

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĐI A.Ő.

**CONDENSED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2016**

(ORIGINALLY ISSUED IN TURKISH)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY-31 MARCH 2016

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EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

CONDENSED STATEMENTS OF FINANCIAL POSITION AT 31 MARCH 2016 AND 31 DECEMBER 2015

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

		<i>Unaudited</i>	<i>Audited</i>
	Notes	31 March	31 December
		2016	2015
ASSETS			
Current assets		7,618,010	7,066,056
Cash and cash equivalents	5	3,130,305	3,005,003
Financial assets	6	144,277	143,819
Trade receivables	8	1,055,171	1,410,160
<i>Trade receivables from related parties</i>	19	39,308	204,172
<i>Trade receivables from third parties</i>		1,015,863	1,205,988
Other receivables	9	516,457	499,781
<i>Other receivables from third parties</i>		516,457	499,781
Land and residential unit inventories	10	2,552,556	1,807,059
Prepaid expenses	13	34,972	33,962
Other current assets	12	184,272	166,272
Non-current assets		9,754,691	10,161,448
Trade receivables	8	1,553,511	1,483,100
<i>Trade receivables from third parties</i>		1,553,511	1,483,100
Other receivables	9	456	168
Land and residential unit inventories	10	8,024,469	8,523,344
Investment property		16,000	16,000
Property, plant and equipment		86,822	78,721
Intangible assets		1,269	1,874
Other non-current assets		72,164	58,241
Total assets		17,372,701	17,227,504

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**CONDENSED STATEMENTS OF FINANCIAL POSITION
AT 31 MARCH 2016 AND 31 DECEMBER 2015**

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

		<i>Unaudited</i>	<i>Audited</i>
		31 March	31 December
	Notes	2016	2015
LIABILITIES AND EQUITY			
Current liabilities		7,654,934	7,631,665
Short term borrowings	7	793	-
Short term portion of long term borrowings	7	228,520	230,657
Trade payables	8	2,452,277	2,553,198
<i>Trade payables to related parties</i>	19	1,872,147	1,881,778
<i>Trade payables to third parties</i>	8	580,130	671,420
Other payables	9	523,269	517,994
<i>Other payables to third parties</i>		523,269	517,994
Deferred income	13	4,315,081	4,159,158
Short term provisions		134,994	170,658
<i>Short term provisions for employee benefits</i>		4,551	4,626
<i>Other short term provisions</i>	11	130,443	166,032
Non-current liabilities		215,952	270,440
Long term borrowings	7	159,000	214,000
Trade payables	8	36,121	36,192
<i>Trade payables to third parties</i>		36,121	36,192
Other payables		13,750	13,814
<i>Other payables to third parties</i>		13,750	13,814
Deferred income	13	2,510	2,448
Long term provisions for employee benefits		4,571	3,986
Shareholders' equity		9,501,815	9,325,399
Paid-in capital	14	3,800,000	3,800,000
Treasury shares (-)	14	(262,857)	(262,857)
Share premiums / discounts	14	2,366,895	2,366,895
Other comprehensive income / expense not to be reclassified to profit or loss		(853)	(487)
- <i>Gain/(loss) on remeasurement of employee benefits</i>		(853)	(487)
Restricted reserves		357,908	357,908
Retained earnings		3,063,940	2,111,335
Net profit for the period		176,782	952,605
Total liabilities and equity		17,372,701	17,227,504

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AT 31 MARCH 2016 AND 2015

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

	Notes	Unaudited 1 January- 31 March 2016	Unaudited 1 January- 31 March 2015
Profit or loss			
Sales	15	128,566	191,002
Cost of sales (-)	15	(16,902)	(78,278)
Gross profit		111,664	112,724
General administrative expenses (-)	16	(25,961)	(29,579)
Marketing, sales and distribution expenses (-)	16	(15,148)	(8,207)
Other operating income	17	90,655	46,363
Other operating expenses (-)	17	(2,551)	(1,932)
Operating profit		158,659	119,369
Income from investing activities		2,276	4,830
Operating profit before financial income / (expense)		160,935	124,199
Financial income	18	26,037	25,615
Financial expenses (-)	18	(10,190)	(11,557)
Profit for the period from continued operations		176,782	138,257
Other comprehensive income			
Actuarial computation related to employee benefit liabilities		(366)	(125)
Total comprehensive income for the period		176,416	138,132
Earnings per share (in full TL)		0.0005	0.0004

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**CONDENSED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2016 AND 2015**

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

	Share Capital	Adjustment to Share Capital	Share Premium	Legal Reserves	Other Comprehensive Income and Expense not to be Reclassified to Profit or Loss	Net Income		Total Equity
					Gain / (Loss) on Remeasurement of Employee Benefits	Retained	Net Income	
						Earnings	for the Period	
1 January 2015	3,800,000	(240,687)	2,366,895	292,674	(203)	1,578,208	954,397	8,751,284
Transfers	-	-	-	-	-	954,397	(954,397)	-
Total comprehensive income	-	-	-	-	(125)	-	138,257	138,132
31 March 2015	3,800,000	(240,687)	2,366,895	292,674	(328)	2,532,605	138,257	8,889,416
1 January 2016	3,800,000	(262,857)	2,366,895	357,908	(487)	2,111,335	952,605	9,325,399
Transferler	-	-	-	-	-	952,605	(952,605)	-
Total comprehensive income	-	-	-	-	(366)	-	176,782	176,416
31 March 2016	3,800,000	(262,857)	2,366,895	357,908	(853)	3,063,940	176,782	9,501,815

