

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**CONVENIENCE TRANSLATION OF
CONDENSED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY – 31 MARCH 2017**

(ORIGINALLY ISSUED IN TURKISH)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

INTERIM CONDENSED FINANCIAL STATEMENTS AT 31 MARCH 2017

CONTENTS		PAGE
INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION		1-2
INTERIM CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....		3
INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY.....		4
INTERIM CONDENSED STATEMENTS OF CASH FLOWS.....		5
EXPLANATORY NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS...		6-32
NOTE 1	ORGANIZATION AND OPERATION OF THE COMPANY.....	6
NOTE 2	BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS.....	7-8
NOTE 3	ACCOUNTING POLICIES.....	8-9
NOTE 4	CASH AND CASH EQUIVALENTS.....	10
NOTE 5	FINANCIAL INVESTMENTS.....	11
NOTE 6	FINANCIAL LIABILITIES.....	11-12
NOTE 7	TRADE RECEIVABLES AND PAYABLES.....	12-13
NOTE 8	OTHER RECEIVABLES AND PAYABLES.....	13-14
NOTE 9	INVENTORIES.....	15-18
NOTE 10	PROPERTY, PLANT AND EQUIPMENT.....	19
NOTE 11	OTHER SHORT TERM PROVISIONS.....	20
NOTE 12	OTHER ASSETS AND LIABILITIES.....	20
NOTE 13	DEFERRED INCOME AND PREPAID EXPENSES.....	21
NOTE 14	SHAREHOLDERS' EQUITY.....	22
NOTE 15	REVENUE AND COST OF SALES.....	23
NOTE 16	GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES.....	23-24
NOTE 17	OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES.....	24
NOTE 18	FINANCIAL INCOME / EXPENSES.....	24-25
NOTE 19	RELATED PARTY DISCLOSURES.....	25-27
NOTE 20	CONTINGENT ASSETS AND LIABILITIES.....	28-29
NOTE 21	EVENTS AFTER THE REPORTING PERIOD.....	30
ADDITIONAL NOTE	CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS.....	31-32

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

CONDENSED STATEMENTS OF FINANCIAL POSITION AT 31 MARCH 2017 AND 31 DECEMBER 2016

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

	Notes	Not Reviewed 31 March 2017	Audited 31 December 2016
ASSETS			
Current assets		17,895,184	17,076,882
Cash and cash equivalents	4	2,612,070	2,501,233
Financial investments	5	41,852	140,795
Trade receivables	7	1,133,613	682,868
<i>Trade receivables due from related parties</i>	19	13,596	21,087
<i>Trade receivables due from unrelated parties</i>		1,120,017	661,781
Other receivables	8	1,054,091	838,505
<i>Other receivables due from unrelated parties</i>		1,054,091	838,505
Inventories	9	12,316,488	12,085,195
Prepaid expenses	13	466,759	543,811
Other current assets	12	270,311	284,475
Non-current assets		1,731,828	1,625,485
Trade receivables	7	1,620,789	1,466,854
<i>Trade receivables due from unrelated parties</i>		1,620,789	1,466,854
Other receivables	8	1,211	1,053
Investment property		38,199	38,199
Property, plant and equipment	10	68,726	69,181
Intangible assets		2,903	2,605
Other non-current assets		-	47,593
Total assets		19,627,012	18,702,367

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 2017 AND 31 DECEMBER 2016**

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

		<i>Not Reviewed</i> 31 March 2017	<i>Audited</i> 31 December 2016
	Notes		
LIABILITIES AND EQUITY			
Current liabilities		8,033,321	7,954,280
Current portion of non-current borrowings	6	259,458	219,490
Trade payables	7	3,332,233	3,824,119
<i>Trade payables due to related parties</i>	19	2,791,542	3,510,865
<i>Trade payables due to unrelated parties</i>		540,691	313,254
Other payables	8	556,049	560,576
Deferred income	13	3,739,899	3,215,821
<i>Deferred income from related parties</i>	19	64,732	64,732
<i>Deferred income from unrelated parties</i>		3,675,167	3,151,089
Current provisions		145,682	134,274
<i>Current provisions for employee benefits</i>		1,476	6,190
<i>Other current provisions</i>	11	144,206	128,084
Non-current liabilities		543,802	17,894
Long term borrowings	6	524,615	-
Trade payables	7	-	71
Other payables		10,549	9,352
Deferred income	13	3,063	2,963
Long term provisions		5,575	5,508
<i>Long term provisions for employee benefits</i>		5,575	5,508
Share holders' equity		11,049,889	10,730,193
Paid-in capital	14	3,800,000	3,800,000
Treasury shares (-)		(262,857)	(262,857)
Share premium		2,378,513	2,378,513
Other comprehensive income / expense not to be reclassified to profit or loss		(897)	(897)
- <i>Gain/(loss) on remeasurement of employee benefits</i>		(897)	(897)
Restricted reserves		423,295	423,295
Retained earnings		4,392,139	2,630,863
Net profit for the year		319,696	1,761,276
Total liabilities and equity		19,627,012	18,702,367

