pledge amounting to USD 136.000.000 and TL 879.000.000. As of December 31, 2019, the investment properties are pledged in favour of İş Bankası amounting to 1st degree USD 136.000.000 and TL 444.000.000 and 2nd degree TL 185.000.000. (Mortgage was constituted in favour of İş Bankası from investment properties portfolio of the Company, Kule-2 and Kule Çarşısı amounting to USD 136.000.000 as 1st degree mortgage, Kule-3 amounting to TL 444.000.000 1st degree mortgage, Kule-2 and Kule Çarşısı amounting to TL 185.000.000 as 2nd degree mortgage.)

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

(**) Represents the cost of guarantors given to the related banks in return for the loan amount in case the buyers of the Company's ongoing residential and office projects use mortgage/business loan from contracted banks. In this respect, as of December 31, 2019, the ratio of CPM given by the Company to the Company's shareholders' equity is 2% (December 31, 2018: 5%).

As of December 31, 2019, 1.207.997 TL legal case provision is accrued and there are 140 legal cases and 99 enforcement proceedings of the Company is a party.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

14. Provisions, contingent assets and liabilities (continued)

Operating leases

The Company, as the lessor in the operating lease transactions

The Company signed operating lease agreements as lessor for the investment properties in its portfolio with tenants which are shopping mall tenants, hotel operators and other third parties. The future minimum lease receivables as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Less than 1 year	214.480.217	210.963.597
Between 1-5 years	731.223.556	585.164.570
More than 5 years	3.279.548.813	3.405.288.052
Total	4.225.252.586	4.201.416.219

15. Provision for employee benefits

	December 31, 2019	December 31, 2018
Unused vacation provisions	455.484	390.946
Total	455.484	390.946

	December 31, 2019	December 31, 2018
Severance pay indemnity	2.013.706	1.627.689
Total	2.013.706	1.627.689

There is an obligation to pay the severance indemnities to those employees are terminated with employment contract to be entitled to severance pay in accordance with Labor Law No. 4857 and Social Security Law No. 5510.

The amount payable consists of one month’s salary limited to a maximum of TL 6.380 for each period of service as of December 31, 2019 (December 31, 2018: TL 5.434).

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

15. Provision for employee benefits (continued)

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

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of December 31, 2019, 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 7,20% (estimated salary increase rate) and a discount rate of 11,70%, resulting in a real discount rate of approximately 4,20% (December 31, 2018: the provisions have been calculated assuming an annual inflation rate of 11,30% (estimated salary increase rate) and discount rate of 16,00%, resulting in a real discount rate of approximately 4,22% discount rate). The anticipated rate of for features is considered. As the maximum liability is revised semi-annually, the maximum amount of TL 6.380 effective from December 31, 2019 has been taken into consideration in calculation of provision from employment termination benefits.

	January 1 – December 31, 2019	January 1 – December 31, 2018
Opening balance at January 1	1.627.689	1.773.027
Service cost	260.430	203.898
Interest cost	244.830	194.110
Retirement pay provisions (-)	(120.206)	(703.641)
Actuarial differences	963	160.295
Closing balance as of year end	2.013.706	1.627.689

16. Prepaid expenses, other assets, deferred revenue (excluding liabilities from contracts with customers) and other liabilities

<i>Prepaid expenses – short term</i>	December 31, 2019	December 31, 2018
Job advances (*)	4.222.757	10.901.517
Prepaid expenses	987.997	696.197
Related party prepaid expenses (Note 25)	2.286.461	2.788.312
Total	7.497.215	14.386.026

(*) The amount consists of job advance is amounting to TL 1.328.611 (December 31, 2018: TL 3.276.607) to the related directorates within the scope of the construction supervision services of the projects and job advance is amounting to TL 1.310.020 (December 31, 2018: TL 1.644.969) to Altyapı Temel Müh. Taah. Ve Tic. Ltd. Şti. in relation to the land which has gross area of 9.043 m² registered in Kadıköy district, Istanbul city. As of December 31, 2019, there is no job advances to Sera Yapı Endüstri ve Tic. A.Ş. for construction of Topkapı İnistanbul Project (December 31, 2018: TL 4.609.098)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

16. Prepaid expenses, other assets, deferred revenue (excluding liabilities from contracts with customers) and other liabilities (continued)

<i>Prepaid expenses – long term</i>	December 31, 2019	December 31, 2018
Job advances (*)	7.774.313	4.757.821
Prepaid expenses	823.529	1.224.604
Total	8.597.842	5.982.425