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

CONDENSED STATEMENTS OF CASH FLOWS AT 31 MARCH 2016 AND 2015

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

	Notes	1 January- 31 March 2016	1 January- 31 March 2015
Cash flows from operating activities			
Profit for the period		176,782	138,257
Adjustments to reconcile net profit			
Depreciation and amortization expenses	16	1,563	547
Adjustments for impairments	10	1,143	442
Changes in provisions		(35,068)	(8,284)
Adjustments for interest income and expenses		(91,871)	(58,980)
Unrealized exchange losses on cash and cash equivalents		-	246
Net cash before changes in assets and liabilities		52,549	72,228
Changes in net working capital			
Increase in land and residential unit inventories		(247,765)	(1,313,618)
(Increase) / decrease in trade receivables		291,273	(9,736)
Increase / (decrease) in trade payables		(100,992)	1,188,671
(Increase) / decrease in other receivables		(9,613)	74,979
Increase / (decrease) in other payables		188,696	194,291
Change in project deposits		(52,031)	(1,008,791)
Net cash flow from operating activities			
Interest received		33,330	3,721
Tax payments / returns		(17,215)	(9,395)
Employee termination indemnity paid		(11)	(105)
Net cash flow from operating activities		138,221	(807,755)
Cash flow from investing activities			
Purchases of tangible and intangible assets		(9,059)	(5,502)
Interest received		3,682	3,943
Purchases of financial assets		(101,358)	(172,437)
Returns of financial assets		100,900	164,065
Cash flow from investing activities		(5,835)	(9,931)
Cash flow from financing activities			
Cash inflows due to debt		793	-
Cash outflows due to discharge of debt		(55,000)	(40,515)
Interest received		-	26,685
Interest paid		(12,053)	(13,191)
Decrease in payables to HAS beneficiaries		250	1,142
Increase in payables to HAS beneficiaries		(438)	(1,632)
Cash flow from financing activities		(66,448)	(27,511)
Net increase / (decrease) in cash and cash equivalents before currency translation differences		65,938	(845,197)
Effects of unrealized gain / (loss) on cash and cash equivalents		-	(4)
Net increase / (decrease) in cash and cash equivalents		65,938	(845,201)
Cash and cash equivalents at the beginning of the period	5	759,493	1,453,400
Cash and cash equivalents at the end of the period	5	825,431	608,199

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 1 – ORGANIZATION AND OPERATION OF THE COMPANY

Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş. (“Emlak Konut GYO” or the “Company”) was established on 26 December 1990 as a subsidiary of Türkiye Emlak Bankası A.Ş. The Company is governed by its articles of association, and is also subject to the terms of the decree law about Public Finances Enterprises No. 233, in accordance with the statute of Türkiye Emlak Bankası A.Ş. The Company has been registered and started its activities on 6 March 1991. The Company’s articles of association were revised on 19 May 2001 and it became an entity subject to the Turkish Commercial Code No. 4603.

The Company was transformed into a Real Estate Investment Company with Senior Planning Committee Decree No. 99/T-29, dated 4 August 1999, and according to Statutory Decree No. 588, dated 29 December 1999. According to Permission No. 298, dated 20 June 2002, granted by the Capital Markets Board (“CMB”) regarding transformation of the Company into a Real Estate Investment Company and permission No. 5320, dated 25 June 2002, from the Republic of Turkey Ministry of Industry and Trade and amendment draft for the articles of association of the Company was submitted for the approval of the Board and the amendment draft was approved at the Ordinary General Shareholders Committee meeting of the Company convened on 22 July 2002, changing the articles of association accordingly.

The articles of association of the Company were certified by Istanbul Trade Registry Office on 29 July 2002 and entered into force after being published in Trade Registry Gazette dated 1 August 2002. As the result of the General Shareholders committee meeting of the Company convened on 28 February 2006, the title of the Company Emlak Gayrimenkul Yatırım Ortaklığı A.Ş. was changed to Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş.

By the decision of the Board of Directors of Istanbul Stock Exchange Market on 26 November 2010, 25% portion of the Company’s class B shares with a nominal value of TL 625,000 has been trading on the stock exchange since 2 December 2010.

The registered address of the Company is as follows:

Barbaros Mah. Mor Sümül Sok. No:7/2 B (Batı Ataşehir) Ataşehir - İstanbul

The objective and operating activity of the Company is coordinating and executing Real Estate Property Projects mostly housing, besides, commercial units, educational units, social facilities, and all related aspects, controlling and building audit services of the ongoing projects, marketing and selling the finished housing. Due to statutory obligation to be in compliance with the Real Estate Investment Companies decrees and related CMB communiqués, The Company can not be a part of construction business, but only can organize it by auctioning between the contractors.

The condensed financial statements at 31 March 2016 have been approved by the Board of Directors on 2 May 2016. The General Assembly of the Company has the power to amend these financial statements.

The ultimate parent and ultimate controlling party of the company is T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (the Housing Development Administration of Turkey, “TOKİ”). TOKİ is a state institution under the control of Republic of Turkey Prime Ministry.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation

The condensed interim financial statements of the Company have been prepared in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) (hereinafter will be referred to as “the CMB Accounting Standards”) on 13 June 2013 which is published on Official Gazette numbered 28676. In accordance with article 5th of the CMB Accounting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS/TFRS”) and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

The Company prepared its condensed interim financial statements for the period ended 31 March 2016 in accordance with the Communiqué and announcements regarding this Communiqué, in accordance with TAS 34, “Interim Financial Reporting”. In this respect, the Company has preferred to prepare condensed interim financial statements in the interim periods and prepared the mentioned condensed interim financial statements in compliance with CMB Accounting Standards. The condensed interim financial statements and the related notes to them are presented in accordance with the declaration dated 7 June 2013 and with the formats required by the CMB.

The Companies are free to prepare their interim financial statements as full or condensed in accordance with TAS 34. In this context, the Company choice to prepare its interim financial statements as condensed.

Interim condensed financial statements of the Company do not include all the information and disclosures required in the annual financial statements, therefore should be read in conjunction with the Company’s annual financial statements as of 31 December 2015.

The Company maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code (“TCC”), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. These condensed interim financial statements in Turkish Lira (“TRY”) based on the historical cost convention except for the financial assets and liabilities which are expressed with their fair values. The condensed interim financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Accounting Standards of the POA.

Accounting for the effects of hyperinflation

With the decision dated on 17 March 2005 and numbered 11/367 by the CMB which is effective from 1 January 2005, for companies operating in Turkey and preparing their financial statements in accordance with Turkish Accounting Standards the application of inflation accounting is no longer required. Accordingly, TAS 29 “Financial Reporting in Hyperinflationary Economies” did not be applied for the accounting periods starting 1 January 2005.

Functional and Presentation Currency

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (“functional currency”). The functional currency of the Company is expressed in Turkish Lira (“TL”), the presentation currency amounts are expressed in thousands of Turkish Lira (“TL”).

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

Offsetting

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

Going concern

The Company’s financial statements are prepared under the going concern assumption.

2.2 Conformity with the Portfolio Limitations

The information presented in Additional Note of this report, regarding control of conformity with the portfolio limitations, is a summary information extracted from financial statements in accordance with Article 16 of Communiqué No: II-14,1, “Principles of Financial Reporting in Capital Markets” and is prepared in accordance with the provisions of the control of portfolio limitations of Communiqué No: III-48,1, “Principles Regarding Real Estate Investment Companies”.

