

**ALARKO GAYRİMENKUL YATIRIM
ORTAKLIĞI ANONİM ŞİRKETİ**

FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2019 AND
INDEPENDENT AUDITOR'S REPORT

(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH)



Güney Bağımsız Denetim ve
SMMM AŞ
Eski Büyükdere Cad.
Orjin Maslak No:27
Maslak, Sarıyer 34485
İstanbul - Turkey

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No : 479920
Mersis No: 0-4350-3032-6000017

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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Alarko Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

A) Report on the Audit of the Financial Statements

1) Opinion

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

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

2) Basis for Opinion

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

3) Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p>Valuation of investment properties</p> <p>As explained in Notes 2 and 9, the Company evaluates its investment properties by the fair value method after the initial recognition. As of 31 December 2019, the fair value of the investment properties valued at 882.340.000 TL, which are shown in the financial statements, are determined by independent valuation companies and the details are explained in Note 9.</p> <p>Since investment properties constitute an important part of the Company's total assets and the valuation methods used contain important estimates and assumptions, the valuation of investment properties is considered as a key audit subject by us.</p>	<p>We have assessed the licenses, competencies and impartiality of real estate appraisers appointed by the management.</p> <p>In our audit, the appropriateness of the valuation methods used by the valuation experts in the valuation reports of investment properties was evaluated. In the valuation reports, the reconciliation of the values appreciated by the valuation experts for the independent sections to the amounts explained in Note 9 has been reviewed.</p> <p>The audit procedures we apply include the investigation of market data against the assumptions (including real discount rate, market rents and estimated occupancy rates) used by valuation experts in their valuation. For this evaluation, appraisers included in the audit network that we are connected to are included in the studies.</p> <p>Due to the presence of high-level judgments used in the valuation reports as well as alternative estimates and valuation methods, we have assessed whether the value appreciated by valuation specialists is within an acceptable range.</p> <p>In addition, the appropriateness of the information contained in the financial statements and explanatory footnotes was taken into consideration by us, considering the importance of the disclosed information for the readers of the financial statements.</p>

4) Other Matters

The financial statements of Alarko Gayrimenkul Yatırım Ortaklığı Anonim Şirketi for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on February 25, 2019.

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

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

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

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

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

In an independent audit, our responsibilities as the auditors are:

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

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

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

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

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

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

B) Report on Other Legal and Regulatory Requirements

- 1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on 28 February 2020.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2019 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Onur Ünal.

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

Onur Ünal, SMMM
Partner

28 February 2020
İstanbul, Türkiye

INDEX	PAGE
STATEMENT OF FINANCIAL POSITION	1-2
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3
STATEMENT OF CHANGES IN EQUITY	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6-58

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

	Notes	31 December 2019	31 December 2018
ASSETS			
Current Assets			
		633.254.010	545.419.019
Cash and Cash Equivalent	3	121.601.288	79.114.990
Financial Investments	4	471.761.995	434.127.719
Trade Receivables		35.652.107	28.207.319
<i>Trade Receivables from Related Parties</i>	6,24	35.489.369	28.062.562
<i>Trade Receivables from Third Parties</i>	6	162.738	144.757
Inventories	8	3.271.735	3.271.735
Prepaid Expenses		268.961	3.459
Other Current Assets	14	697.924	693.797
Non-Current Assets		898.137.225	606.871.264
Financial Investments	4	15.691.515	9.702.658
Other Receivables		30.434	24.084
<i>Other Receivables from Third Parties</i>	7	30.434	24.084
Investment Properties	9	882.340.000	597.070.000
Property, Plant and Equipment	10	25.839	29.723
Intangible Assets		47.730	44.799
<i>Other Intangible Assets</i>	11	47.730	44.799
Prepaid Expenses		1.707	-
TOTAL ASSETS		1.531.391.235	1.152.290.283

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

	Notes	31 December 2019	31 December 2018
LIABILITIES			
Current Liabilities		10.879.637	7.356.291
Financial Borrowings	5	2.276.511	-
Trade Payables		3.551.695	2.990.536
<i>Trade Payables to Related Parties</i>	6,24	32.682	40.329
<i>Trade Payables to Third Parties</i>	6	3.519.013	2.950.207
Payables Related to Employee Benefits	13	83.351	408.641
Other Payables		4.914.353	3.914.050
<i>Other Payables to Third Parties</i>	7	4.914.353	3.914.050
Deferred Income		53.727	43.064
Non-Current Liabilities		7.395.154	1.525.735
Financial Borrowings	5	5.761.160	-
Other Payables		1.292.383	1.248.669
<i>Other Payables to Third Parties</i>	7	1.292.383	1.248.669
Long-term Provisions		341.611	277.066
<i>Long-term Provisions for Employee Benefits</i>	13	341.611	277.066
EQUITY		1.513.116.444	1.143.408.257
Equity attributable to parent			
Share Capital	1,15	10.650.794	10.650.794
Adjustments to share capital	1,15	54.712.578	54.712.578
Treasury stocks (-)	15	(23.798.080)	(24.999.945)
Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss		4.308.794	(1.675.604)
<i>Gain/Loss from Investments in Equity Based Financial Instruments</i>	4	4.332.591	(1.656.266)
<i>- Gains / losses on revaluation and remeasurement for defined benefit plans</i>		(23.797)	(19.338)
Restricted reserves Appropriated from Profit	15	33.145.304	6.695.176
Prior Years' Profit/Losses	15	1.044.522.113	828.425.786
Net Profit/Loss for the Year	23	389.574.941	269.599.472
TOTAL LIABILITIES AND EQUITY		1.531.391.235	1.152.290.283

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

	<u>Notes</u>	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
PROFIT AND LOSS			
Revenue	16	36.215.057	29.206.918
Cost of Sales (-)	16	(1.713.356)	(2.821.362)
GROSS PROFIT/(LOSS)		34.501.701	26.385.556
Administrative expenses (-)	17	(3.826.745)	(4.241.830)
Other Income from Operating Activities	19	376.711.379	276.802.267
Other Expenses from Operating Activities (-)	19	(17.898.170)	(29.510.786)
OPERATING PROFIT/(LOSS)		389.488.165	269.435.207
Income from Investing Activities	20	592.068	164.265
OPERATING PROFIT/(LOSS) BEFORE FINANCE INCOME/EXPENSE		390.080.233	269.599.472
Financing Expenses (-)	21	(505.292)	-
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		389.574.941	269.599.472
Current Tax Expense/Income		-	-
Deferred Tax Expense/Income		-	-
Tax Expense/Income from Continuing Operations	22	-	-
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		389.574.941	269.599.472
PROFIT/(LOSS) FOR THE YEAR		389.574.941	269.599.472
OTHER COMPREHENSIVE INCOME			
Items that will not be Reclassified Subsequently to Profit or Loss			
- Gain/Loss from Investments in Equity Based Financial Instruments	4,15	5.988.857	(4.810.501)
- Gain/Loss on Remeasurement of Defined Benefit Plans	13	(4.459)	(7.896)
OTHER COMPREHENSIVE INCOME/(EXPENSE)		5.984.398	(4.818.397)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)		395.559.339	264.781.075
Earnings per share			
Earnings/(Loss) per Share from Continuing Operations	23	38,2776	26,4894