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

<i>Other current assets</i>	December 31, 2019	December 31, 2018
VAT transferred	12.672.758	--
Deposits and guarantees given	96.130	22.787
Prepaid taxes and dues payable	87.903	14.471
Total	12.856.791	37.258

<i>Other non-current assets</i>	December 31, 2019	December 31, 2018
VAT transferred	--	53.261.012
Toplam	--	53.261.012

<i>Other short-term liabilities</i>	December 31, 2019	December 31, 2018
Taxes and funds payable	467.909	1.040.031
Payable social security cuts	236.878	218.234
Total	704.787	1.258.265

<i>Deferred revenue - short-term</i>	December 31, 2019	December 31, 2018
Deferred revenue	22.779.097	7.025.210
Short-term deferred revenue from related party (Note25)	52.091	257.870
Total	22.831.188	7.283.080

17. Liabilities from contracts with customers

<i>Liabilities from contracts with customers</i>	December 31, 2019	December 31, 2018
Contractual liabilities from sales of goods and services (*)	149.036.245	279.436.381
Total	149.036.245	279.436.381

(*) The amount consists of advances received from the owners of the residential units sold by Kartal Manzara Adalar Project, Topkapı İstanbul Project and İzmir Ege Perla Project (Note 11).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

18. Shareholder’s equity

Share capital

The composition of the paid-in share capital as of December 31, 2019 and 2018 are as follows:

	December 31, 2019		December 31, 2018	
<u>İş Gayrimenkul Yat. Ort. A.Ş.</u>	<u>(%)</u>		<u>(%)</u>	
Türkiye İş Bankası A.Ş.	47,90	459.237.058	47,44	454.800.582
Anadolu Hayat Emeklilik A.Ş.	7,11	68.151.714	7,11	68.151.714
Other	44,99	431.361.228	45,45	435.797.704
Total	100	958.750.000	100	958.750.000

The total number of ordinary shares consists of TL 958.750.000 (December 31, 2018: TL 958.750.000) shares with a par value of TL 1 per share. All of the shares are issued to name and TL 1.369.642,817 (December 31, 2018: TL 1.369.642,817) of the total amount is Group A and TL 957.380.357,183 (December 31, 2018: TL 957.380.357,183) 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.

There was no capital increase with or without price during the period.

Adjustment to share capital

Adjustment to share capital amount is TL 240.146.090 as of December 31, 2019 and 2018. Adjustment to share capital represents the restatement effect of the cash contributions to share capital equivalent to purchasing power of TL.

Share premium

As of December 31, 2019 and 2018, share premiums amounting TL 423.981 represent excess amount of selling price and nominal value for each share during initial public offering of the Company’s shares.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

18. Shareholders’ equity (continued)

Restricted reserves

	December 31, 2019	December 31, 2018
Legal reserves	65.949.792	59.561.684
Total	65.949.792	59.561.684

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

Prior years’ profits

	December 31, 2019	December 31, 2018
Prior years’ profits	2.261.000.280	1.925.777.515
Total	2.261.000.280	1.925.777.515

Dividend distribution

At the Ordinary General Assembly Meeting held on March 26, 2019; After the Board of Directors’ Profit Share Distribution Proposal for the distribution of 2018 profit was accepted and the dividend was not distributed, and after the legal reserves required to be set aside in accordance with the legislation on the financial statements and the statutory records prepared in accordance with the capital market legislation; It has been decided to transfer the remaining profit from the profit to the previous year’s profits according to the financial statements prepared in accordance with the capital market legislation.

In the Ordinary General Shareholders’ Meeting held on March 26, 2019, the distribution of 2018 net profit was determined as follows:

	Amount
Primary reserve (TTK 466/1) %5	6.388.108
Dividend	--
Secondary reserve (TTK 466/2)	--
Capital increase through bonus shares	--
Transferred to prior years’ profits	335.222.765
Total	341.610.873

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

19. Revenue and cost of sales

	January 1 - December 31, 2019	January 1 - December 31, 2018
Sales income from investment property	716.160.034	80.185.000
Income from sales of residential units	229.180.981	789.386.565
Rent income	219.787.236	195.593.500
Income from right of construction	26.842.341	21.808.806
Income fees and service	1.028.005	1.337.838
Other revenue	1.549.413	539.222
Total real estate revenues	1.194.548.010	1.088.850.931
Interest income on bank deposits	11.248.179	8.964.777
Gain on buy/sell of marketable securities	707.960	610.180
Interest income from reverse repos	5.372	11.394
Total debt instruments revenue	11.961.511	9.586.351
Sales discounts (-)	--	(104.791)
Total revenue	1.206.509.521	1.098.332.491