NOTE 3 - ACCOUNTING POLICIES

The accounting policies adopted as of 31 March 2016 are consistent with those prepared as of 31 December 2015. Therefore, condensed interim financial statements have to be considered with year end financial statements.

3.1 New and Revised Turkish Accounting Standards

a) Amendments to TAS affecting amounts reported and/or disclosures in the financial statements

None.

b) New and revised TAS applied with no material effect on the financial statements

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> ¹
Amendments to TFRS 11 and TFRS 1 Annual Improvements to 2011-2013 Cycle	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹ <i>TFRS 1</i> ²
Amendments to TAS 1 Annual Improvements to 2012-2014 Cycle	<i>Disclosure Initiative</i> ² <i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> ²
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ²
TFRS 14	<i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015.

² Effective for annual periods beginning on or after 1 January 2016.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 3 - ACCOUNTING POLICIES (Continued)

3.1 New and Revised Turkish Accounting Standards (Continued)

b) New and revised TAS applied with no material effect on the financial statements (continued)

Amendments to TAS 16 and TAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 Agriculture: Bearer Plants

This amendment includes ‘bearer plants’ within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for as property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 Accounting for Acquisition of Interests in Joint operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 Disclosure Initiative

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 3 - ACCOUNTING POLICIES (Continued)

3.1 New and Revised Turkish Accounting Standards (Continued)

b) New and revised TAS applied with no material effect on the financial statements (continued)

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of ‘elsewhere in the interim report’ and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to TFRS 10, TFRS 12 and TAS 28 *Investment Entities: Applying the Consolidation Exception*

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent’s investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 3 - ACCOUNTING POLICIES (Continued)

3.1 New and Revised Turkish Accounting Standards (Continued)

- b) New and revised TAS applied with no material effect on the financial statements (continued)

TFRS 14 Regulatory Deferral Accounts

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for ‘regulatory deferral account balances’ in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

- c) New and revised TAS in issue but not yet effective

The Company has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i>
Amendments to TFRS 9 and TFRS 7	<i>Mandatory Effective Date of TFRS 9 and Transition Disclosures</i>

TFRS 9 Financial Instruments

TFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. TFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Amendments to TFRS 9 and TFRS 7 Mandatory Effective Date of TFRS 9 and Transition Disclosures

The mandatory effective date of TFRS 9 will be no earlier than annual periods beginning on or after 1 January 2018.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

3.2 Critical accounting estimates, assumptions and judgments

The preparation of financial statements requires the use of assumptions and estimates that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues expenses which are reported throughout the period. Even though these assumptions and estimates rely on the best estimates of the Company management both the actual results may differ and not material for these financial statements.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 4- SIGNIFICANT EVENTS AND TRANSACTIONS RELATED WITH THE PERIOD

The events and transactions which have significant impacts on the financial statements at the period ended at 31 March 2016 are as follows:

The Company issued land invoices amounting to TL 68,646 in the three months period ended 31 March 2016 regarding temporary admissions made on the parts of ongoing constructions of LSRSA (Note 15).

The Company made collections amounting to TL 645,799 based on the sales agreements signed with the resident buyers of the ongoing LSRSA projects. TL 207,136 portion of the total amount belongs to the Company and is accounted for at Other Current Liabilities - Deferred Revenue from LSRSA Projects. The remaining portion amounting to TL 438,663 was collected to be paid to the subcontractors in accordance with the percentage of completion levels of the projects. The unpaid portion of this balance is accounted for at Short-term Trade Payables - Payables To Contractors According to LSRSA Projects.

The Company received advances amounting to TL 25,334 regarding to the LSRSA projects with terms of the rates defined in the construction agreements.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 5 - CASH AND CASH EQUIVALENTS

	31 March 2016	31 December 2015
Cash on hand	31	4
Banks	3,130,274	3,004,999
- Demand deposit	81,734	65,500
- Time deposit	3,048,540	2,939,499
	3,130,305	3,005,003

Maturities of cash and cash equivalents are as follows:

	31 March 2016	31 December 2015
Demand	81,765	65,504
Up to 3 month	3,048,540	2,939,499
Less: Blocked deposits	(44,112)	(41,432)
	3,086,193	2,963,571

Average effective interest rates of time deposits are as follows:

	31 March 2016	31 December 2015
	(%)	(%)
	9.35	8.90

The calculation of cash and cash equivalents of the Company for the use in statements of cash flows is as follows:

	31 March 2016	31 December 2015
Cash and cash equivalents	3,130,305	3,005,003
Less: Interest accruals	(14,116)	(8,525)
Less: LSRSA project deposits (*)	(317,117)	(301,997)
Less: TOKI deposits (**)	(1,944,962)	(1,908,051)
Less: Blocked deposits	(28,679)	(26,937)
	825,431	759,493

(*) The contractors' portion of the residential unit sales in accordance with the related agreements, realized from the ongoing LSRSA projects is deposited in time deposit bank accounts that are opened for the related LSRSA projects. The Company has the authority to control these accounts TL 317,117 (31 December 2015: TL 301,997) part of the total project amount deposits TL 15,433 (31 December 2015: TL 14,495) consists of blocked deposits.

(**) According to the protocols signed with TOKİ regarding to land purchases, the cost of lands purchased from TOKİ is evaluated in term accounts of Emlak Konut in the name of TOKİ, until the payment date determined by TOKİ. All of this accumulated interest income on term deposits will be paid to TOKİ.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 6 - FINANCIAL INVESTMENTS

	31 March 2016	31 December 2015
Financial Investments		
Treasury bills	131,260	130,552
Special issue government bonds (*)	13,017	13,267
	144,277	143,819

(*) The Republic of Turkey, Undersecretariat of Treasury (“Turkish Treasury”) issues special Domestic Government Debt securities in the name of the Company to make the HAS payments on behalf of Turkish Treasury. In 2010, special Domestic Government Debt securities amounted to TL 429,617 has been issued to the Company. The Bonds are redeemed partially and early redempted and the amount is transferred to the Company’s accounts when the HAS lists are specified (Note 9). These government bonds are non-interest bearing and are not subject to sale on secondary market therefore the fair values are also their nominal values.

The Company issues treasury bills amounting to TL 131,260 as of 31 March 2016 (31 December 2015: TL 130,552) from Turkish Treasury. These treasury bills are measured at fair value. The fair value of these treasury bills are calculated by using the effective interest rates as quarterly which are announced by Turkish Treasury. Average effective interest rate of financial assets at 31 March 2016 is 10.68 % (31 December 2015: 10.84%). As of 31 March 2016 average term of the treasure bills changes between four and six months (31 December 2015: changes between four and six months).