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**AUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

	Share Capital	Adjustments to Share Capital	Treasury shares (-)	Accumulated Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss			Retained Earnings		Total Equity
				Gain/Loss from Investments in Equity Based Financial Instruments	Accumulated Gain/Loss on Remeasurement of Defined Benefit Plans	Restricted Reserves Appropriated from Profit	Prior Years' Profit/ (Losses)	Net Profit/ Loss for the Year	
Balances as of 1 January 2018	10.650.794	54.712.578	-	3.154.235	(11.442)	5.214.716	693.449.927	152.357.089	919.527.897
Effect of changes in accounting policy	-	-	-	-	-	-	(563.626)	-	(563.626)
Balance after adjustments	10.650.794	54.712.578	-	3.154.235	(11.442)	5.214.716	692.886.301	152.357.089	918.964.271
Transfers	-	-	-	-	-	1.480.460	135.539.485	(137.019.945)	-
Total Comprehensive Income / (Expense)	-	-	-	(4.810.501)	(7.896)	-	-	269.599.472	264.781.075
Dividends	-	-	-	-	-	-	-	(15.337.144)	(15.337.144)
Increase /Decrease due to Treasury Shares	-	-	(24.999.945)	-	-	-	-	-	(24.999.945)
Balances as of 31 December 2018 (Closing balances)	10.650.794	54.712.578	(24.999.945)	(1.656.266)	(19.338)	6.695.176	828.425.786	269.599.472	1.143.408.257
Balances as of 1 January 2019	10.650.794	54.712.578	(24.999.945)	(1.656.266)	(19.338)	6.695.176	828.425.786	269.599.472	1.143.408.257
Other adjustments (Note 2.5)	-	-	-	-	-	24.999.945	(24.999.945)	-	-
Balance after adjustments	10.650.794	54.712.578	(24.999.945)	(1.656.266)	(19.338)	31.695.121	803.425.841	269.599.472	1.143.408.257
Transfers (Note 15)	-	-	-	-	-	2.652.048	239.894.407	(242.546.455)	-
Total Comprehensive Income / (Expense)	-	-	-	5.988.857	(4.459)	-	-	389.574.941	395.559.339
Dividends (Note 15)	-	-	1.201.865	-	-	(1.201.865)	1.201.865	(27.053.017)	(25.851.152)
Balances as of 31 December 2019 (Closing Balances)	10.650.794	54.712.578	(23.798.080)	4.332.591	(23.797)	33.145.304	1.044.522.113	389.574.941	1.513.116.444

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED STATEMENTS OF CHANGES IN CASH FLOWS
FOR THE PERIOD BETWEEN 1 JANUARY – 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

	<u>Notes</u>	1 January- 31 December 2019	1 January- 31 December 2018
A. Cash Flows from Operating Activities		55.315.409	45.649.393
Profit/Loss for the Year		389.574.941	269.599.472
Adjustments to Reconcile Profit/Loss for the Year		(304.176.715)	(189.292.082)
- Adjustments related to depreciation and amortization expenses	10,11	19.536	21.457
- Adjustments related to provisions	13	60.086	94.891
- Adjustments related to interest income and expenses	19	(19.800.743)	(16.217.074)
- Adjustments related to unrealized currency translation differences		(13.159.500)	(95.841.899)
- Adjustments related to gain/loss on fair value	9,19	(270.696.143)	(76.621.939)
- Other adjustments		(599.951)	(727.518)
Changes in working capital		(6.424.042)	(4.770.304)
- Adjustments related to increase/decrease in trade receivables	6	(7.436.905)	(6.085.660)
- Adjustments related to increase/decrease in other receivables from operations	7	(6.350)	-
- Adjustments related to increase/decrease in trade payables	6	561.159	851.184
- Adjustments related to increase/decrease in other payables from operations	7	1.044.017	359.065
- Adjustments related to other increase /decrease in working capital		(585.963)	105.107
Cash Generated from Operations		78.974.184	75.537.086
Cash outflows for acquisition of debt instruments		(23.658.775)	(29.688.661)
Employment termination benefits paid	13	-	(199.032)
B. Cash Flows from Investing Activities		4.984.370	(662.807)
Cash outflows for acquisition of shares in other entities or shares in funds	26	-	(10.096.130)
Payments for purchase of property, plant and equipment and intangible assets	10,11	(18.583)	(7.850)
Payments for investment properties	9	(14.573.857)	(3.333.061)
Dividends received from other equity investments	20	592.068	164.265
Interest received		18.984.742	12.609.969
C. Cash flows from financing activities		(17.813.481)	(40.337.089)
Cash outflows for the acquisition of own shares and other equity instruments	15	-	(24.999.945)
Cash inflows due to borrowings	5	8.037.671	-
Dividends paid	15	(25.851.152)	(15.337.144)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)		42.486.298	4.649.497
D. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3	79.114.990	74.465.493
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D)	3	121.601.288	79.114.990

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

1. Organization and Operations of the Company

The company name of Aletim Alarko Elektrik Tesisat ve İnşaat Malzemeleri Anonim Şirketi founded on 6 June 1978 was changed to Alarko Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (the Company) upon being published in the Turkish Trade Register Gazette dated 6 August 1996 nr 4096. The Company applied to the Capital Markets Board (“CMB” or “Board”) on 31 October 1996 for the registration of a document related to share certificates to be issued for the capital increase in its shareholders; and the document was registered by the CMB certificate Nr GYO 1/1552 dated 31 December 1996 in accordance with the Capital Markets Law.

The Company operates as a real estate partnership in accordance with the statements and regulations of the CMB. In this context, the Company invests in real estates, real estate projects, and capital market instruments. Accordingly, the Company acts in accordance with the regulations and legislation of the CMB in its principal activities, investment portfolio policies, and administrative limits.

As of 31 December 2019 and 2018, the shareholders and the shareholding structure of the Company at historic values is as follows:

Shareholders	%	31 December 2019	%	31 December 2018
Alarko Holding A.Ş.	16,42	1.748.258	16,42	1.748.258
Alsim Alarko Sanayi Tesisleri ve Tic. A.Ş.	34,78	3.704.641	34,78	3.704.641
Public Offering	48,77	5.194.442	48,77	5.194.442
Other (*)	0,03	3.453	0,03	3.453
Total	100,00	10.650.794	100,00	10.650.794

(*) Represents total shareholdings less than 10%.

As of 31 December 2019 and 2018, the difference arising from restatement of the nominal value of the share capital amounts to TL 54.712.578 (Note 15 (b)).