	January 1 - December 31, 2019	January 1 - December 31, 2018
Cost of sales of investment property	(698.273.658)	(84.460.408)
Cost of sales of residential units	(203.991.386)	(701.340.829)
Cost of administrative expenses	(38.662.908)	(30.091.396)
Taxes and dues	(10.969.059)	(17.571.552)
Insurance expenses	(3.323.099)	(3.116.459)
Other	(746.009)	(921.158)
Total	(955.966.119)	(837.501.802)

20. Administrative expenses / Marketing, selling and distribution expenses

	January 1 - December 31, 2019	January 1 - December 31, 2018
Administrative expenses		
Personnel expenses	(16.943.961)	(13.592.892)
Outsourced service expenses	(4.854.212)	(6.311.274)
Depreciation and amortization	(2.011.049)	(1.754.156)
Provision for doubtful receivables	(1.597.600)	(1.246.896)
Taxes and dues	(156.664)	(188.184)
Other	(1.394.974)	(1.365.292)
Total	(26.958.460)	(24.458.694)

	January 1 - December 31, 2019	January 1 - December 31, 2018
Marketing, selling and distribution expenses		
Advertising expenses	(10.363.438)	(16.463.776)
Sales commission expenses	(2.725.561)	(3.822.878)
Consultancy expenses	(1.441.152)	(1.721.367)
Sales office expenses	(248.743)	(173.259)
Other	(32.486)	(106.456)
Total	(14.811.380)	(22.287.736)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

*(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)***21. Expenses by nature**

	January 1 - December 31, 2019	January 1 - December 31, 2018
Personnel expenses		
Administrative expenses	16.943.961	13.592.892
Total	16.943.961	13.592.892
	January 1 - December 31, 2019	January 1 - December 31, 2018
Depreciation and amortization		
Administrative expenses	2.011.049	1.754.156
Total	2.011.049	1.754.156

22. Other operating income / expense

	January 1 - December 31, 2019	January 1 - December 31, 2018
Other operating income		
Revaluation income of investment property (Note 10)	337.337.744	326.600.140
Foreign exchange gains	3.928.580	12.740.526
Other	1.274.966	1.829.439
Total	342.541.290	341.170.105
	January 1 - December 31, 2019	January 1 - December 31, 2018
Other operating expense		
Revaluation difference of investment property (Note 10)	(10.440.313)	(31.212.866)
Debt provision for legal cases (Note 14)	(1.207.997)	--
Impairment provision of inventory (Note 11)	(517.231)	(43.304.501)
Other	(7.050)	(918.942)
Toplam	(12.172.591)	(75.436.309)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

23. Finance income / expense

Finance income and expenses as of December 31, 2019 and 2018 are as follows:

Finance income	January 1 - December 31, 2019	January 1 - December 31, 2018
Derivative gains	--	60.395.502
Total	--	60.395.502

Finance expense	January 1 - December 31, 2019	January 1 - December 31, 2018
Interest expenses	(202.628.396)	(109.784.522)
Foreign exchange losses	(30.348.775)	(87.993.792)
Other interest expense	(3.041.317)	(2.135.384)
Derivative losses	(7.387.117)	(11)
Total	(243.405.605)	(199.913.709)

24. Earnings per share

	January 1 - December 31, 2019	January 1 - December 31, 2018
Period opening of number of shares in circulation	95.875.000.000	91.375.000.000
Bonus shares due to capital increase	--	4.500.000.000
Number of shares in circulation as of year end	95.875.000.000	95.875.000.000
Weighted average number of shares in circulation	95.875.000.000	95.875.000.000
Net profit for the period	297.389.779	341.610.873
Earnings per share	0,0031	0,0036
Diluted earnings per share	0,0031	0,0036

As of December 31, 2019 capital of the Company consists of 95.875.000.000 shares that are valued TL 0,01 for each one.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

25. Related party disclosures

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

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

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

Details of related party balances are as follows:

Balances at İş Bankası	December 31, 2019	December 31, 2018
Time deposits	353.698.955	45.406.348
Demand deposits	30.224.490	4.671.458
Other current asset	--	102.499
Total	383.923.445	50.180.305

The Company has letters of guarantee amounting TL 40.671.104 (December 31, 2018: TL 38.144.431) from İş Bankası. In addition, 1st and 2nd degree mortgage is instituted by the Company in favour İş Bankası amounting to USD 136.000.000 and TL 879.000.000 on some investment properties.