NOTE 7 - FINANCIAL LIABILITIES

	31 March 2016	31 December 2015
Short-term financial liabilities		
Short-term bank borrowings	793	-
Short-term portion of long-term borrowings	228,520	230,657
	229,313	230,657
Long-term financial liabilities		
Long-term borrowings	159,000	214,000
	159,000	214,000

According to the agreement signed with the Turkish Treasury in 25 July 2008, the Company has borrowed TL 1,314,000 from the Turkish Treasury for financing its HAS payment liability. With respect to the agreement signed with the Turkish Treasury, the related borrowing has a floating interest rate and has a maturity of 10 October 2017. The interest rate is defined as the weighted average of the compound rate of discounted Government bonds issued by Turkish Treasury before each payment period.

The interest rate of the borrowing at 31 March 2016 is 10.93% (31 December 2015: 10.14%).

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

NOTE 7 - FINANCIAL LIABILITIES (Continued)

The redemption schedules of the borrowings at 31 March 2016 and 31 December 2015 are as follows:

	31 March 2016	31 December 2015
2017	159,000	214,000
	159,000	214,000

The allocation of interest rate sensitivity of financial liabilities according to their repricing dates is as follows:

	31 March 2016	31 December 2015
Less than 3 months	64,313	65,657
Between 3 - 12 months	165,000	165,000
Between 1 - 5 years	159,000	214,000
	388,313	444,657

It is anticipated that the long-term borrowings with the floating rates reflect the fair values of the borrowings.

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

	31 March 2016	31 December 2015
Short-term trade receivables		
Notes receivables	413,656	500,348
Receivables from sale of residential and commercial units	370,638	445,708
Receivables from LSRSA contractors invoiced	197,791	233,822
Receivables from related parties (Note 19)	39,308	204,172
Receivables from land sales	33,785	28,083
Rent receivables	1,452	1,385
Other	815	693
Unearned finance income	(2,274)	(4,051)
	1,055,171	1,410,160
Doubtful receivables	1,929	1,965
Less: Provision for doubtful receivables	(1,929)	(1,965)
	1,055,171	1,410,160

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

	31 March 2016	31 December 2015
Long-term trade receivables		
Receivables from sale of residential and commercial units	1,631,384	1,565,891
Unearned finance income	(77,873)	(82,791)
	1,553,511	1,483,100

	31 March 2016	31 December 2015
Short-term trade payables		
Payables to related parties (Note 19)	1,872,147	1,881,778
Payables to LSRSA contractors invoiced	535,872	629,146
Time deposit interest accruals from LSRSA contractors invoiced (*)	25,347	31,457
Trade payables	18,911	10,817
	2,452,277	2,553,198

(*) The contractors’ portion of the residential unit sales as defined in the agreement which gained from ongoing LSRSA projects is deposited in the time deposit bank accounts under control of the Company within the related LSRSA projects (Note 5).

	31 March 2016	31 December 2015
Long-term trade payables		
Payables to land owners (**)	36,121	36,192
	36,121	36,192

(**) In the context of collaboration protocol dated 28 February 2014 for urban transformation project, the control of the land amounting to TL 36,121 has been transferred to the Company and since the payment will be in done with the delivery of the residential and commercial units, the payable to landowner has been classified in long term trade payables.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

	31 March 2016	31 December 2015
Short-term other receivables		
Housing Acquisition Support (“HAS”) related		
receivables from Turkish Treasury	390,750	390,750
Receivables from contractors	120,039	103,726
Receivables from the authorities	5,599	5,279
Other	69	26
	516,457	499,781

	31 March 2016	31 December 2015
Long-term other receivables		
Deposits and guarantees given	456	168
	456	168

	31 March 2016	31 December 2015
Short term other payables		
Payable to HAS beneficiaries	403,891	404,079
Payable to contractors (*)	88,752	88,752
Taxes and funds payable	8,037	8,470
Deferred income	11,319	4,704
Other	11,270	11,989
	523,269	517,994

(*) The amount includes the unissued invoice amount of TL 88,752 regarding to the units received as a result of revenue allocation at İzmir Mavişehir Phase 3 project, where the contractor filed a lawsuit regarding the revenue sharing percentages (31 December 2015: TL 88,752).

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

NOTE 9 - OTHER RECEIVABLES AND PAYABLES (Continued)

The movements of the payments either from Company’s shareholder’s equity to HAS beneficiaries and the detail of HAS payments and HAS receivables and payables related to Treasury Support as of for 31 March 2016 and 2015 are shown below:

	1 January 2016	Additions within the period	Disposals	31 March 2016
Treasury support share				
Receivable from Treasury	390,750	-	-	390,750
Special purpose government Bond (Note 6)	13,267	-	(250)	13,017
Cash generated from government bond redemption	62	250	(188)	124
Total consideration received or receivable from Treasury	404,079			403,891
Payable to HAS beneficiaries	(404,079)			(403,891)

	1 January 2015	Additions within the period	Disposals	31 March 2015
Treasury support share				
Receivable from Treasury	391,001	6	(257)	390,750
Special purpose government Bond	13,767	-	(500)	13,267
Cash generated from government bond redemption	462	1,232	(1,632)	62
Total consideration received or receivable from Treasury	405,230			404,079
Payable to HAS beneficiaries	(405,230)			(404,079)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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NOTE 10 - LAND AND RESIDENTIAL UNIT INVENTORIES

Short-term inventories	31 March 2016	31 December 2015
Planned land by LSRSA	1,051,402	884,599
Planned land by Turnkey Project	1,333,846	910,539
Residential and commercial units ready for sale	167,308	11,921
<i>Cost</i>	<i>167,643</i>	<i>12,179</i>
<i>Impairment</i>	<i>(335)</i>	<i>(258)</i>
	2,552,556	1,807,059

Long-term inventories	31 March 2016	31 December 2015
Planned land by LSRSA	4,387,017	4,524,500
Planned land by Turnkey Project	422,110	736,768
Land	3,215,342	3,262,076
<i>Cost</i>	<i>3,227,524</i>	<i>3,273,192</i>
<i>Impairment</i>	<i>(12,182)</i>	<i>(11,116)</i>
	8,024,469	8,523,344

As of 31 December 2015, independent valuation reports prepared by Atak Gayrimenkul Değerleme A.Ş. ve Peritus Gayrimenkul Değerleme A.Ş. are taken into consideration in order to calculate the fair value and impairment loss, if any, on land units and commercial units ready for sale. The valuation methods that the independent valuation companies took into consideration included sales comparison and discounted cash flow methods, where the major assumptions were comprised of total cash flows expected from the projects, discount rates to calculate the present value of the related projects and comparable m² sales amounts. All of the final values used in the valuation reports has been determined over the fair comparison.