The address of the Company’s Head Office is Muallim Naci Caddesi, No:69 P.K. 34347 Ortaköy – Beşiktaş/İstanbul.

The majority of the Company shares belong to Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş. and 48,77% of the Company shares is traded at the Istanbul Stock Exchange since 1996.

As of 31 December 2019, the average number of the Company personnel is 4 (31 December 2018: 6).

The share certificates constituting the Company’s share capital are classified in three groups, namely, Group A, Group B, and Group C. Group A share owners are granted the right to nominate four candidates for the Board of Directors and B Group share owners are granted the right to nominate three candidates for the Board of Directors. There are no other rights granted to the shareholders other than the right to nominate candidates for the Board of Directors.

Approval of financial statements:

Board of Directors has approved the financial statements and delegated authority for publishing it on 28 February 2020. General Assembly has the authority to modify the financial statements.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements**

2.1 **Basis of Presentation:**

The Company maintains its books of account and prepares its statutory financial statements in accordance with the prevailing commercial and financial legislation. The accompanying financial statements are prepared in accordance with the provisions of the “Communiqué Related to the Financial Reporting Principles at the Capital Markets” (Communiqué) Nr. II/14.1 of the CMB published in the Official Gazette dated 13 June 2013 Nr 28676, taking as basis the Turkish Accounting Standards /Turkish Financial Reporting Standards and the related appendices and interpretations (TAS/IFRS) put into effect by the Public Oversight Accounting and Auditing Standards Authority (POA) as per the Article 5 of the Communiqué.

The accompanying financial statements are presented in accordance with the principles the application of which is required by the announcement published by CMB on 7 June 2013.

Financial statements are prepared on the historical cost basis, except for the revaluation of investment properties and the fair value of financial investments. In determining the historical cost, fair value of the amount generally paid for the assets is taken as basis.

Functional Currency

Financial statements of the Company are presented in the currency (functional currency unit) valid in the basic economic environment in which the Company operates. The functional currency of the Company is Turkish Lira (“TL”) and the accompanying financial statements and related notes are presented in TL.

2.2 **Adjustment of Financial Statements during Hyper-Inflationary Periods :**

In accordance with the CMB on 17 March 2005 and 11/367 numbered decision, for companies which operate in Turkey and prepare their financial statements in accordance with the Turkish Accounting Standards, starting from 1 January 2005 inflation accounting is terminated. Accordingly, since 1 January 2005, Standard 29 “Financial Reporting in Hyperinflationary Economies” (“TAS 29”) has not been applied.

2.3 **Adjustments:**

The accompanying financial statements are prepared in accordance with TAS/IFRS with the below mentioned adjustments which are not stated in the statutory records:

- Provision for doubtful receivables
- Calculation of rediscount on customers
- Depreciation adjustment for property, plant and equipment in accordance with TAS 16
- Retirement pay liability adjustment as per TAS 19
- Valuation of financial assets quoted at the stock exchange by market value
- Provisions for unused vacation days
- Valuation of investment properties at fair value
- Valuation of financial investments at fair value
- Valuation of financial assets held to maturity at the cost value amortized as per the effective interest method.
- Accounting of right-of-use asset according to TFRS 16

2.4 **Offsetting:**

Offsetting financial assets and liabilities can only be made under the conditions where the offsetting transaction is legally allowed and the company has an intention in this respect or where the acquisition of assets and fulfillment of liabilities are realized simultaneously.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.5 **Comparative Information and Adjustment of Prior Period Financial Statements:**

The accompanying financial statements are prepared comparatively with the previous period in order to determine the Company's financial status, performance and trends in cash flow. The financial statements and the footnotes of the financial statements for the dates of 31 December 2019 and 2018 and the profit or loss and other comprehensive income, cash flow and changes in equity tables and related notes for the years ended 31 December 2019 and 2018 are presented comparatively.

- a) As per the evaluations made, the Company has classified TL 24.999.945, which is included in the previous years' profits / (losses) account in the statement of financial position and shareholders' equity, to the restricted reserves account.
- b) As per the evaluations made, the Company reclassified TL 4.810.501 which was presented in the statement of Profit / (Loss) and Other comprehensive income and change in equity as to be reclassified in profit / (loss) as of 31 December 2018, into Gain/Loss from Investments in Equity Based Financial Instruments, not to be reclassified in profit / (loss).

2.6 **Changes in Accounting Policies,**

Significant changes in accounting policies are applied retrospectively and prior period financial statements are restated. There has been no significant change in the accounting policies of the Company in the current period.

2.7 **Changes and Errors in Accounting Estimates:**

If the changes in accounting estimates are for only one period, they are applied prospectively in the current period when the change is made, both in the period when the change is made and in the future periods. There has not been a significant change, in the accounting estimates of the Company in the current year.

Significant accounting errors are applied retrospectively and prior period financial statements are restated.

2.8 **The New and Revised Turkish Accounting / Financial Reporting Standards:**

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

Amendments to TFRS 16 Financial Instruments

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

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.8 **The New and Revised Turkish Accounting / Financial Reporting Standards (cont'd):**

a) The new standards, amendments and interpretations which are effective as at January 1, 2019 (cont'd)

Amendments to TFRS 16 Financial Instruments (cont'd)

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company applied TFRS-16 by simplified retrospective approach.

The Company elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

The standard is applied for annual periods beginning on or after 1 January 2019. As of 1 January 2019, the impact of the standard on financial position or performance of the Company is as follows:

The Company has the upper right for 49 years with a strict permission commitment; Muğla Province, Fethiye District, Kaya Mahallesi, Kalemler Cove Location, 022-D-12-C-1 map, 260 island 1 parcel, Hillside Beach Club Holiday Village. The remaining right-of-use for the real estate, as per the 23rd article of the Law numbered 4706 and "Regulation on the Extension and Sale of Tourism Investments on Public Immovable Properties" which determines the procedures and principles regarding the application of the article was published in the Official Gazette numbered 30411, dated 04.05.2018 is extended by Ministry's confirmation for 49 years from 27 February 2019. Permanent and Independent Rights' Time Extension is registered to the land certificate on 09.10.2019.

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2019:

Assets

Investment Property (right-of-use assets) (*)	8.037.671
---	-----------

Liabilities

Short-term Lease Liabilities	2.276.511
Long-term Lease Liabilities	5.761.160

As of 31 December 2019, the Company's alternative borrowing rate applied in the discounting land and land lease liabilities is 9% (Turkish Lira).

(*) As the right of use assets meet the definition of investment property, the Company, applying the disclosure provisions in IAS 40 and recognized them at their fair value. In this context, the Company has presented its right of use assets as investment property. Land leases refer to the amount that is added back to the fair value of the investment property, as the debts from leasing transactions are also included in the fair value calculation.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. Basis of Presentation of the Financial Statements (cont'd)

2.8 The New and Revised Turkish Accounting / Financial Reporting Standards (cont'd):

a) The new standards, amendments and interpretations which are effective as at January 1, 2019 (cont'd)

Amendments to TFRS 16 Financial Instruments (cont'd)

Set out below are the new accounting policies of the Company upon adoption of TFRS 16:

Right-of-use assets

As the right of use assets meet the definition of investment property, the Company, applying the disclosure provisions in IAS 40, recognized them at their fair value. In this regard, the Company has shown its right of use asset as investment property.