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 FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2017 AND 2016

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

	Notes	Not Reviewed 1 January- 31 March 2017	Not Reviewed 1 January- 31 March 2016
Profit or loss			
Revenue	15	834,092	128,566
Cost of sales (-)	15	(385,151)	(16,902)
Gross profit		448,941	111,664
General administrative expenses (-)	16	(31,455)	(25,961)
Marketing expenses (-)	16	(18,960)	(15,148)
Other income from operating activities	17	108,997	90,655
Other expenses from operating activities (-)	17	(66,794)	(2,551)
Operating profit		440,729	158,659
Income from investing activities		1,361	2,276
Operating profit before financial income / (expense)		442,090	160,935
Financial income	18	13,263	26,037
Financial expenses (-)	18	(135,657)	(10,190)
Profit for the period from continued operations		319,696	176,782
Other comprehensive income / (loss)			
Items that will be reclassified to profit or loss			
<i>Actuarial losses related to employee benefit liabilities</i>		-	(366)
Total comprehensive income for the period		319,696	176,416
Earnings per share (in full TL)		0.0009	0.0005

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 2017 AND 2016**

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

	Share capital	Treasury shares (-)	Share premium	Restricted reserves	Other Comprehensive Income and Expense not to be Reclassified to Profit or Loss	Retained Earnings		Total equity
					Loss on remeasurement of employee benefits	Retained earnings	Net income for the year	
1 January 2016	3,800,000	(262,857)	2,366,895	357,908	(487)	2,111,335	952,605	9,325,399
Transfers	-	-	-	-	-	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
1 January 2017	3,800,000	(262,857)	2,378,513	423,295	(897)	2,630,863	1,761,276	10,730,193
Transferler	-	-	-	-	-	1,761,276	(1,761,276)	-
Total comprehensive income	-	-	-	-	-	-	319,696	319,696
31 March 2017	3,800,000	(262,857)	2,378,513	423,295	(897)	4,392,139	319,696	11,049,889

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 2017 AND 2016

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

	Notes	1 January- 31 March 2017	1 January- 31 March 2016
Cash flows from operating activities			
Profit for the period		319,696	176,782
Adjustments to reconcile net profit			
Depreciation and amortization expenses	16	1,633	1,563
Adjustments for impairments		17,237	1,143
<i>Adjustments for impairment loss (reversal of impairment loss) of inventories</i>	9	17,237	1,143
Changes in provisions		21,181	(35,068)
<i>Adjustments for (reversal of) provisions related with employee benefits</i>		(4,506)	521
<i>Adjustments for (reversal of) lawsuit and/or penalty provisions</i>	11	(5,222)	(5,719)
<i>Adjustments for (reversal of) other provisions</i>	11	30,909	(29,870)
Adjustments for interest (income) expenses		37,683	(91,871)
<i>Adjustments for interest income</i>		(97,827)	(101,787)
<i>Adjustments for interest expense</i>	18	135,510	9,916
Changes in net working capital		397,430	52,549
Adjustments for decrease (increase) in trade accounts receivable		(604,680)	291,273
<i>Decrease (increase) in trade accounts receivables from related parties</i>	19	7,491	126,409
<i>Decrease (Increase) in trade accounts receivables from unrelated parties</i>	7	(612,171)	164,864
Adjustments for decrease (increase) in inventories		(248,530)	(247,765)
Adjustments for increase (decrease) in trade accounts payable		(602,585)	(100,992)
<i>Increase (decrease) in trade accounts payables to related parties</i>		(829,951)	(9,631)
<i>Increase (decrease) in trade accounts payables to unrelated parties</i>	7	227,366	(91,361)
Adjustments for increase (decrease) in other operating receivables		(25,502)	(9,613)
Adjustments for increase (decrease) in other operating payables		541,379	188,696
Other adjustments for other increase (decrease) in working capital		(372,285)	(52,031)
Net cash flow from operating activities			
Interest received		30,991	33,330
Payments related with provisions for employee benefits		(141)	(11)
Income taxes paid		(29,904)	(17,215)
Cash flows from operating activities		(913,827)	138,221
Purchases of tangible and intangible assets		(1,476)	(9,059)
Interest received		1,361	3,682
Purchases of financial assets		(4,831)	(101,358)
Returns of financial assets		103,774	100,900
Cash flow from investing activities			
Proceeds from borrowings		621,006	-
<i>Proceeds from Loans</i>		621,006	-
Repayments of borrowings, classified as financing activities		(55,000)	(55,000)
<i>Loan repayments</i>		(55,000)	(55,000)
Interest paid		(25,232)	(12,053)
Interest received		13,261	-
Other inflows (outflows) of cash		(190)	605
Cash flow from financing activities		553,845	(66,448)
Increase (decrease) in cash and cash equivalents before effect of exchange rate before effect of exchange rate changes			
		(261,154)	65,938
Effect of exchange rate changes on cash and cash equivalents		-	-
Net Increase (decrease) in cash and cash equivalents		(261,154)	65,938
Cash and cash equivalents at the beginning of the period	4	956,205	759,493
Cash and cash equivalents at the end of the period	4	695,051	825,431