The movement of the impairment on land and residential unit inventories is as follows:

	2016	2015
Balance at 1 January	11,374	12,293
Impairment charge for the period	1,718	220
Reversal of impairment due to sales	(575)	(66)
Balance at 31 March	12,517	12,447

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NOTE 10 - LAND AND RESIDENTIAL UNIT INVENTORIES (Continued)

The details of land and residential stocks of the company are shown below as of 31 March 2016 and 31 December 2015:

Lands (Long term)	31 March 2016	31 December 2015
İstanbul Maltepe Lands	665,557	665,557
İstanbul Başakşehir Lands	435,115	433,905
İstanbul Zeytinburnu Lands	400,042	400,006
İstanbul Arnavutköy Lands	317,309	317,309
Ankara Yeni Mahalle Lands	273,036	273,036
İstanbul Tuzla Lands	225,933	225,933
Yalova Lands	178,340	178,340
İstanbul Esenyurt Lands	141,282	141,282
İstanbul Kartal Lands	132,283	132,283
İstanbul Avcılar Lands	106,085	106,085
Nevşehir Lands	70,907	70,042
Kocaeli Gebze Lands	45,174	45,174
İstanbul Ataşehir Lands	41,979	41,979
İstanbul Eyüp Lands	30,129	30,091
İstanbul Bakırköy Lands	30,005	30,005
Bursa Osmangazi Lands	27,336	27,336
Niğde Lands	20,664	20,304
İzmir Urla Lands	19,537	19,537
Ankara Çankaya Lands	12,861	16,578
İstanbul Şile Lands	10,210	10,210
Tekirdağ Çorlu Lands	10,185	11,849
Tekirdağ Kapaklı Lands	8,248	8,248
Kocaeli Tütünciftliği Lands	3,267	3,267
İstanbul Zekeriyaköy Lands	682	677
Balıkesir Merkez Lands	-	44,000
Other	9,176	9,043
	3,215,342	3,262,076

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NOTE 10 - LAND AND RESIDENTIAL UNIT INVENTORIES (Continued)

Planned lands by LSRSA	31 March 2016	31 December 2015
Sarıyer İstinye Project	1,006,171	1,006,171
Kazlıçeşme Project	656,808	656,408
Ankara Yenimahalle İstasyon Project	634,550	634,550
Maslak 1453 Project	549,415	549,415
Ankara Çankaya Mühye Project	317,495	316,662
Metropol İstanbul Project	246,166	246,166
Köy Project	225,233	224,276
İstanbul Kartal Project	186,888	186,778
İstanbul Kağıthane Seyrantepe Project	118,273	115,953
Kayabaşı 5. Area Project	117,552	117,552
Kayabaşı 6. Area Project	115,554	115,227
Park Maveria Project	115,513	115,859
İstanbul Üsküdar Project	108,107	85,006
Hoşdere 4. Area Project	104,935	104,935
Kartal Yakacık Project	91,914	91,905
Kayabaşı 3. Area Project	88,883	88,794
Konya Meram Yenice Project	86,704	86,704
Avcılar Kapadık Project	80,294	79,343
Denizli Merkez Efendi Project	76,256	74,761
Hoşdere 3. Area Project	71,973	72,016
Kocaeli Derince Project	70,001	70,001
Yenibosna Project	68,334	68,334
Fatih Yedikule Project	65,646	65,646
Hoşdere 2. Area Project	55,816	55,878
Ankara Etimesgut Project	37,288	37,288
Ataşehir Finance Center Project	15,738	14,951
Bulvar İstanbul Project	14,138	14,136
Other	112,774	114,384
	5,438,419	5,409,099

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NOTE 10 - LAND AND RESIDENTIAL UNIT INVENTORIES (Continued)

Planned lands by Turnkey Project	31 March 2016	31 December 2015
İstanbul Esenler Urban Transformation Project	412,096	348,366
Kayabaşı 1.Area 1.Part Project	233,351	221,819
Hoşdere 1.Part 2.Area Project	149,658	145,460
Ayazma Emlak Konutları Project	152,695	133,791
Kayabaşı 1.Area 3.Part Project	129,144	129,013
Kayabaşı 1.Area 4.Part Project	123,865	125,384
Hoşdere 1.Part 1.Area Project	114,305	119,608
Kayabaşı 1.Area 2.Part Project	109,724	107,553
Ispartakule 1.Area 1.Part Project	99,371	95,535
Ispartakule 1.Area 2.Part Project	84,492	83,358
Hoşdere 1.Part 3.Area Project	61,703	61,703
Körfezkent 4.Area Project	47,782	39,199
Emlak Konut Başakşehir Evleri 2.Part Project	36,683	35,432
Kocaeli Gebze Kirazpınar Urban Transformation Project	662	662
Bursa Urban Transformation Project	425	424
	1,755,956	1,647,307

Completed Units	31 March 2016	31 December 2015
Batışehir Project	152,191	-
My Towerland	3,752	3,752
Gardenya 7B Plaza	2,339	-
Park Yaşam Mavişehir Evleri	1,739	1,739
Kocaeli Körfez Kent Emlak Konutları	1,238	1,238
Spradon Vadi Evleri	1,086	1,086
Evora 2.Area Project	979	979
Burgazkent Çarşı Project	950	950
Other	3,034	2,177
	167,308	11,921

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NOTE 11 – OTHER SHORT TERM PROVISIONS

	31 March 2016	31 December 2015
Debt Provisions		
Provision for lawsuits	72,369	78,088
Provision for cost accruals	58,074	87,944
	130,443	166,032

The movements of provision for lawsuits as of 31 March 2016 and 2015 are as follows:

	2016	2015
Balance at 1 January	78,088	69,699
Provision charged for the period	-	1,176
Provision released within the current period	(5,719)	(2,853)
Balance at 31 March	72,369	68,022

NOTE 12 - OTHER ASSETS AND LIABILITIES

	31 March 2016	31 December 2015
Other current assets		
Progress payments given to contractors	78,219	79,286
Accrued income	48,511	43,842
Receivables from tax office (*)	33,132	33,144
Deferred VAT	15,000	10,000
Other	9,410	-
	184,272	166,272

(*) Receivables from tax office consist of bank stoppages paid on interest income, which have been requested from the tax office to be paid back.