The cost of the right-of-use asset includes below:

- (a) the amount of lease liabilities recognized.
- (b) lease payments made at or before the commencement date less any lease incentives received, and
- (c) initial direct costs incurred by the Company.

Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

At the commencement date of the lease, lease payments included in the measurement of the lease liability comprises of the payments made for right-of-use of the subjected asset and unpaid amounts at the commencement date as follows;

- (a) fixed payments,
- (b) variable lease payments that depend on an index or a rate,
- (c) amounts expected to be paid under residual value guarantees,
- (d) exercise price of a purchase option reasonably certain to be exercised by the Company, and
- (e) payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is measured as below;

- (a) increased the book value to reflect the accretion of interest, and
- (b) reduced the book value for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. Basis of Presentation of the Financial Statements (cont'd)

2.8 The New and Revised Turkish Accounting / Financial Reporting Standards (cont'd):

a) The new standards, amendments and interpretations which are effective as at January 1, 2019 (cont'd)

Amendments to TFRS 16 Financial Instruments (cont'd)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

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

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

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

TFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.8 **The New and Revised Turkish Accounting / Financial Reporting Standards (cont'd):**

a) The new standards, amendments and interpretations which are effective as at January 1, 2019 (cont'd)

Annual Improvements – 2015–2017 Cycle

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

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

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

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

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs.

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

Prepayment Features with Negative Compensation (Amendments to TFRS 9)

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

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

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

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. Basis of Presentation of the Financial Statements (cont'd)

2.8 The New and Revised Turkish Accounting / Financial Reporting Standards (cont'd):

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

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

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

TFRS 17 - The new Standard for insurance contracts

The PAO issued TFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. TFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. TFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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

Definition of a Business (Amendments to TFRS 3)

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

The amendments:

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

The amendments to TFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.8 The New and Revised Turkish Accounting / Financial Reporting Standards (cont'd):

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

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

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

The amendments to TAS 1 and TAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

2.9 Summary of Significant Accounting Policies

Financial Instruments:

Financial Assets

The Company measures financial assets other than trade receivables that do not have an important financing component at their fair value when first recognized in financial statements. In the event that trade receivables do not have an important financing component in accordance with TFRS 15 (or Company prefers simplifying implementation), these receivables are initially measured at the transaction cost (In accordance with TFRS 15).

Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial, as appropriate, on initial recognition.

The Company classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (continued):

Financial Assets (cont'd)

Financial Assets Measured At Amortised Cost

Financial instruments that meet the following conditions are measured subsequently at amortised cost:

- (a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

- (a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.
- (b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Financial Assets Measured at Fair Value Through Other Comprehensive Income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (c) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
- (d) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd):

Financial Assets (cont'd)

Financial Assets Measured at Fair Value Through Other Comprehensive Income (cont'd)

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the Company accounts for the cumulative gain or loss that was previously recognised in other comprehensive income in consolidated financial statements. Interest calculated using the effective interest method is recognised in profit or loss.

At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Financial assets measured at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

The financial assets, which constitute derivative products that are not identified as an effective means of protection against financial risk, are also classified as financial assets whose fair value difference is reflected in profit or loss. Related financial assets are shown at their fair values, and the gains and losses resulting from the valuation are accounted in the income statement.

Impairment

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost or fair value through other comprehensive income.

The Company applies the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

At each reporting date, the Company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses except for purchased or originated credit impaired financial assets. For purchased or originated credit-impaired financial assets, the Company only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance at the reporting date.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. Basis of Presentation of the Financial Statements (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd):

Financial Assets (cont'd)

Impairment (cont'd)

The Company measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables that do not contain a significant financing component, which is referred as simplified approach.

Financial liabilities

At initial recognition, the Company measures a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the issue of the financial liability.

The Company classifies all financial liabilities as subsequently measured at amortised cost, except for:

(a) financial liabilities at fair value through profit or loss: Such liabilities, including *derivatives* that are liabilities, are subsequently measured at fair value.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Company recognises any income on the transferred asset and any expense incurred on the financial liability.

(c) contingent consideration recognised by an acquirer in a business combination to which TFRS 3 applies. Such contingent consideration is subsequently be measured at fair value with changes recognised in profit or loss.

The Company does not reclassify any financial liability.

Recognition and derecognition of financial assets and liabilities

The Company recognises a financial asset or a financial liability in the consolidated statement of financial position when, and only when, the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and the transfer qualifies for derecognition. If a transfer of financial asset does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company will continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the Company recognises any income on the transferred asset and any expense incurred on the financial liability. The Company derecognizes a financial liability from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. Basis of Presentation of the Financial Statements (cont'd)

2.9 Summary of Significant Accounting Policies (cont'd)

Related Parties:

A related party is a person or entity that is related to the entity that is preparing its financial statements.

- a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity,
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) (A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Within the scope of this report, the Company shareholders, Alarko Holding A.Ş. and Alarko Holding Group Companies, their executive staff, and other companies controlled by or related to these companies are defined as related parties.

Inventories:

Inventories are valued at their restated acquisition cost; however, the expertise values creating basis for the fair values of unsold inventories and the contract totals of inventories of which sales contracts are signed during the current period are compared with the restated acquisition costs, and if the expertise value and the contract total are lower than the restated acquisition cost, provision is made for impairment within the frame of conditions stated in the "Impairment of Assets" section. Impairment loss is determined for all inventories separately. In cases where the conditions leading to the reduction of inventories to net realizable value have expired or there has been an increase in net realizable value due to changing economic conditions, the provision for impairment is canceled. The canceled amount is limited by the amount of impairment previously reserved.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 **Summary of Significant Accounting Policies (cont'd)**

Investment Properties :

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property that is measured at fair value to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property that is measured at fair value, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

Tangible Assets

Tangible assets are stated at cost less accumulated amortisation and impairment loss, if any. The acquisition values of intangible assets are considered in the restatement of intangible assets as at 31 December 2004. Additions made subsequent to 1 January 2005 are stated at their nominal values. Intangible assets are amortized by using straight-line method and estimated useful lives over their inflation-adjusted values and the nominal values of additions subsequent to 1 January 2005. Deprecation rates of assets are as below:

	<u>Economic Lives</u>
Buildings	40-50 Years
Land improvements	10 Years
Machinery, plant and equipment	4-5 Years
Furniture and fixtures	4 -16 Years
Other tangible assets	5 - Years

Repair and maintenance expenses are expensed when realized. In case the repair and maintenance expenses provide an increase or an observable development in tangible assets, they are capitalized.