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 2017

(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 Sümbül 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 cannot be a part of construction business, but only can organize it by auctioning between the contractors.

The financial statements at 31 March 2017 have been approved by the Board of Directors on 28 April 2017. 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 2017

(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 2017 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.

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 taken on 17 March 2005, the CMB has announced that, effective from 1 January 2005, for companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards the application of inflation accounting is no longer required. Accordingly, the Company did not apply IAS 29 “Financial Reporting in Hyperinflationary Economies” issued by IASB in its financial statements for the accounting periods starting 1 January 2005.

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in TL, which is the Company’s functional and presentation currency.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

(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.

Statement of Compliance with TAS

The condensed interim financial statements of the Company have been prepared in accordance with the TAS taxonomy issued by POA.

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 2017 are consistent with those prepared as of 31 December 2016. Therefore, condensed interim financial statements have to be considered with year end financial statements.

3.1 New and Revised Turkish Accounting Standarts

- 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

None.

- 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
TFRS 15

*Financial Instruments*¹
*Revenue from Contracts with Customers*¹

¹ Effective for annual periods beginning on or after 1 January 2018.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

(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)

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

TFRS 9 *Financial Instruments*

TFRS 9, issued by Public Oversight Authority (“POA”) in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

TFRS 15 also clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 4 – CASH AND CASH EQUIVALENTS

	31 March 2017	31 December 2016
Cash on hand	-	2
Banks	2,612,070	2,501,231
- Demand deposit	430,659	133,748
- Time deposits up to 3 months maturity	2,181,411	2,367,483
	2,612,070	2,501,233

Maturities of cash and cash equivalents are as follows:

	31 March 2017	31 December 2016
Demand	430,659	133,748
Up to 3 month	2,181,411	2,367,483
Less: Blocked deposits with maturities less than 3 months	(88,405)	(88,194)
	2,523,665	2,413,037

Average effective interest rates of time deposits are as follows:

	31 March 2017	31 December 2016
	(%)	(%)
	6.78%	7.94%

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

	31 March 2017	31 December 2016
Cash and cash equivalents	2,612,070	2,501,233
Less: Interest accruals	(7,642)	(8,074)
Less: LSRSA project deposits (*)	(572,364)	(368,484)
Less: TOKİ deposits (**)	(1,279,543)	(1,111,138)
Less: Blocked deposits	(57,470)	(57,332)
	695,051	956,205

(*) 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 572,364 (31 December 2016: TL 368,484) part of the total project amount deposits TL 30,935 (31 December 2016: TL 30,862) consists of blocked deposits.

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 5 - FINANCIAL INVESTMENTS

	31 March 2017	31 December 2016
Financial investments		
Bond	29,585	128,278
Special issue government bonds (*)	12,267	12,517
	41,852	140,795

(*) The Republic of Turkey, Undersecretaries 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 readapted and the amount is transferred to the Company’s accounts when the HAS lists are specified (Note 8). 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 acquired bonds amounting to 29,585 TL as of 31 March 2017 (31 December 2016: 128,278 TL) from free market. These bonds are measured at fair value. The fair value of these bonds are calculated by using the effective interest rates quarterly. Average effective interest rate of financial assets at 31 March 2017 is 10.66 % (31 December 2016: 8.95%). As of 31 December 2016, average term of the treasure bills changes between three and six months (31 December 2016: changes between four and six months).

NOTE 6 - FINANCIAL LIABILITIES

	31 March 2017	31 December 2016
Short-term financial liabilities		
Short-term portion of long-term borrowings	259,458	219,490
	259,458	219,490
Long-term financial liabilities	31 March 2017	31 December 2016
Long-term borrowings	524,615	-
	524,615	-

According to the agreement signed with the Turkish Treasury in 25 July 2008, the Company has TL 159,000 remaining borrowing from the Turkish Treasury for financing it’s 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 Company has borrowed loan from Vakıfbank for financing payments to TOKİ on 9 January 2017. The related loan has fixed rate and has a maturity of 31 December 2020.