NOTE 13 - DEFERRED REVENUE AND PREPAID EXPENSES

	31 March 2016	31 December 2015
Short-term deferred revenue		
Deferred revenue from LSRSA projects (*)	2,427,118	2,330,071
Advances taken from Turnkey Project sales	1,029,288	1,000,469
Advances taken from LSRSA contractors (**)	793,943	763,886
Advances taken from related parties (Note 19)	64,732	64,732
	4,315,081	4,159,158

(*) The balance is comprised of deferred revenue of future land sales regarding the related LSRSA projects residential unit’s sales.

(**) In certain LSRSA projects, the Company collects in advance a certain portion of the total Company revenue from the project before signing the agreement with the contractor.

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NOTE 13 - DEFERRED REVENUE AND PREPAID EXPENSES (Continued)

	31 March 2016	31 December 2015
Long-term deferred revenue		
Other advances taken	2,510	2,448
	2,510	2,448

	31 March 2016	31 December 2015
Prepaid expenses		
Advances given for inventory (*)	31,753	32,414
Prepaid expenses	3,219	1,548
	34,972	33,962

(*) The inventory advances given consists of prepayments of the 53 office units which the Company purchased from Sarphan Finansbank and 30 office units from Unikonut Project.

NOTE 14 - SHAREHOLDERS' EQUITY

The Company's authorized capital amount is TL 3,800,000 (31 December 2015: TL 3,800,000) and consists of 380,000,000,000 (31 December 2015: 380,000,000,000) authorized number of shares with a nominal value of TL 0,01 each.

The Company's shareholders and their shareholding percentages as of 31 March 2016 and 31 December 2015 is as follows:

Shareholders	31 March 2016		31 December 2015	
	Share (%)	TL	Share (%)	TL
Public offering portion	50.66	1,925,000	50.66	1,925,000
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı ("TOKİ")	49.34	1,874,831	49.34	1,874,831
HAS beneficiaries	0.00	167	0.00	167
Other	0.00	2	0.00	2
Total paid in capital	100	3,800,000	100	3,800,000

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve balance reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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NOTE 14 - SHAREHOLDERS' EQUITY (Continued)

In accordance with the Communiqué Serial: II, No: 14,1 which became effective as of 13 June 2013 and according to the CMB's announcements clarifying the said Communiqué, "Share Capital", "Restricted Reserves Allocated from Profit" and "Share Premiums" need to be recognized over the amounts contained in the legal records. The valuation differences (such as inflation adjustment differences) shall be disclosed as follows:

- if the difference is arising from the valuation of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment to Share Capital";
- "if the difference is arising from valuation of "Restricted Reserves" and "Share Premium" and the amount has not been subject to dividend distribution or capital increase, it shall be classified under "Retained Earnings". Other equity line should be revaluated in accordance with the CMB standards.

There is no any use of the adjustment to share capital except the adding it to the share capital.

NOTE 15 - SALES AND COST OF SALES

	1 January - 31 March 2016	1 January - 31 March 2015
Sales income		
Land sales	112,883	177,498
<i>Income from sale of land and plots by way of LSRSA</i>	68,646	177,498
<i>Land sales income</i>	44,237	-
Residential and commercial units sales	15,991	14,073
Other income	142	100
	129,016	191,671
Sales returns	(14)	(537)
Sales discounts	(436)	(132)
Net sales income	128,566	191,002
Cost of sales		
Cost of land sales	(9,891)	(68,464)
<i>Cost of land and plots sold by way of LSRSA</i>	(2,314)	(68,464)
<i>Cost of land sales</i>	(7,577)	-
Cost of residential and commercial units sales	(7,011)	(9,814)
	(16,902)	(78,278)
Gross profit	111,664	112,724

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NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES

	1 January- 31 March 2016	1 January- 31 March 2015
General administrative expenses		
Personnel expenses	(11,711)	(9,319)
Consultancy expenses	(5,923)	(2,334)
Taxes, duties and fees	(2,025)	(12,907)
Depreciation and amortisation	(1,563)	(547)
Subcontracting service expenses	(1,399)	(898)
Travel expenses	(780)	(357)
Due and contribution expenses	(607)	(495)
Communication expenses	(154)	(101)
Legal and notary expenses	(151)	(273)
Maintenance and repair expenses	(78)	-
Insurance expenses	(41)	(439)
Electronic archiving expenses	-	(1,167)
Other	(1,529)	(742)
	(25,961)	(29,579)
Marketing, sales and distribution expenses		
Advertising expenses	(13,689)	(6,512)
Personnel expenses	(872)	(913)
Other	(587)	(782)
	(15,148)	(8,207)

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NOTE 17 - OTHER INCOME / EXPENSES

	1 January- 31 March 2016	1 January- 31 March 2015
Other income		
Finance income from credit sales	53,895	34,208
Delay penalty interest from project contractors	12,886	3,721
Released lawsuit provisions (Note 11)	5,719	2,853
Unearned finance income, net	6,695	1,871
Commission income on transfers of ownership	2,706	1,598
Impairment provision reversals	575	66
Other	8,179	2,046
	90,655	46,363

	1 January- 31 March 2016	1 January- 31 March 2015
Other expenses		
Impairment provision expenses	(1,718)	(508)
Reversal of due date differences	(122)	(45)
Lawsuit provision charge for the period (Note 11)	-	(1,176)
Other	(711)	(203)
	(2,551)	(1,932)

NOTE 18 - FINANCIAL INCOME / EXPENSES

	1 January- 31 March 2016	1 January- 31 March 2015
Financial income		
Interest income from time deposits	26,034	25,611
Foreign exchange income	3	4
	26,037	25,615

	1 January- 31 March 2016	1 January- 31 March 2015
Financial expenses		
Interest expense on Turkish Treasury borrowings (*)	(9,916)	(11,391)
Foreign exchange loss	(67)	(85)
Commission expenses	(207)	(81)
	(10,190)	(11,557)

(*) Interest expense of borrowing for HAS beneficiaries payments from Turkish Treasury amounting to TL 1,314,000 calculated in accordance with Domestic Government Debt Securities issuance compound interest rate announced at the time of payment periods.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 19 - RELATED PARTY TRANSACTIONS