In case the book value of a tangible asset is higher than the recoverable value, the book value is decreased to the recoverable amount.

The profit or loss arising from the sale of a tangible asset is determined by comparing the restated amount of the assets sold and the amount collected and reflected to the income or loss for the current period.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 **Summary of Significant Accounting Policies (cont'd)**

Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and impairment loss, if any. The acquisition values of intangible assets are considered in the restatement of intangible assets as at 31 December 2004. Additions made subsequent to 1 January 2005 are stated at their nominal values. Intangible assets are amortized over their inflation-adjusted values and the nominal values of additions subsequent to 1 January 2005 over the rates stated below :

	<u>Economic Lives</u>
Leasehold improvements	2 – 33 Years
Rights	3 – 32 Years

Effect of Exchange Differences

Foreign Currency Balances and Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising due to translation from original currency to TL are recognized in the statement of profit or loss in the relevant period.

Impairment of Intangible Assets Other Than Goodwill and Tangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 **Summary of Significant Accounting Policies and Valuation Methods (cont'd)**

Impairment of Intangible Assets Other Than Goodwill and Tangible Assets (cont'd)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Deferred Tax

The deferred tax liability or asset is determined by calculating the tax effects of the temporary differences between the amounts of the assets and liabilities shown in the financial statements and the amounts considered in the legal tax base account, by taking into account the legal tax rates. While deferred tax liabilities are calculated for all taxable temporary differences, deferred tax assets consisting of deductible temporary differences are calculated provided that it is highly likely to benefit from such differences by obtaining taxable profit in the future. Such assets and liabilities are not recognized if the temporary difference related to the transaction that does not affect commercial or financial profit / loss is due to the first time the goodwill or other assets and liabilities are included in the financial statements (other than business combinations).

Deferred tax liabilities are calculated for all taxable temporary differences associated with investments in subsidiaries and affiliates and shares in business partnerships, except when the Company can control the disappearance of temporary differences and the likelihood that this difference will disappear in the near future. Deferred tax assets arising from taxable temporary differences associated with such investments and shares are calculated on the condition that it is highly probable to benefit from these differences by obtaining sufficient taxable profit in the near future and that the related differences are likely to disappear in the future.

Deferred tax assets and liabilities are calculated over the tax rates (tax regulations) that are expected to be valid during the period when the assets will be realized or liabilities will be fulfilled and have been legalized or significantly legalized as of the balance sheet date. During the calculation of deferred tax assets and liabilities, the tax results of the methods that the Company predicted to recover its book value or fulfill its liabilities as of the balance sheet date are taken into account.

Deferred tax assets and liabilities, if there is a legal right to offset current tax assets and current tax liabilities, or if such assets and liabilities are associated with income tax collected by the same tax authority or if the Company intends to pay by netting the current tax assets and liabilities. deducted.

In the calculation of deferred tax liabilities and deferred tax assets related to investment properties, which are measured by using the fair value method, the book value of these assets is assumed to be fully recovered by sale if there is no contrary assumption. Contrary to the fact that the investment property is redeemable and the economic benefits to be obtained from investment properties are held within the framework of a business model that is intended to be used in time rather than the sales path. By examining the investment property portfolio of the Company, the Management of the Company believed that the economic benefits to be obtained from the investment properties of any investment property are not retained in accordance with the business model that is intended to be used in full time, rather than the way of sale. For this reason, management stated that the "sales" assumption stated in the amendments to TAS 12 does not express a contrary assumption. As a result, since the Company is not subject to any income tax from the sale of investment properties, the Company has not recognized any deferred tax amount related to the fair value change of the investment properties.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 **Summary of Significant Accounting Policies and Valuation Methods (cont'd)**

Deferred Tax (cont'd)

Deferred tax has not been calculated since the Company's corporate income is exempted from Corporate Tax pursuant to Article 5 of the Corporate Tax Law.

Current Tax

According to Turkish tax legislation, legal or business centers institutions in Turkey, the corporation is subject to corporate tax.

In the Turkish tax system, financial losses can be offset by financial profits within the following five years, and it is not possible to offset earnings (retrospectively) from previous years.

Corporate earnings are subject to corporate tax of 22% by 2020 (including 2020) and 20% by 2021. Regardless of the exemption or not, 15% income tax withholding is calculated over the dividends distributed in cash to full taxpayer natural persons and narrow taxpayer natural persons and institutions and tax-exempt institutions. However, income tax withholding will not arise if the profit distribution is made from the profits from 1998 and before and from the profits from 1999, 2000, 2001 and 2002, or the investment discounts with a 19.8% withholding tax deduction. Income distribution withholding is not calculated in profit distributions made by adding current and previous year profits to the capital. On the other hand, no withholding is made in profit distributions made to full taxpayer institutions.

In addition, temporary tax is paid at the rate of 22% until 2020 (including 2020) and 20% from 2021 over the tax base declared in interim periods during the year to be deducted from corporate tax.

Pursuant to the repeating article 298 of the Tax Procedure Law, amended by Law No. 5024, taxpayers who kept books on the basis of balance sheet, in 2004, as the increase in PPI was less than 100% in the last 36 months and 10% in the last 12 months. inflation correction application that has started has ended. Since the 100% and 10% conditions were not realized in the PPI in the 2019 and 2018 accounting periods, no inflation adjustment was applied.

The earnings of companies that are granted the Real Estate Investment Trust (REIT) status is exempt from Corporate Tax and provisional corporate tax as per the article 5, section 1, paragraph d/4 of the Corporate Tax Law nr 5520. On the other hand, as per the article 15, paragraph 3 of the Corporate Tax Law, the percentage of the income tax withholding required to be made over the earnings of these partnerships that are subject to exemption is currently zero in accordance with the Ministerial Council Decision nr 2010/14594 (nr 2003/6577 for 2008). For that reason, no tax calculation has been made in relation to the 31 December 2018 and 31 December 2017 accounting periods (Note 22).

Employee Benefits

Provision for Severance Payment:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TAS 19 (Revised) Employee Benefits ("TAS 19").

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 **Summary of Significant Accounting Policies and Valuation Methods (cont'd)**

Employee Benefits (cont'd)

Profit-sharing and bonus plans:

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Revenue

Sales consist of sales revenue generated from real estate sold and rents received from property held for investment purposes. Sales are accounted for by the accrual principle, calculated over the fair value of prospect or realized income upon services provided, reliable determination of the income amount, and potential economic benefits to flow to the Company in relation to the subject transaction.

Rent income from investment properties

Rental income from real estates is accounted on an accrual basis linearly throughout the relevant lease agreement. If the Company has benefits for its tenants, they are recorded in a way to reduce rental income during the lease period.

Revenue from real estate sales

The real estate promised in accordance with the revenue contract is transferred to the customer and it is included in the financial statements when the performance obligation determined in the contract is fulfilled. When the control of the property is in the hands of the customer, the real estate is transferred.