As of December 31, 2019 and December 31, 2018, the Company has mutual funds, established by, İş Bankası and İş Portföy Yönetimi A.Ş.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

25. Related party disclosures

	December 31, 2019			
	Short Term Trade Receivables	Short Term Prepaid Expenses	Short Term Trade Payables	Deferred Income
Balances with related parties				
İş Merkezleri Yönetim ve İşletim A.Ş.	745.860	25.905	239.610	--
Türkiye İş Bankası A.Ş.	59.116	--	--	21.260
Kanyon Yönetim İşl. Paz. A.Ş.	--	--	1.186.821	30.831
Anadolu Anonim Türk Sigorta A.Ş.	94.057	2.260.556	1.953.061	--
Anadolu Cam Sanayii A.Ş.	4.067	--	--	--
İş Yatırım Menkul Değerler A.Ş.	--	--	605.447	--
Anadolu Hayat Emeklilik A.Ş.	43.613	--	--	--
Şişecam Çevre Sistemleri A.Ş.	161	--	--	--
Cam Elyaf San. A.Ş.	857	--	--	--
Şişecam Otomotiv A.Ş.	1.062	--	--	--
İş Net Elektronik Hizmetler A.Ş.	--	--	21.751	--
Paşabahçe Mağazaları A.Ş.	140.690	--	--	--
Trakya Cam Sanayii A.Ş.	6.423	--	--	--
Tecim Yapı Elemanları Ltd. Şti. (*)	1.968.593	--	204.689.747	--
Ortaklara borçlar (dividend)	--	--	705	--
Other	--	--	948.132	--
	3.064.499	2.286.461	209.645.274	52.091

(*) Consists of revenue share payment to be made in the form of mutual fund participation share and VAT amount to be paid in cash to Tecim Yapı Elemanları Ltd. Şti. (TECİM), according to the revenue share agreement with TECİM, which is the former land owner of Kartal Manzara Adalar project, within the scope of transfers of offices and commercial units situated in the Project to real estate investment fund.

	December 31, 2019	
	Loans and borrowings	
Balances with related parties	Short Term	Long Term
T. İş Bankası A.Ş.	489.007.162	366.578.246
Transactions with related parties	Interest expense on loans	Capitalized interest expense
T. İş Bankası A.Ş.	65.767.563	1.605.923

The Company has interest rate swap transactions realized during the period by T. İş Bankası A.Ş. as of December 31, 2019. Derivative losses amounting to TL 5.594.178 accounted in the financial statements of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

25. Related party disclosures (continued)

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

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

	December 31, 2018	
	Loans and borrowings	
Balances with related parties	Short Term	Long Term
T. İş Bankası A.Ş.	195.688.191	378.309.711
Transactions with related parties	Interest expense on loans	Capitalized interest expense
T. İş Bankası A.Ş.	47.712.639	20.372.369

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

25. Related party disclosures (continued)

İlişkili taraflarla olan işlemler	January 1 – December 31, 2019					
	Purchases	Interest received	Rent income	Revenue	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş. (*)	5.062.600	--	568.294	--	286.209	--
Anadolu Hayat Emeklilik A.Ş.	189.826	--	5.846.589	--	--	--
İş Finansal Kiralama A.Ş.	--	--	18.900	--	--	--
İş Merkezleri Yönetim ve İşletim A.Ş.	13.012.630	--	5.995.897	--	--	--
İş Yatırım Menkul Değerler A.Ş.	2.340.410	--	4.002.947	--	--	--
Türkiye Şişe ve Cam Fabrikaları A.Ş. (**)	--	--	9.365.515	310.000.000	92.346	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	487.170	--	--	--
İş Net Elektronik Hizmetler A.Ş.	273.425	--	437.845	--	--	--
Paşabahçe Mağazacılık A.Ş.	--	--	1.989.364	--	10.912	--
Paşabahçe Cam San. Ve Tic. A.Ş.	3.662	--	4.935.036	--	51.931	--
Trakya Cam Sanayii A.Ş.	--	--	2.941.228	--	30.950	--
Soda Sanayii A.Ş.	--	--	1.544.752	--	16.255	--
Anadolu Cam Sanayii A.Ş.	--	--	1.862.526	--	19.599	--
Camiş Madencilik A.Ş.	--	--	689.039	--	7.251	--
Camiş Elektrik A.Ş.	--	--	8.720	--	73	--
Softtech Yazılım Teknolojileri A.Ş.	--	--	7.294.631	--	--	--
Şişecam Enerji A.Ş.	--	--	233.880	--	2.461	--
Şişecam Otomotiv A.Ş.	--	--	486.254	--	5.117	--
Şişecam Çevre Sistemleri A.Ş.	--	--	73.816	--	777	--
Şişecam Elyaf Sanayii A.Ş.	--	--	8.720	--	73	--
Madencilik San. Ve Tic. A.Ş.	--	--	8.720	--	73	--
Cam Elyaf San. A.Ş.	--	--	8.720	--	73	--
Trakya Yenişehir Cam San. A.Ş.	--	--	6.540	--	73	--
Trakya Polatlı Cam San. A.Ş.	--	--	6.540	--	73	--
Çayırova Cam San. A.Ş.	--	--	8.720	--	73	--
İş Asset Management 2nd Real Estate Investment Fund (***)	--	--	--	352.215.000	--	--
Maxis Girişim Sermayesi Portföy Yön. A.Ş.	--	--	212.821	--	--	--
İş Faktoring A.Ş.	--	--	61.430	--	--	--
Kültür Yayınları İş Türk A.Ş.	10.067	--	--	--	--	--
Türkiye İş Bankası A.Ş.	--	11.253.553	90.851.037	--	50.311	944.084
	20.892.620	11.253.553	139.955.651	662.215.000	574.630	944.084