The main shareholder of the Company is T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı ("TOKİ"). TOKİ is a state institution under control of Republic of Turkey Prime Ministry. Related parties of the Company are as listed below:

1. T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı ("TOKİ")
2. Emlak Planlama, Insaat, Proje Yönetimi ve Ticaret A.Ş. (an affiliate of TOKİ)
3. GEDAŞ (Gayrimenkul Değerleme A.Ş.) (an affiliate of TOKİ)
4. TOBAŞ (Toplu Konut - Büyükşehir Bel. İnş. Emlak ve Proje A.Ş.) (an affiliate of TOKİ)
5. Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (an affiliate of TOKİ)
6. Vakıf İnşaat Restorasyon ve Ticaret A.Ş. (an affiliate of TOKİ)
7. Emlak-Toplu Konut İdaresi Spor Kulübü
8. Emlak Planlama İnş. Prj. Yön. A.Ş. – Fideltus İnş. – Öztaş İnş. Ortak Girişimi
9. Ege Yapı - Emlak Planlama, İnşaat, Proje Yönetimi ve Ticaret A.Ş.
10. Emlak Planlama İnşaat. Proje. Yönetimi ve Ticaret. A.Ş. – Cathay Ortak Girişimi

According to the revised TAS 24 – "Related Parties Transactions Standard", exemptions have been brought to the disclosure requirements of balances. The Company has transactions with state banks (T.C.Ziraat Bankası A.Ş., Türkiye Vakıflar Bankası T.A.O., Türkiye Halk Bankası A.Ş.) and Turkish Treasury.

- Balances and transactions with respect to Turkish Treasury are detailed in Note 6, 7 and 9.
- The Company mostly deposits its cash in State Banks in compliance with its related statute. The bank balances with state banks amounted to TL 2,781,070 as of 31 March 2016 (31 December 2015: TL 2,725,418) Regarding these bank balances, the Company also generated interest income from the related State banks amounted to TL 26,034 in as of 31 March 2016 (31 March 2015: TL 25,611). Average effective interest rates of time deposits of the Company as of 31 March 2016 are explained in Note 5.

The transactions made between the Company and TOKİ and its affiliates and other related parties are presented below:

	31 March 2016	31 December 2015
Trade receivables from related parties		
Emlak Planl. İnş. Prj. Yön. A.Ş. - Ege Yapı Ltd. Şti.	32,413	197,277
Emlak Planl. İnş. Prj. Yön. A.Ş. - Fideltus İnş-Öztaş İnş	5,567	5,567
Emlak Planl. İnş. Prj. Yön. A.Ş. - Cathay Ortak Girişimi	1,328	1,328
	39,308	204,172
Trade payables to related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı ("TOKİ") (*)	1,872,147	1,881,778
	1,872,147	1,881,778

(*) The Company has purchased various lands from its ultimate parent company (TOKİ) in 2016 and 2015. The remaining payable from this purchases to TOKİ is amounting to TL 1,660,935 (31 December 2015: TL 1,711,926) and accrued interest is TL 211,176 (31 December 2015: TL 169,852).

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

NOTE 19 - RELATED PARTY TRANSACTIONS (Continued)

	31 March 2016	31 December 2015
Advances received from related parties		
Emlak Planl. İnş. Prj. Yön. A.Ş. - Fideltus İnş. - Öztaş İnş. O.G. (*)	64,732	64,732
	64,732	64,732

(*) Represents the initial collections made from LSRSA projects, where the Company collects in advance a predetermined portion of the total sales amount in line with the agreements.

	1 January - 31 March 2016	1 January - 31 March 2015
Purchases from related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	-	1,292,655
Emlak Planl. İnş. Prj. Yön. A.Ş. - Ege Yapı Ltd. Şti.	152,191	-
Emlak Planl. İnş. Prj. Yön. A.Ş. - Emlak Basın Yayın A.Ş.	205	-
	152,396	1,292,655

	1 January - 31 March 2016	1 January - 31 March 2015
Sales to related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”) (*)	50,102	-
Emlak Planl. İnş. Prj. Yön. A.Ş. - Cathay Ortak Girişimi	49	-
	50,151	-

(*) Sales performed to T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”) are composed of land restitutions and update fees of related restituted lands in the current period.

In the Company the president of the Board of Directors, members of Board of Directors, Audit Committee members, General Manager, Assistant General Managers and General Manager consultant and other decision makers who are in charge to manage the operations are assumed as Key management. Short-term benefits given to Key management are stated below:

	1 January - 31 March 2016	1 January - 31 March 2015
Remuneration of key management		
Salaries and other short-term employee benefits	569	442
	569	442

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016**

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

NOTE 20 - CONTINGENT ASSETS AND LIABILITIES

1. The LSRSA Project Agreement dated 21 December 2005 regarding 750 units in İzmir Mavişehir Upper North Area 2. Phase has been abolished on 21 December 2009 since the contractor did not meet the requirements of the provisions in the agreement. Following the cancellation of the agreement, the project has been transferred to the Company and the remaining part of the project has been completed by another construction company which was assigned in accordance with public tender law. The related units have been completed and are sold by the Company as in RPSPTL.

The prior contractor filed a lawsuit against the Company claiming that the completion percentage of the project was significantly high and that the agreement between the parties was based on construction right in return for flat. The expert report on the project stated that the completion percentage was 83% but that the agreement between the parties was not based on construction right in return for flat. The Company and the contractor filed counter lawsuits in the following period and an additional report was decided to be issued. The additional report is about the final receivables and payables of the parties considering all the claims. The additional report is completed. The court decided to apply secondary expert report as a result of additional report examination on 11 June 2014. Nevertheless next trial date has not been appointed yet. In addition, the file was conferred to the committee since the Commercial Court converted to Committee Judgeship. The Company does not expect any obligation or liability to be incurred as a result of the lawsuit.

In the expert report dated 19 January 2016, it has been made a decision of whether related cancellation is unfair, and there alternative calculations has been realized over the possibility of whether the cancellation is right and over the effects on forward and backward. The expert report has been contested and it has been requested from the court that the expert report is declared "null and void" and that to receive a report that contains the objections of parties by creating a new committee. The court has given trial day on 4 May 2016.

According to comments received from the Company's lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.