Dividend and interest income:

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

While revenue is accounted in accordance with TAS 18 until 31 December 2017, from 1 January 2018 to onwards it is accounted as per TFRS 15.

Earnings per Share

Earnings per share is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Companies in Turkey can increase their share capital through distributing shares (bonus shares) from retained earnings and differences arising from inflation adjustment of equity to their current shareholders. When calculating profit/(loss) per share, these bonus shares are recognized as issued shares. Therefore, the weighted average of shares used in the calculation of profit/(loss) per share is derived through retroactive application with respect to bonus shares.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. **Basis of Presentation of the Financial Statements (cont'd)**

2.9 **Summary of Significant Accounting Policies and Valuation Methods (cont'd)**

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

Events After the Reporting Period:

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information.

The Company adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

Conditional Assets and Liabilities:

Provisions are recognised when the Company has a present legal or constructive obligation or a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities are assessed continually to determine whether an outflow of resources comprising economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously treated as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs except in the extremely rare circumstances where no reliable estimate can be made.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Statement of Cash Flows

In the statement of cash flows, current period cash flows are classified as principal activities, investing activities, and financing activities, and reported accordingly.

Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

Supplementary note: Control of Compliance to Portfolio Limitations

The information provided in the said note (Note 28) is summarized information derived from financial statements as per the article 16 of the CMB Communiqué II-14.1 “Principles Regarding Financial Reporting on Capital Markets” and prepared within the frame of provisions related to compliance to portfolio limitations stated in the CMB Communiqué Serial III No 48.1 “Principles Regarding Real Estate Investment Trusts”.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

2. Basis of Presentation of the Financial Statements (cont'd)

2.10 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Fair values of investment properties

Fair values of properties that reclassified as investment property in the financial statement has been determined by the independent real estate appraisal company, Rehber Gayrimenkul Değerleme Danışmanlık A.Ş. in 2019 and 2018 and critical judgements has been used in the valuations and detailed in Note 9.

3. Cash and Cash Equivalents

The details of the cash and cash equivalents as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Cash at banks	120.868.036	78.753.544
TL Demand deposits	60.590	42.136
TL Time deposits	1.827.409	-
Foreign currency time deposits (*)	118.980.037	78.711.408
B type liquid funds	733.252	361.446
Total (Note 25 (i))	121.601.288	79.114.990

(*) As of 31 December 2019, the interest rate on USD time deposits at banks varies between 2,10%- 2,25% and the accrued interest amounts to TL 131.818 and the interest rate on TL time deposits at banks is 10,5% and the accrued interest amounts to TL 3.149. (As of 31 December 2018, the interest rate on USD time deposits at banks varies between 4,10%- 4,50% and the accrued interest amounts to TL 57.344; the interest rate on Euro time deposits at banks is 1,65% and the accrued interest amounts to TL 3.244).

The Company has no blocked deposits at banks as of 31 December 2019 and 2018.

4. Financial Assets

As of 31 December 2019 and 2018, breakdown of the Company's financial assets is as follows:

Financial assets held to maturity;

Currency	31 December 2019			31 December 2018		
	Book Value (TL)	Interest Rate	Maturity	Book Value (TL)	Interest Rate	Maturity
US Dollar	471.761.995	3,50%	5 June 2020	268.883.738	% 3,50	11 March 2019
US Dollar	-	-	-	165.243.981	% 3,75	7 December 2019
Total	471.761.995			434.127.719		

As of 31 December 2019, financial assets held to maturity consist of Eurobonds with the coupon payment ends at 5 June 2020. (31 December 2018 – Eurobond 11 March 2019 and 7 November 2019).

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

4. Financial Assets (cont'd)

Financial Assets of which fair value difference reflected on Other Comprehensive Income:

	31 December 2019		31 December 2018	
	Participation Rate (%)	Amount (TL)	Participation Rate (%)	Amount (TL)
Mosalarko A.O.	10	8.645.602	10	7.262.357
Alsim Alarko Sanayi Tesisleri ve Tic. A.Ş.(*)	-	1.196	-	1.196
Alarko Konut Projeleri Geliştirme A.Ş.(*)	-	143	-	143
Alarko Holding A.Ş. (*)	-	7.044.574	-	2.438.962
Total	10	15.691.515	10	9.702.658

(*) Participation rate is lower than 1%.

Investment in Alarko Holding A.Ş. is based on the stock price which is the current best bid at the Istanbul Stock Exchange expected to approach its fair value as of 31 December 2019 and 2018. The Company monitors the increases and decreases related to fair value recognition in the Shareholder's Equity account under "Accumulated other comprehensive income or expenses not to be reclassified in profit and loss" account in the financial statements. Accordingly, the value increase of TL 1.177.507 as of 31 December 2018 and the value increase of TL 4.605.612 as of 31 December 2019 has resulted in a total value increase of TL 5.783.119 (Note 15 (c)).

Investment in Mosalarko A.O is presented in its fair value. The Company monitors the increases and decreases related to fair value recognition in the Shareholder's Equity account under "Accumulated other comprehensive income and expenses not to be reclassified in profit and loss" account in the financial statements. Accordingly, as a result of the value decrease amounting to TL 2.833.773 as of 31 December 2018 the total value decrease is TL 2.833.733 and the value increase amounting to TL 1.383.245 as of 31 December 2019 has resulted in total value decrease TL 1.450.528. (Note 15 (c))

The participation totals in Alarko Konut Projeleri Geliştirme A.Ş. and Alsim Alarko Sanayi Tesisleri ve Tic. A.Ş. have been valued at their restated cost values as they have no quoted value in the organized markets and their fair values cannot be determined reliably.

5. Trade Receivables and Payables

As of 31 December 2019 and 2018, Company's short-term borrowings are as follows:

	31 December 2019	31 December 2018
Short-term Lease Liability	2.276.511	-
Total	2.276.511	-

As of 31 December 2019 and 2018, Company's long-term borrowings are as follows:

	31 December 2019	31 December 2018
Long-term Lease Liability	5.761.160	-
Total	5.761.160	-

As of 31 December 2019, Company's incremental borrowing rate of interest used to discount land and parcels lease liabilities is 9% (TL).

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

6. Trade Receivables and Payables

The details of the Company's trade receivables as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables (Note 25(i))	162.738	144.757
Trade receivables from related parties (Note 24(a) and 25(i))	35.489.369	28.062.562
Total	<u>35.652.107</u>	<u>28.207.319</u>

The average collection period on trade receivable is between 5 - 10 days (2018: 5 - 10 days).

As of 31 December 2019 and 2018, there is no doubtful receivable provision.

The details of the Company's trade payables as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade payables (Note 25(ii))	3.519.013	2.950.207
Trade payables to related parties (Note 24 (b) and 25 (ii))	32.682	40.329
Total	<u>3.551.695</u>	<u>2.990.536</u>

The average turnover day for trade payables is 15 days (2018: 15 days).