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

(**) The amount of revenue with Türkiye Şişe ve Cam Fabrikaları A.Ş. is related to sales of 21 residential units which has a gross area of 31.402m² of Istanbul Tuzla Karma. Fair values of the residential units which is carried at statement of financial position are TL 264.260.000 in total.

(***) The amount of revenue with İş Asset Management 2nd Real Estate Investment Fund is related to invested to İş Asset Management 2nd Real Estate Investment Fund's participation shares in kind payment through offices and commercial areas situated in Kartal Manzara Adalar.

In 2019, revenue share compensation is amounting to TL 823.686 (2018: TL 3.200.889) has been paid to Türkiye İş Bankası A.Ş. within the scope of Ege Perla project. Additionally, as of December 31, 2019, there is unpaid revenue share compensation is amounting to TL 3.108.440 (December 31, 2018: TL 2.768.012) at debt provisions.

In 2019, revenue share compensation is amounting to TL 122.701.008 (2018: TL 46.167.293) has been paid to Tecim Yapı Elemanları Ltd. Şti. within the scope of Kartal Manzara Adalar project.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

25. Related party disclosures (continued)

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

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

(**) The amount of other income with İş Asset Management 1st Real Estate Investment Fund is related to sales of 18 office units situated in Kartal project.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

25. Related party disclosures (continued)

As of December 31, 2019 and 2018, related party balances of issued bonds and commercial papers are as follows:

Balances with related parties	December 31, 2019	December 31, 2018
Türkiye İş Bankası A.Ş.	5.062.693	--
İş Yatırım Ortaklığı A.Ş.	1.476.359	1.030.055
İş Yatırım Menkul Değerler A.Ş.	--	34.087.651
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	7.816.795
	6.539.052	42.934.501

As of December 31, 2019 and 2018, coupon payments of issued bonds and commercial papers are as follows:

Transactions with related parties	December 31, 2019	December 31, 2018
Anadolu Anonim Türk Sigorta A.Ş.	4.242.015	2.908.500
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	599.452	1.454.250
İş Yatırım Menkul Değerler A.Ş.	552.583	559.760
İş Yatırım Ortaklığı A.Ş.	550.187	621.642
Türkiye İş Bankası A.Ş.	144.063	--
	6.088.300	5.544.152

Benefits provided to key management personnel:

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

	January 1- December 31, 2019	January 1- December 31, 2019
Salaries and other short term benefits	5.419.788	5.383.075
Employee termination benefits	610.771	479.196
Total	6.030.559	5.862.271

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

26. Nature and level of risks arising from financial instruments

a) Capital risk management

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

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

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

b) Financial risk factors

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.1) Credit risk management

Exposure to maximum credit risk as of reporting date	Receivables							
	Trade receivables		Other Receivables			Bank deposits	Derivative instruments	Other ^(***)
	Related parties	Other parties	Related parties	Other parties				
December 31, 2019								
Maximum net credit risk as of the reporting date (A+B+C+D+E) ^(*)	3.064.499	146.125.878	--	5.685.288	383.923.445	42.367.396	4.491.942	
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	--	--	--	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	3.064.499	146.125.878	--	5.685.288	383.923.445	42.367.396	4.491.942	
B. Net book value of financial assets which are overdue but not impaired	38.677	5.576.861	--	--	--	--	--	--
C. Net book value of impaired assets								
- Past due (gross carrying amount)	--	5.411.764	--	--	--	--	--	--
- Impairment (-)	--	(5.411.764)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--	--