2. The LSRSA project agreement regarding İzmir Mavişehir Upper North Area 3. Phase has been signed on 19 December 2005 and following almost all the contractual obligations have been performed by the parties, the Contractor filed a lawsuit against the Company claiming that the agreement conditions should be revised considering the changing conditions. The Contractor wants all the agreement provisions to be cancelled except for the provisions where the Company's revenue portion is TL 67,515 plus VAT calculated as TL 175,000 plus VAT total project revenue times 38.58% Company's revenue portion. The Contractor wants all the properties and related land portion to be valued by an independent valuation company as of the date of the lawsuit and that 38.58% of the total value to be appropriated to the Company and the remaining 61.42% of the total value to be appropriated to the Contractor (Note 9).

An expert report has been issued on the subject, which stated that the relation between the parties was in the form of ordinary partnership. The Company objected the expert report putting forward the existence of counter opinions in the doctrine and submitted the sources of such opinions. The expert report also opined that the mortgage crisis in the global markets required the revision of the agreement in accordance with "the changing conditions".

The court has been decided to examine the file for the evaluation of the request that receiving report from the new expert committee and to adjournment of hearing on 5 March 2015.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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

NOTE 20 - CONTINGENT ASSETS AND LIABILITIES (Continued)

The court rejected the case on 5 March 2015. The claimant has filed an appeal. The result of appeal is being waited.

According to comments received from the Company's lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.

3. Mortgage and guarantees received are;

	31 March 2016	31 December 2015
Guarantees received (*)	2,887,704	3,256,850
Mortgages received (**)	45,970	126,221
	2,933,674	3,383,071

(*) Guarantees received consist of accurate and temporary guarantees given by contractors for construction projects during the tendering process.

(**) Mortgages taken consist of mortgaged independent sections and land which sold but not yet collected.

4. Collaterals, pledges, mortgages ("CPM"):

	31 March 2016	31 December 2015
A. CPM given on behalf of the Company's legal personality	57,553	58,040
B. CPM given on behalf of fully consolidated subsidiaries	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-
D. Total amount of other CPM		
i) Total amount of CPM given on behalf of majority shareholder	-	-
ii) Total amount of CPM given on behalf of other companies which are not in scope of B and C	-	-
iii) Total amount of CPM given on behalf of third parties which are not in scope of C	-	-
	57,553	58,040

NOTE 21 - EVENTS AFTER THE REPORTING PERIOD

The Company has taken a decision pursuant to the profit sharing regulations of Capital Markets Board's (CMB), in the Ordinary Meeting of the General Assembly dated 14 April 2016, to realize dividend distribution amounted TL 367,688,000 that has been reserved in order to distribute from net profit in cash for the year 2015 and to determine the dividend payment date as 24 May 2016.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

ADDITIONAL NOTE - CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS

	Non-Consolidated (Individual) Financial Statements Main Account Items	Related Regulation	Current Period 31 March 2016 (TL)	Prior Period 31 December 2015 (TL)
A	Money and Capital Market Instruments	Series:III-No:48, Art,24/(b)	2,957,465	938,774
B	Properties, Projects based on Properties and Rights based on Properties	Series:III-No:48, Art,24/(a)	10,692,069	10,355,987
C	Affiliates	Series:III-No:48, Art,24/(b)	-	-
	Due from related parties (Non Commercial)	Series:III-No:48, Art,23/(f)	-	-
	Other Assets		3,723,167	5,932,743
D	Total Assets	Series:III-No:48, Art,3/(k)	17,372,701	17,227,504
E	Financial Liabilities	Series:III-No:48, Art,31	388,313	444,657
F	Other Financial Liabilities	Series:III-No:48, Art,31	-	-
G	Due from Financial Leases	Series:III-No:48, Art,31	-	-
H	Due to Related Parties (Non Commercial)	Series:III-No:48, Art,23/(f)	-	-
I	Shareholders' equity	Series:III-No:48, Art,31	9,501,815	9,325,399
	Other Resources		7,482,573	7,457,448
D	Total Resources	Series:III-No:48, Art,3/(k)	17,372,701	17,227,504
	Non-Consolidated (Individual) Financial Statements Other Account Items	Related Regulation	Current Period 31 March 2016 (TL)	Prior Period 31 December 2015 (TL)
A1	The portion of Money and Capital Market Instruments held for Payables of Properties for the following 3 Years	Series:III-No:48, Art,24/(b)	1,151,177	938,774
A2	Term/ Demand/ Currency	Series:III-No:48, Art,24/(b)	911,745	759,489
A3	Foreign Capital Market Instruments	Series:III-No:48, Art,24/(d)	-	-
B1	Foreign Properties, Projects based on properties and Rights based on Properties	Series:III-No:48, Art,24/(d)	-	-
B2	Idle Lands	Series:III-No:48, Art,24/(c)	635,847	543,047
C1	Foreign Affiliates	Series:III-No:48, Art,24/(d)	-	-
C2	Affiliates for Operating Company	Series:III-No:48, Art,28	-	-
J	Non-cash Loans	Series:III-No:48, Art,31	57,553	58,103
K	Mortgage amount of Servient Lands Which Will Be Developed And Not Owned	Series:III-No:48, Art,22/(e)	-	-

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2016

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ADDITIONAL NOTE - CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS (Continued)

	Portfolio restrictions	Related regulation	2016 (%)	2015 (%)	Minimum/ Maximum Rate
1	Mortgage amount of Servient Lands Which Will Be Developed And Not Owned	Series:III-No:48, Art,22/(e)	-	-	<10%
2	Properties, Projects based on Properties and Rights based on Properties	Series:III-No:48, Art,24/(a)(b)	68	67	>50%
3	Money and Capital Market Instruments and Affiliates	Series:III-No:48, Art,24/(b)	10	-	<50%
4	Foreign Properties, Projects based on Properties, Rights based on Properties, Affiliates, Capital Market Instruments	Series:III-No:48, Art,24/(d)	-	-	<49%
5	Idle Lands	Series:III-No:48, Art,24/(c)	4	3	<20%
6	Affiliates to the Operating Company	Series:III-No:48, Art,28	-	-	<10%
7	Borrowing Limit	Series:III-No:48, Art,31	5	5	<500%
8	TL and Foreign Currency Time and Demand Deposits	Series:III-No:48, Art,22/(e)	1	-	<10%

The information in the table of control of compliance with the portfolio limitations', in accordance with Capital Markets Board's Communiqué Serial: II, No: 14.1 "Financial Reporting in Capital Markets" Amendment No: 16 comprised condensed information and prepared in accordance with Capital Markets Board's Communiqué Serial: III, No: 48.1 "Real Estate Investment Company" published in official gazette no 28660 on 28 May 2013.

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