The interest rate of the borrowing at 31 March 2017 is 10.89% (31 December 2016: 9.32%).

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 6 - FINANCIAL LIABILITIES (Continued)

The redemption schedules of the borrowings at 31 March 2017 and 31 December 2016 are as follows:

	31 March 2017	31 December 2016
2018	143,077	-
2019	190,769	-
2020	190,769	-
	524,615	-

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

	31 March 2017	31 December 2016
Less than 3 months	60,073	115,490
Between 3 - 12 months	199,385	104,000
Between 1 - 5 years	524,615	-
	784,073	219,490

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

	31 March 2017	31 December 2016
Short-term trade receivables		
Receivables from sale of residential and commercial units	575,627	418,768
Receivables from LSRSA contractors invoiced	538,543	237,016
Receivables from related parties (Note 19)	13,596	21,087
Receivables from land sales	6,615	6,514
Rent receivables	1,618	1,449
Other	1,017	978
Unearned finance income	(3,403)	(2,944)
	1,133,613	682,868
Doubtful receivables	1,852	1,866
Less: Provision for doubtful receivables	(1,852)	(1,866)
	1,133,613	682,868

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

	31 March 2017	31 December 2016
Long-term trade receivables		
Receivables from sale of residential and commercial units	1,732,403	1,539,837
Unearned finance income	(111,614)	(72,983)
	1,620,789	1,466,854

	31 March 2017	31 December 2016
Short-term trade payables		
Payables to related parties (Note 19)	2,791,542	3,510,865
Payables to LSRSA contractors invoiced	503,815	279,154
Time deposit interest accruals from LSRSA contractors invoiced (*)	13,106	17,169
Trade payables	23,770	16,931
	3,332,233	3,824,119

(*) 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 4).

	31 March 2017	31 December 2016
Long-term trade payables		
Payables to land owners	-	71
	-	71

NOTE 8 - OTHER RECEIVABLES AND PAYABLES

	31 March 2017	31 December 2016
Short-term other receivables		
Housing Acquisition Support (“HAS”) related receivables from Turkish Treasury	390,774	390,780
Receivables from contractors	657,257	441,771
Receivables from the authorities	5,931	5,826
Other	129	128
	1,054,091	838,505

	31 March 2017	31 December 2016
Long-term other receivables		
Deposits and guarantees given	1,211	1,053
	1,211	1,053

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 8 - OTHER RECEIVABLES AND PAYABLES (Continued)

	31 March 2017	31 December 2016
Short term other payables		
Payable to HAS beneficiaries	403,257	403,447
Payable to contractors (*)	88,752	88,752
Taxes and funds payable	21,608	14,447
Other	42,432	53,930
	556,049	560,576

(*) The amount includes the unissued invoice by the contractor amount of TL 88,752 regarding to the units received as a result of revenue allocation at İzmir Mavisehir Phase 3 project, where the contractor filed a lawsuit regarding the revenue sharing percentages (31 December 2016: TL 88,752).

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 2017 and 2016 are shown below:

	1 January 2017	Additions within the period	Disposals	31 March 2017
Treasury support share				
Receivable from Treasury	390,780	2	(8)	390,774
Special purpose government Bond (Note 5)	12,517	-	(250)	12,267
Cash generated from government bond redemption	150	258	(192)	216
Total consideration received or receivable from Treasury	403,447			403,257
Payable to HAS beneficiaries	(403,447)			(403,257)

	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	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)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 9 -INVENTORIES

	31 March 2017	31 December 2016
Land	4,331,717	4,293,728
<i>Cost</i>	4,339,180	4,305,099
<i>Impairment</i>	(7,463)	(11,370)
Planned land by LSRSA	5,741,962	5,664,474
Planned land by turnkey project	1,519,069	1,841,251
Residential and commercial units ready for sale	723,740	285,741
<i>Cost</i>	752,322	293,179
<i>Impairment</i>	(28,582)	(7,438)
	12,316,488	12,085,195

As of 31 March 2017, independent valuation reports prepared by Atak Gayrimenkul Değerleme A.Ş. ve Nova Taşınmaz Değerleme ve Danışmanlık 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 movement of the impairment on land and residential unit inventories is as follows:

	2017	2016
Balance at 1 January	18,808	11,374
Impairment charge for the period	26,717	1,718
Reversal of impairment	(9,480)	(575)
Balance at 31 December	36,045	12,517

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 9 - INVENTORIES (Continued)

The details of land and residential stocks of the company are shown below as of 31 March 2017 and 31 December 2016:

Lands	31 March 2017	31 December 2016
İstanbul Küçükçekmece Lands	1,822,839	1,822,839
İstanbul Şişli Lands	455,122	455,122
İstanbul Zeytinburnu Lands	400,045	400,045
İstanbul Arnavutköy Lands	317,309	317,309
İstanbul Başakşehir Lands	299,694	299,141
Ankara Yeni Mahalle Lands	272,783	272,783
İstanbul Tuzla Lands	225,933	225,933
Yalova Lands	178,340	178,340
İstanbul Kartal Lands	132,283	132,283
İstanbul Ataşehir Lands	41,979	41,979
İstanbul Esenyurt Lands	36,181	36,181
İstanbul İstinye Lands	28,829	-
Bursa Osmangazi Lands	27,336	27,336
İzmir Urla Lands	19,647	10,166
Ankara Çankaya Lands	15,358	15,358
İstanbul Şile Lands	10,427	10,213
Tekirdağ Kapaklı Lands	8,248	8,248
Tekirdağ Çorlu Lands	6,153	6,153
Kocaeli Tütüncüiftliği Lands	4,019	3,417
Maltepe Kucukyali Lands	2,753	2,753
Kocaeli Gebze Lands	1,308	2,999
İstanbul Zekeriyaköy Lands	677	677
Other	24,454	24,453
	4,331,717	4,293,728

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 9 - INVENTORIES (Continued)

Planned lands by LSRSA	31 March 2017	31 December 2016
Sarıyer İstinye Project	993,436	1,006,171
Nidapark Kucukyali Project	677,675	677,675
Kazlıçeşme Project	656,808	656,808
Ankara Yenimahalle İstasyon Project	637,329	634,574
Metropol İstanbul Project	353,970	182,046
Köy Project	225,241	225,241
İstmarina Project	183,060	186,635
Hoşdere 3. Etap Projesi	161,563	159,150
Maslak 1453 Project	144,184	230,386
Fatih Yedikule Projesi	120,421	121,491
Park Maveria Project	117,496	116,866
Kayabaşı 6. Etap Project	116,178	113,982
Avangart İstanbul Project	115,707	118,273
Kayabaşı 5. Etap Project	115,135	117,552
Validebağ Konakları Project	108,119	108,107
Hoşdere 4. Etap Project	106,316	104,977
Tual Adalar Project	107,554	106,405
Temaşehir Konya Project	89,368	86,704
Göl Panorama Project	79,925	79,722
Evora Denizli Project	76,466	76,268
Kocaeli Derince Project	70,360	70,001
Karat 30 Project	68,652	68,063
Isparta Kule 5.Etap Project	57,817	58,105
Hoşdere 2. Etap Project	47,629	47,628
Koordinat Çayyolu Project	36,117	37,299
Yenikoy İstanbul Project	30,704	30,130
Ataşehir Finans Merkezi Project	18,302	17,587
Other	226,430	226,628
	5,741,962	5,664,474

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 9 - INVENTORIES (Continued)

Planned lands by turnkey project	31 March 2017	31 December 2016
Başkent Emlak Konutları	348,815	336,250
Ayazma Emlak Konutları Project	268,044	224,918
Ispartakule 1. Etap 1. Kısım Project	179,033	156,515
Ispartakule 1. Etap 2. Kısım Project	149,909	130,396
Kayabaşı Recreation Project	143,676	143,298
Nevşehir Emlak Konutları Project	106,590	97,816
Körfezkent 4. Etap Project	79,830	73,926
Gebze Project	83,135	68,682
Emlak Konut Başakşehir Evleri 2. Kısım Project	73,747	66,922
Başakşehir Ayazma 2. Etap Project	57,544	44,112
Nigde Project	26,977	24,419
İstanbul Esenler Kentsel Dönüşüm Project	681	472,911
Kocaeli Gebze Kirazpınar Kentsel Dönüşüm Project	662	662
Bursa Kentsel Dönüşüm Project	426	424
	1,519,069	1,841,251

Completed units	31 March 2017	31 December 2016
Sarphan Finanspark Project	256,678	28,440
Esenler Emlak Konutları	255,437	-
Batışehir Project	90,511	136,932
Unikonut Project	34,113	31,572
Nidakule Ataşehir Project	25,028	26,210
Hoşdere Emlak Konutları	24,671	28,330
Dumankaya Miks Project	19,641	16,911
Başakşehir Emlak Konutları	4,975	5,287
Bulvar İstanbul Evleri	3,138	3,138
Kayabaşı Emlak Konutları	2,350	1,654
Spradon Vadi Evleri	1,998	2,195
Park Yaşam Mavişehir Evleri	1,486	1,486
Kocaeli Körfez Kent Emlak Konutları	1,238	1,238
Evora 2. Etap Project	303	303
Burgazkent Çarşı Project	127	-
Other	2,045	2,045
	723,739	285,741