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

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.1) Credit risk management (continued)

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

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

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

*(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)***26. Nature and level of risks arising from financial instruments (continued)*****b.1) Credit risk management (continued)***

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

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

December 31, 2019	Receivables		Total
	Trade Receivables	Other Receivables	
Past due 1-30 days	2.715.360	--	2.715.360
Past due 1-3 months	2.154.953	--	2.154.953
Past due 3-12 months	720.019	--	720.019
Past due 1-5 years	25.206	--	25.206
Total overdue receivables	5.615.538	--	5.615.538
Total collateralized portion	5.171.251	--	5.171.251

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.1) Credit risk management (continued)

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

	December 31, 2019		December 31, 2018	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Letters of guarantee	4.782.526	4.782.526	6.669.324	6.669.324
Notes payable	249.717	249.717	74.780	74.780
Cash deposits	139.008	139.008	110.552	110.552
	5.171.251	5.171.251	6.854.656	6.854.656

b.2) Liquidity risk management

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

December 31, 2019						
<u>Contractual maturities</u>	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Loans and borrowings	1.438.508.447	1.603.490.702	192.097.848	735.668.268	675.724.586	--
Trade payables	216.937.006	216.937.006	216.937.006	--	--	--
Other payables	12.269.184	12.269.184	--	12.269.184	--	--
Total liabilities	1.667.714.637	1.832.696.892	409.034.854	747.937.452	675.724.586	--
December 31, 2018						
<u>Contractual maturities</u>	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Loans and borrowings	1.314.848.120	1.630.380.067	344.684.543	568.713.664	716.981.860	--
Trade payables	34.901.072	34.901.072	34.901.072	--	--	--
Other payables	20.833.806	20.833.806	--	20.833.806	--	--
Total liabilities	1.370.582.998	1.686.114.945	379.585.615	589.547.470	716.981.860	--

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.3) Market risk management

b.3.1) Foreign currency risk management

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

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

Foreign currency transactions lead to currency risks.

The exchange rates applied as of December 31, 2019 and 2018 are as follows:

	US Dollar	Euro	GBP
December 31, 2019	5,9402	6,6506	7,7765
December 31, 2018	5,2609	6,0280	6,6528

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

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

December 31, 2019	TL Equivalent (Functional currency)	US Dollar	Euro
1. Trade Receivables	--	--	--
2a. Monetary Financial Assets	1.702.480	286.603	--
2b. Non-Monetary Financial Assets	439.337	73.960	--
3. Other	--	--	--
4. CURRENT ASSETS	2.141.817	360.563	--
5. Trade Receivables	--	--	--
6a. Monetary Financial Assets	--	--	--
6b. Non-Monetary Financial Assets	--	--	--
7. Other	--	--	--
8. NON CURRENT ASSETS	--	--	--
9. TOTAL ASSET	2.141.817	360.563	--
10. Trade Payables	--	--	--
11. Financial Liabilities	68.541.232	8.823.529	2.425.000
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	2.744.638	334.849	113.609
13. SHORT TERM LIABILITIES	71.285.870	9.158.378	2.538.609
14. Trade Payables	--	--	--
15. Financial Liabilities	157.240.587	26.470.588	--
16a. Other Monetary Liabilities	--	--	--
16b. Other Non-Monetary Liabilities	--	--	--
17. LONG TERM LIABILITIES	157.240.587	26.470.588	--
18. TOTAL LIABILITIES	228.526.458	35.628.966	2.538.845
19. Net asset/liability position of off balance sheet derivatives (19a-19b)	209.654.120	35.294.118	--
19.a Off-balance sheet foreign currency derivative assets	209.654.120	35.294.118	--
19b. Off-balance sheet foreign currency derivative liabilities	--	--	--
20. Net foreign currency asset / liability position	(16.730.521)	25.715	(2.538.609)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(224.079.340)	(35.007.514)	(2.425.000)
22. Fair Value of foreign currency hedged Financial asset	42.367.395	7.132.318	--
23. Hedged foreign currency assets	--	--	--
24. Hedged foreign currency liabilities	--	--	--

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

Foreign currency sensitivity

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

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

December 31, 2019		
	Appreciation of foreign currency	Devaluation of foreign currency
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset / liability	(20.795.163)	20.795.163
Portion hedged against US Dollar risk (-)	20.965.412	(20.965.412)
US Dollar net effect	170.249	(170.249)
<u>If Euro changes against TL by 10%</u>		
Euro net asset / liability	(1.612.771)	1.612.771
Portion hedged against Euro risk (-)	--	--
Euro net effect	(1.612.771)	1.612.771
December 31, 2018		
	Appreciation of foreign currency	Devaluation of foreign currency
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset / liability	(22.951.998)	22.951.998
Portion hedged against US Dollar risk (-)	23.209.853	(23.209.853)
US Dollar net effect	257.855	(257.855)
<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability	(2.892.568)	2.892.568
Portion hedged against Euro risk (-)	--	--
Euro net effect	(2.892.568)	2.892.568

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

b.3) Market risk management (continued)

b.3.2) Interest rate risk management

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

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

There are no debt securities of the Company classified as financial asset at fair value through profit or loss in accompanying financial statements as of December 31, 2019 and 2018.

The sensitivity analyses have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period at 1%. If interest rates increase or decrease by 1% as of December 31, 2019, the net profit would decrease or increase by TL 792.045 (December 31, 2018: TL 1.864.464 decrease or increase).

		Interest Rate Table	
		December 31, 2019	December 31, 2018
Fixed Rate Financial Instruments			
	Financial assets classified at fair value through profit or loss	--	--
Financial Assets	Time deposits at banks	353.698.955	45.406.340
	Receivables from reverse repo transactions	--	--
Financial Liabilities		1.006.013.252	440.720.682
Floating Interest Rate Financial Instruments			
	Investment Funds	4.491.942	3.951.277
Financial Liabilities		432.495.195	874.127.438

b.3.3) Equity price risk

As of December 31, 2019, company has no equity in their portfolio. Therefore, there is no equity price risk. (December 31, 2018: None)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

27. Fair value of financial assets and liabilities

Financial assets

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

Financial liabilities

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

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

The Company assumes that the carrying values of the floating interest rate banks loans are close to their fair value, since floating interest rate banks loans are re-priced recently. The Company assumes that the carrying values of the fixed interest rate banks loans are close to their fair value, since the opening date of the bank loan is close to the reporting period and there is no significant change in the market interest rates. The estimated fair value of fixed rate financial liabilities is calculated by using discounted cash flows using current market interest rates. As of December 31, 2019, net book value of fixed rate loan is TL 1.006.013.252 and fair value of those loans are TL 1.006.013.252.

	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Carrying value	Note
December 31, 2019					
<i>Financial Assets</i>					
Cash and cash equivalents	383.923.445	4.491.942	--	388.415.387	5
Financial investments	--	394.715.000	--	394.715.000	6
Trade receivables	146.125.878	--	--	146.125.878	8
Due from related parties	3.064.499	--	--	3.064.499	25
Other financial assets	5.685.288	--	--	5.685.288	9
Derivative instruments	--	42.367.396	--	42.367.396	6
<i>Financial Liabilities</i>					
Loans and borrowings	--	--	576.383.987	576.383.987	7
Loans and borrowings from related parties	--	--	862.124.460	862.124.460	7
Trade payables	--	--	7.291.732	7.291.732	8
Trade payables to related parties	--	--	209.645.274	209.645.274	25
Other payables	--	--	12.269.184	12.269.184	9
Derivative instruments	--	8.393.543	--	8.393.543	6
December 31, 2018					
<i>Financial Assets</i>					
Cash and cash equivalents	50.285.472	3.951.277	--	54.236.749	5
Trade receivables	147.150.300	--	--	147.150.300	8
Due from related parties	4.680.762	--	--	4.680.762	25
Other financial assets	718.345	--	--	718.345	9
Derivative instruments	--	59.536.713	--	59.536.713	6
<i>Financial Liabilities</i>					
Loans and borrowings	--	--	697.915.716	697.915.716	7
Loans and borrowings from related parties	--	--	616.932.404	616.932.404	7
Trade payables	--	--	18.540.853	18.540.853	8
Trade payables to related parties	--	--	16.360.219	16.360.219	25
Other payables	--	--	20.833.806	20.833.806	9

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

27. Fair value of financial instruments (continued)

Fair Value of Financial Instruments

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

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

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

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

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

Assets at fair value	December 31, 2019	Level I	Level II	Level III
Investment properties	3.985.933.501	--	3.985.933.501	--
Tangible assets	38.460.738	--	38.460.738	--
Financial assets held for trading	399.206.942	4.491.942	394.715.000	--
Derivatives held for trading	42.367.396	--	42.367.396	--
	4.465.968.577	4.491.942	4.461.476.635	--