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

31 March 2017	Buildings	Motor vehicles	Furniture, equipment and fix assets	Construction in progress	Total
Net book value as of 1 January 2017	59,327	1,226	8,599	29	69,181
Additions	94	-	789	-	883
Depreciation expense(-)	(529)	(99)	(710)	-	(1,338)
Net book value 31 March 2017	58,892	1,127	8,678	29	68,726
Cost	61,345	2,436	16,812	29	80,622
Accumulated depreciation (-)	(2,453)	(1,309)	(8,134)	-	(11,896)
Net book value 31 March 2017	58,892	1,127	8,678	29	68,726

31 March 2016	Buildings	Motor vehicles	Furniture, equipment and fix assets	Construction in progress	Total
Net book value as of 1 January 2016	9,584	739	4,650	63,750	78,723
Additions	5,175	687	2,661	-	8,523
Disposal, (net) (-)	-	-	(44)	-	(44)
Transfers from constructions in progress, (net)	63,750	-	-	(63,750)	-
Depreciation expense(-)	(397)	(80)	(478)	-	(955)
Impairment (-)	575	-	-	-	575
Net book value 31 March 2016	78,687	1,346	6,789	-	86,822
Cost	79,348	2,239	11,971	-	93,558
Accumulated depreciation (-)	(661)	(893)	(5,182)	-	(6,736)
Net book value 31 March 2016	78,687	1,346	6,789	-	86,822

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 11 – OTHER SHORT TERM PROVISIONS

	31 March 2017	31 December 2016
Provisions		
Provision for lawsuits	58,451	73,238
Provision for cost accruals	85,755	54,846
	144,206	128,084

The movements of provision for lawsuits as of 31 March 2017 and 2016 are as follows:

	2017	2016
Balance at 1 January	73,238	78,088
Provision released within the current period	(5,222)	(5,719)
Provision used in the period	(9,565)	-
Balance at 31 March	58,451	72,369

NOTE 12 - OTHER ASSETS AND LIABILITIES

	31 March 2017	31 December 2016
Other current assets		
Progress payments given to contractors	139,286	118,700
Accrued income	91,604	122,946
Receivables from tax office	39,312	34,066
Deferred VAT	-	8,500
Other	109	263
	270,311	284,475

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 13 - DEFERRED INCOME AND PREPAID EXPENSES

	31 March 2017	31 December 2016
Short-term deferred income		
Deferred income from LSRSA projects (*)	2,154,989	1,727,759
Advances taken from turnkey project sales	380,511	371,128
Advances taken from LSRSA contractors (**)	905,329	976,954
Deferred income from sales of completed units	234,338	75,248.00
Advances taken from related parties (Note 19)	64,732	64,732
	3,739,899	3,215,821

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

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

	31 March 2017	31 December 2016
Long-term deferred income		
Other advances taken	3,063	2,963
	3,063	2,963

	31 March 2017	31 December 2016
Prepaid expenses		
Advances given for inventory (*)	466,296	542,674
Prepaid expenses	463	1,137
	466,759	543,811

(*) A protocol has been signed between the Company and the Tariş Cooperative Associations to develop revenue sharing project on a total of 143,366-m2 land, which is belonging to the Tariş Cooperative Unions, located within the boundaries of Kurukay / Umurbey, Konak district of İzmir. The Company has provided an advance of stock amounting to TL 377,328.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 14 - SHAREHOLDERS' EQUITY

The Company's authorized capital amount is TL 3,800,000 (31 December 2016: 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 2017 and 31 December 2016 is as follows:

Shareholders	31 March 2017		31 December 2016	
	Share (%)	TL	Share (%)	TL
Public offering portion	50.66	1,925,111	50.66	1,925,111
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı ("TOKİ")	49.34	1,874,831	49.34	1,874,831
HAS beneficiaries	0.00	56	0.00	56
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.

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 adding it to the share capital.

Between 1 January 2015 and 24 August 2015, The Company has repurchased 9,183,544 numbers of shares with nominal value between TL 2.39 and TL 2.46 and total amounting to TL 22,169,753.53 full TL). Shares average purchase price is TL 2.42 and as a result of the purchases, the share of the total shares to the total share lot is 3.16%

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 15 - REVENUE AND COST OF SALES

	1 January- 31 March 2017	1 January- 31 March 2016
Sales income		
Land sales	412,505	112,883
<i>Income from sale of land and plots by way of LSRSA</i>	412,505	68,646
<i>Land sales income</i>	-	44,237
Residential and commercial units sales	421,060	15,991
Rent Income	538	142
	834,103	129,016
Sales returns	(11)	(14)
Sales discounts	-	(436)
Net sales income	834,092	128,566
Cost of sales		
Cost of land sales	(64,767)	(9,891)
<i>Cost of land and plots sold by way of LSRSA</i>	(64,767)	(2,314)
<i>Cost of land sales</i>	-	(7,577)
Cost of residential and commercial units sales	(320,384)	(7,011)
	(385,151)	(16,902)
Gross profit	448,941	111,664

NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES

	1 January- 31 March 2017	1 January- 31 March 2016
General administrative expenses		
Personnel expenses	(11,659)	(11,711)
Taxes, duties and fees	(6,886)	(2,025)
Consultancy expenses	(3,112)	(5,923)
Subcontracting service expenses	(2,824)	(1,399)
Depreciation and amortisation	(1,633)	(1,563)
Travel expenses	(1,484)	(780)
Maintenance	(816)	(78)
Due and contribution expenses	(817)	(607)
Lawsuit and notary expenses	(328)	(151)
Communication	(125)	(154)
Insurance expenses	(31)	(41)
Donations	(30)	-
Other	(1,710)	(1,529)
	(31,455)	(25,961)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 16 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES (Continued)

	1 January- 31 March 2017	1 January- 31 March 2016
Marketing, sales and distribution expenses		
Advertising expenses	(17,441)	(13,689)
Personnel expenses	(1,205)	(872)
Other	(314)	(587)
	(18,960)	(15,148)

NOTE 17 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	1 January- 31 March 2017	1 January- 31 March 2016
Other income from operating activities		
Finance income from credit sales	63,908	53,895
Delay penalty interest from project contractors	19,297	12,886
Impairment provision reversals (Note 9)	9,480	575
Recirculate commission income	4,074	2,706
Released lawsuit provisions (Note 11)	5,222	5,719
Not realized finance income	-	6,695
Other	7,016	8,179
	108,997	90,655

	1 January- 31 March 2017	1 January- 31 March 2016
Other expenses from operating activities		
Reversal of due date differences	(39,091)	(122)
Impairment provision expenses (Note 9)	(26,717)	(1,718)
Other	(986)	(711)
	(66,794)	(2,551)

NOTE 18 - FINANCIAL INCOME / EXPENSES

	1 January- 31 March 2017	1 January- 31 March 2016
Financial income		
Interest income from time deposits	13,261	26,034
Foreign exchange income	2	3
	13,263	26,037

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 18 - FINANCIAL INCOME / EXPENSES (Continued)

	1 January- 31 March 2017	1 January- 31 March 2016
Financial expenses		
Interest expense on payable to TOKİ (**)	(110,628)	-
Loan interest expense	(18,251)	-
Interest expense on Turkish Treasury borrowings (*)	(5,558)	(9,916)
Interest discount on pay off debt	(1,073)	-
Foreign exchange loss	(147)	(67)
Commission expenses	-	(207)
	(135,657)	(10,190)

(*) Interest expense of borrowing for HAS beneficiaries payments from Turkish Treasury amounting to TL 159,000 calculated in accordance with Domestic Government Debt Securities issuance compound interest rate announced at the time of payment periods.

(**) This amount consists of the interest expense accrued as of 31 March 2017 for the debts arising from payments of land received from the Toplu Konut İdaresi

NOTE 19 - RELATED PARTY DISCLOSURES

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, İnşaat, 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.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 19 - RELATED PARTY DISCLOSURES (Continued)

- Balances and transactions with respect to Turkish Treasury are detailed in Note 4, 5 and 8.
- The Company mostly deposits its cash in State Banks in compliance with its related statute. The bank balances with state banks amounted to TL 2,287,814 as of 31 March 2017 (31 December 2016: TL 2,178,178) Regarding these bank balances, the Company also generated interest income from the related State banks amounted to TL 34,859 in as of 31 March 2017 (31 March 2016: TL 26,034). Average effective interest rates of time deposits of the Company as of 31 March 2017 are explained in Note 4.

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

	31 March 2017	31 December 2016
Trade receivables from related parties		
Emlak Planl. İnş. Prj. Yön. A.Ş. - Ege Yapı Ltd. Şti.	6,686	14,178
Emlak Planl. İnş. Prj. Yön. A.Ş. - Fideltus İnş-Öztaş İnş O.G.	5,567	5,567
Emlak Planl. İnş. Prj. Yön. A.Ş. - Cathay Ortak Girişimi	1,343	1,342
	13,596	21,087

	31 March 2017	31 December 2016
Trade payables to related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”) (*)	2,790,220	3,509,541
Ege Yapı Ltd. Şti.-Emlak Pazarlama O.G.	1,322	1,324.00
	2,791,542	3,510,865

(*) 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 2,280,088 (31 December 2016: TL 3,080,088) and accrued interest is TL 510,148 (31 December 2016: TL 429,453)

	31 March 2017	31 December 2016
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 a predetermined portion of the total sales amount in line with the agreements.

	1 January- 31 March 2017	1 January- 31 March 2016
Purchases from related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	-	1,293,514
Emlak Planlama İnş. Prj. Yön. A.Ş. - Emlak Basın Yayın A.Ş.	225	786
	225	1,294,300

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 19 - RELATED PARTY DISCLOSURES (Continued)

Finance expense from related parties	31 March 2017	31 March 2016
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	110,628	-
	110,628	-

According to the protocols signed with TOKİ regarding to land purchases, the cost of lands purchased from TOKİ is kept in time deposit accounts of Emlak Konut in the name of TOKİ, until the payment date determined by TOKİ. Interest income from time deposit of Emlak Konut in the name of TOKİ are net off from Interest income from time deposits in the financial statements. All of this accumulated interest income on time deposits will be paid to TOKİ.

Sales to related parties	1 January- 31 March 2017	1 January- 31 March 2016
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	-	306,851
Emlak Planlama İnş. Prj. Yön. A.Ş. - Ege Yapı Ltd. Şti.	2	-
	2	306,851

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:

Remuneration of key management	1 January- 31 March 2017	1 January- 31 March 2016
Salaries and other short-term employee benefits	1,533	2,027
	1,533	2,027

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

(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 Mavisehir 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 Turnkey projects.

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 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.

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 20 September 2017.

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 Mavisehir 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.

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.

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.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 20 - CONTINGENT ASSETS AND LIABILITIES (Continued)

- 3- Albayrak Turizm Sey. İnş. Tic. A.Ş. filed a lawsuit against the Company claiming that the agreement of The LSRSA project regarding İzmir Mavişehir Upper North Area 3. Phase should be revised considering the changing conditions. The court rejected the case. 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.
- 4- Contractor of İzmir Mavişehir Upper North Area 2. Phase LSRSA Project, Bozoğlu İnş. San. Tic. Ltd. Şti, was filed a lawsuit for assignment that the claimant has given. The case is proceeding and 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.
- 5- Contractor of İzmir Mavişehir Upper North Area 2. Phase LSRSA Project filed a lawsuit against the Company regarding term inaction of the contract. The Company filed a lawsuit as well for collecting amount of TL 100,000 without prejudice to further claims. The case is proceeding and 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.
6. Mortgage and guarantees received are;

	31 March 2017	31 December 2016
Guarantees received (*)	2,973,650	3,027,085
Mortgages received (**)	45,878	45,878
	3,019,528	3,072,964

(*) 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.

7. Collaterals, pledges, mortgages (“CPM”):

	31 March 2017	31 December 2016
A. CPM given on behalf of the Company's legal personality	55,958	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	-	-
	55,958	58,040

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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

NOTE 21 - EVENTS AFTER THE REPORTING PERIOD

The Company has started a campaign for buyers who purchase office units and pay installment. The related campaign is valid for 1 April-9 June 2017. According to the campaign, %20 discount will be applied if %100 current debt is paid, %15 discount will be applied if %75 current debt is paid, %10 discount will be applied if %50 current debt is paid and %5 discount will be applied if %25 current debt is paid.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017**

(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 2017 (TL)	Prior Period 31 December 2016 (TL)
A	Money and Capital Market Instruments	Series:III-No:48, Art,24/(b)	802,014	2,405,012
B	Properties, Projects based on Properties and Rights based on Properties	Series:III-No:48, Art,24/(a)	12,435,777	12,204,919
C	Affiliates	Series:III-No:48, Art,24/(b)	-	-
	Due from related parties (Non Commercial)	Series:III-No:48, Art,23/(f)	-	-
	Other Assets		6,389,221	4,092,436
D	Total Assets	Series:III-No:48, Art,3/(k)	19,627,012	18,702,367
E	Financial Liabilities	Series:III-No:48, Art,31	784,073	219,561
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	11,049,889	10,730,193
	Other Resources		7,793,050	7,752,613
D	Total Resources	Series:III-No:48, Art,3/(k)	19,627,012	18,702,367
	Non-Consolidated (Individual) Financial Statements Other Account Items	Related Regulation	Current Period 31 March 2017 (TL)	Prior Period 31 December 2016 (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)	802,014	956,203
A2	Term/ Demand/ Currency	Series:III-No:48, Art,24/(b)	695,050	956,203
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)	441,359	425,220
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	55,958	65,511
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 2017

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

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

	Portfolio restrictions	Related regulation	31 March 2017 (%)	31 December 2016 (%)	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)	67	70	>50%
3	Money and Capital Market Instruments and Affiliates	Series:III-No:48, Art,24/(b)	0	8	<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)	2	2	<20%
6	Affiliates to the Operating Company	Series:III-No:48, Art,28	-	-	<10%
7	Borrowing Limit	Series:III-No:48, Art,31	8	3	<500%
8	TL and Foreign Currency Time and Demand Deposits	Series:III-No:48, Art,22/(e)	-	-	<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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