Assets at fair value	December 31, 2018	Level I	Level II	Level III
Investment properties	4.153.488.099	--	4.153.488.099	--
Tangible assets	33.814.159	--	33.814.159	--
Financial assets held for trading	3.951.277	3.951.277	--	--
Derivatives held for trading	59.536.713	--	59.536.713	--
	4.250.790.248	3.951.277	4.246.838.971	--

28. Events after the reporting period

None.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

The main accounts of separate financial statements	Related regulation	December 31, 2019	December 31, 2018
A Capital and money market instruments	III-48.1. Md. 24 / (b)	783.130.387	54.236.749
B Real estates, rights supported by real estates and real estate projects	III-48.1. Md. 24 / (a)	4.663.898.512	4.844.425.433
C Affiliates (*)	III-48.1. Md. 24 / (b)	3.741.256	3.088.133
Due from related parties (other receivables)	III-48.1. Md. 23 / (f)	--	--
Other assets		265.586.731	320.582.609
D Total assets	III-48.1. Md. 3 / (k)	5.716.356.886	5.222.332.924
E Loans and borrowings	III-48.1. Md. 31	1.438.508.447	1.314.848.120
F Other financial liabilities	III-48.1. Md. 31	4.980.218	4.814.210
G Financial lease obligations	III-48.1. Md. 31	--	--
H Due to related parties (other payables)	III-48.1. Md. 23 / (f)	--	--
I Equity	III-48.1. Md. 31	3.860.227.078	3.556.939.355
Other liabilities		412.641.143	345.731.239
D Total liabilities and equity	III-48.1. Md. 3 / (k)	5.716.356.886	5.222.332.924
Other separate financial information	Related regulation	December 31, 2019	December 31, 2018
A1 Capital and money market instruments amount held for 3-year real estate payments	III-48.1. Md. 24 / (b)	--	--
A2 Time balances / demand balances TL / foreign currency	III-48.1. Md. 24 / (b)	383.923.445	50.182.973
A3 Foreign capital market instruments	III-48.1. Md. 24 / (d)	--	--
B1 Foreign real estates, rights supported by real estates and real estate projects	III-48.1. Md. 24 / (d)	--	--
B2 Inactive land	III-48.1. Md. 24 / (c)	58.651.459	51.314.379
C1 Foreign affiliates	III-48.1. Md. 24 / (d)	--	--
C2 Participating to operating company	III-48.1. Md. 28	3.741.256	3.088.133
J Non-cash loans	III-48.1. Md. 31	40.671.104	38.144.431
K Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Md. 22 / (e)	--	--
L The sum of investments in money and capital market instruments in a single company	III-48.1 Md. 22 / (1)	388.415.384	54.131.580

(*) From the associates disclosed in Note 3, Kanyon is in the scope of the Company under the scope of Article 28 paragraph 1 of the "Communiqué on Principles Regarding Real Estate Investment Trusts" No: 48.1 of the CMB, III. The Company accounts for this associate according to the equity method in the accompanying financial statements. As of December 31, 2019, the Company's participation in Kanyon is TL 500.000 and does not exceed 10% of the total assets.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Condensed Financial Statements For the Year Ended December 31, 2019

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

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

Portfolio restrictions	Related regulation	December 31,	December 31,	Min/Max ratio
		2019	2018	
1 Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Md. 22 / (e)	0%	0%	Max %10
2 Real estates, rights supported by real estates and real estate projects	III-48.1. Md. 24 / (a), (b)	82%	93%	Min %51
3 Capital and money market instruments and subsidiaries	III-48.1. Md. 24 / (b)	14%	1%	Max %49
4 Foreign real estates, rights supported by real estates and real estate projects, affiliates and capital market instruments	III-48.1. Md. 24 / (d)	0%	0%	Max %49
5 Inactive land	III-48.1. Md. 24 / (c)	1%	1%	Max %20
6 Participating to operating company	III-48.1. Md. 28	0%	0%	Max %10
7 Borrowings limits	III-48.1. Md. 31	38%	38%	Max %500
8 Time balances / demand balances TL / foreign currency	III-48.1. Md. 24 / (b)	7%	1%	Max %10
9 The sum of investments in money and capital market instruments in a single company	III-48.1 Md. 22 / (1)	7%	1%	Max %10