7. Other Receivables and Payables

The details of the Company's other receivables as of 31 December 2019 and 2018 are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Deposits and guarantees given	30.434	24.084
Total (Note 25 (i))	<u>30.434</u>	<u>24.084</u>

The details of the Company's other short-term liabilities as of 31 December 2019 and 2018 are as follows:

<u>Other Current Liabilities</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
VAT Payables	3.394.564	2.129.175
Payables to Muğla Orman Bölge Müdürlüğü	1.475.289	1.102.754
Other taxes	44.500	14.459
Other current liabilities	-	667.662
Total (Note 25 (ii))	<u>4.914.353</u>	<u>3.914.050</u>

The details of the Company's other long-term liabilities as of 31 December 2019 and 2018 are as follows:

<u>Other Non-Current Liabilities</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Deposits and guarantees received	1.292.383	1.248.669
Total (Note 25 (ii))	<u>1.292.383</u>	<u>1.248.669</u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

8. Inventories

As of 31 December 2019 and 2018, inventories consist of real estate held for trading as detailed below:

	31 December 2019				31 December 2018			
	Restated Book Value (TL)	Sales Value (TL)	Expertise Value (TL)	Expertise Date	Restated Book Value (TL)	Sales Value (TL)	Expertise Value (TL)	Expertise Date
<u>Land in Büyükçekmece</u>								
Land Cost (3 Parcel Lots)	3.271.735	-	83.670.000	30 December 2019	3.271.735	-	74.812.000	28 December 2018
Total	3.271.735	-	83.670.000		3.271.735	-	74.812.000	

Land in Büyükçekmece: There are 3 parcels of land with a total area of 622.651 m². As per the valuation reports dated 30 December 2019, the expertise value of the company is stated by using sales comparison approach and development approach, the first of which is taken as basis in the study.

As of 31 December 2019, the Company's real estate held for trading have been valued by Rehber Gayrimenkul Değerleme Danışmanlık A.Ş.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

9. Investment Properties

Investment properties are as given below:

<u>Fair Value</u>	<u>Investment Properties</u>
As of 1 January 2018	517.115.000
Additions (**)	3.333.061
Net gain from fair value adjustments (Note 19)	76.621.939
<u>As of 31 December 2018</u>	<u>597.070.000</u>
As of 1 January 2019	597.070.000
Right of use Assets (*)	8.037.671
Lease of land (*)	2.552.354
Additions (**)	3.983.832
Net gain from fair value adjustments (Note 19)	270.696.143
<u>As of 31 December 2019</u>	<u>882.340.000</u>

As of 31 December 2019 and 2018, the total insurance on investment properties are TL 214.122.790 and TL 187.784.060, respectively (Note 29).

(*) As the right of use assets meet the definition of investment property, the Company, applying the disclosure provisions in IAS 40, accounted its investment properties for their fair value. In this context, the Company has presented its right of use assets as investment property. Land leases refer to the amount that is added back to the fair value of the investment property, as the debts from leasing transactions are also included in the fair value calculation.

(**) Investments made for Hillside Beach Club Holiday Village.

As of 31 December 2019, the market values of investment properties are as follows:

<u>Name of Real Estate</u>	<u>31 December 2019</u>	
	<u>Date of Expertise Report</u>	<u>Market Value (TL)</u>
Hillside Beach Club Holiday Village	10 January 2020	618.500.000
Etiler Alkent Sitesi – Shops	30 December 2019	37.690.000
Büyükçekmece Alkent 2000 – Shops	30 December 2019	12.600.000
Eyüp Topçular – Factory	30 December 2019	79.650.000
Ankara Çankaya Business Center	30 December 2019	8.800.000
İstanbul Karaköy Business Center	30 December 2019	13.200.000
İstanbul Şişhane Business Center	30 December 2019	10.900.000
Land in Maslak (*)	30 December 2019	101.000.000
Total		<u>882.340.000</u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

9. Investment Properties (cont'd)

As of 31 December 2019, the market values of investment properties are as follows (cont'd):

Name of Real Estate	Valuation Methods Used	Basis of Valuation Method
Hillside Beach Club Holiday Village	Income Capitalization, Cost Analysis	Income Capitalization
Etiler Alkent Sitesi – Shops	Sales Comparison, Income Capitalization	Average
Büyüçekmece Alkent 2000 – Shops	Sales Comparison, Income Capitalization	Average
Eyüp Topçular – Factory	Sales Comparison, Cost Analysis	Average
Ankara Çankaya Business Center	Sales Comparison, Income Capitalization	Average
İstanbul Karaköy Business Center	Sales Comparison, Income Capitalization	Average
İstanbul Şişhane Business Center	Sales Comparison, Income Capitalization	Average
Land in Maslak	Sales Comparison, Development	Average

As of 31 December 2018, the market values of investment properties are as follows:

Name of Real Estate	31 December 2018	
	Date of Expertise Report	Market Value (TL)
Hillside Beach Club Holiday Village	28 December 2018	361.000.000
Etiler Alkent Sitesi – Shops	28 December 2018	33.300.000
Büyüçekmece Alkent 2000 – Shops	28 December 2018	11.170.000
Eyüp Topçular – Factory	28 December 2018	71.200.000
Ankara Çankaya Business Center	28 December 2018	7.950.000
İstanbul Karaköy Business Center	28 December 2018	11.800.000
İstanbul Şişhane Business Center	28 December 2018	9.650.000
Land in Maslak	28 December 2018	91.000.000
Total		597.070.000

Name of Real Estate	Valuation Methods Used	Basis of Valuation Method
Hillside Beach Club Holiday Village	Income Capitalization, Cost Analysis	Income Capitalization
Etiler Alkent Sitesi – Shops	Sales Comparison, Income Capitalization	Average
Büyüçekmece Alkent 2000 – Shops	Sales Comparison, Income Capitalization	Average
Eyüp Topçular – Factory	Sales Comparison, Cost Analysis	Average
Ankara Çankaya Business Center	Sales Comparison, Income Capitalization	Average
İstanbul Karaköy Business Center	Sales Comparison, Income Capitalization	Average
İstanbul Şişhane Business Center	Sales Comparison, Income Capitalization	Average
Land in Maslak	Sales Comparison, Development	Average

As of 31 December 2019 and 2018, investment properties of the Company are valued by Rehber Gayrimenkul Değerleme Danışmanlık A.Ş., which is an independent company as from the Company, are licensed by SPK and provides real estate valuation services in accordance with the capital market legislation and has enough experience and qualifications for measuring fair value of investments in the related regions.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

9. Investment Properties (cont'd)

Main assumptions for sales comparison method of investment properties in related valuation reports and used by the Company are as follows:

<u>Precedent square meter value</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Land	5.350	4.820
Buildings	4.450 - 30.000	4.050 - 28.000

As of 31 December 2019, the fair value hierarchy of the Company's investment properties and the related assets are shown in the following table:

		<u>Level 1 TL</u>	<u>Level 2 TL</u>	<u>Level 3 TL</u>
Hillside Beach Club Holiday Village	618.500.000	-	-	618.500.000
Etiler Alkent Sitesi – Shops	37.690.000	-	-	37.690.000
Büyüçekmece Alkent 2000 – Shops	12.600.000	-	-	12.600.000
Eyüp Topçular – Factory	79.650.000	-	79.650.000	-
Ankara Çankaya Business Center	8.800.000	-	-	8.800.000
İstanbul Karaköy Business Center	13.200.000	-	-	13.200.000
İstanbul Şişhane Business Center	10.900.000	-	-	10.900.000
Land in Maslak	101.000.000	-	101.000.000	-
Total	882.340.000	-	180.650.000	701.690.000

As of 31 December 2018, the fair value hierarchy of the Company's investment properties and the related assets are shown in the following table:

		<u>Level 1 TL</u>	<u>Level 2 TL</u>	<u>Level 3 TL</u>
Hillside Beach Club Holiday Village	361.000.000	-	-	361.000.000
Etiler Alkent Sitesi – Shops	33.300.000	-	-	33.300.000
Büyüçekmece Alkent 2000 – Shops	11.170.000	-	-	11.170.000
Eyüp Topçular – Factory	71.200.000	-	71.200.000	-
Ankara Çankaya Business Center	7.950.000	-	-	7.950.000
İstanbul Karaköy Business Center	11.800.000	-	-	11.800.000
İstanbul Şişhane Business Center	9.650.000	-	-	9.650.000
Land in Maslak	91.000.000	-	91.000.000	-
Total	597.070.000	-	162.200.000	434.870.000

The movement of investment properties valued at level 3 from beginning of the period to end of the period is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Openning Balance	434.870.000	370.480.000
Total loss / gain - profit /loss projected	252.246.143	61.056.939
Right-of-use Asset	8.037.671	-
Lease of Land	2.552.354	-
Realized	3.983.832	3.333.061
Closing Balance	<u>701.690.000</u>	<u>434.870.000</u>

As of 31 December 2019, rental income from investment properties is TL 36.215.057 (31 December 2018: TL 29.206.918). The related rental income is stated in the revenue note in the statement of profit or loss (Note 16).

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

10. Property, Plant and Equipments

As of 31 December 2019, property, plant and equipments are as follows:

Cost:

	Opening 1 January 2019	Addition	Disposal	Closing 31 December 2019
Plant, Machinery and Equipment	4.216	-	-	4.216
Furniture and Fixture	73.002	-	-	73.002
Other Tangible Fixed Assets	27.373	-	-	27.373
Subtotal	104.591	-	-	104.591

Accumulated Depreciation:

Plant, Machinery and Equipment	4.216	-	-	4.216
Furniture and Fixture	43.279	3.884	-	47.163
Other Tangible Fixed Assets	27.373	-	-	27.373
Subtotal (Note 18)	74.868	3.884	-	78.752
Net Book Value	29.723	-	-	25.839

As of 31 December 2018, property, plant and equipments are as follows:

Cost :

	Opening 1 January 2018	Addition	Disposal	Closing 31 December 2018
Plant, Machinery and Equipment	4.216	-	-	4.216
Furniture and Fixture	73.002	-	-	73.002
Other Tangible Fixed Assets	27.373	-	-	27.373
Subtotal	104.591	-	-	104.591

Accumulated Depreciation :

Plant, Machinery and Equipment	4.216	-	-	4.216
Furniture and Fixture	38.279	5.000	-	43.279
Other Tangible Fixed Assets	27.373	-	-	27.373
Subtotal (Note 18)	69.868	5.000	-	74.868
Net Book Value	34.723	-	-	29.723

All depreciation expenses are included in general administrative expenses.

As of 31 December 2019 and 2018, the total insurance on tangible assets amounting to TL 66.524 and TL 58.917, respectively (Note 29).

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

11. Intangible Assets

As of 31 December 2019, intangible assets are as follows:

<u>Cost:</u>	Opening 1 January 2019	Addition	Disposal	Closing 31 December 2019
Rights	54.294	3.862	-	58.156
Other Intangible Assets	183.640	14.721	-	198.361
Subtotal	237.934	18.583	-	256.517
<u>Accumulated amortization:</u>				
Rights	44.058	2.785	-	46.843
Other Intangible Assets	149.077	12.867	-	161.944
Subtotal (Note 18)	193.135	15.652	-	208.787
Net Book Value	44.799	-	-	47.730

As of 31 December 2018, intangible assets are as follows:

<u>Cost:</u>	Opening 1 January 2018	Addition	Disposal	Closing 31 December 2018
Rights	46.444	7.850	-	54.294
Other Intangible Assets	183.640	-	-	183.640
Subtotal	230.084	7.850	-	237.934
<u>Accumulated amortization:</u>				
Rights	39.458	4.600	-	44.058
Other Intangible Assets	137.220	11.857	-	149.077
Subtotal (Note 18)	176.678	16.457	-	193.135
Net Book Value	53.406	-	-	44.799

All amortisation expenses are included in general administrative expenses.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

12. Provisions, Conditional Assets and Liabilities

- a) As stated among the Company's inventories, investment properties and fixed asset accounts as of 31 December 2019 and 2018;

There is a right of easement in relation to the stores in Etiler Alkent Sitesi in Beşiktaş District dated 14 October 1987 nr. 6430 to be utilized on behalf of the Company property on section 1411, parcel 1 and against that on section 1408, parcel 1 to benefit from central heating facilities; and there is a right of easement for a period of 49 years at a fee of TL 7,72 to construct 1,5 m wide channels in some parts of the heating installations.

Besides, there is a personal right of easement for the owners of the property on section 1410 parcel 1 to benefit from the unused parking lot as stated in the project against the same parcel by voucher dated 26 February 1992 nr 784.

- b) The guarantees, securities, and mortgages given by the Company in the name of its own corporate body are as follows:

<u>Collateral/pledge/mortgage ("CPM") given by the Company</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
A. CPMs given for Company's own legal personality	2.508.603	1.814.803
B. CPMs given on behalf of fully consolidated companies	-	-
C. CPMs given in the normal course of business activities on behalf of third parties	-	-
D. Total amount of other CPMs		
i. Total amount of CPMs given on behalf of the parent	-	-
ii. Total amount of CPMs given to on behalf of other Group companies which are not in scope of B and C	-	-
iii. Total amount of CPMs given on behalf of third parties which are not in scope of C	-	-
Total	<u>2.508.603</u>	<u>1.814.803</u>

As of 31 December 2019 and 2018, the ratio of other CPM's given by the Company to equity is 0%.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

12. Provisions, Conditional Assets and Liabilities (cont'd)

c) The total amount of guarantee letters and notes received by the Company in each period are given below:

	31 December 2019	31 December 2018
Guarantee notes received	571.429	502.521
Guarantee letters received	806.325	606.572
Total	1.377.754	1.109.093

d) There are not any receivables in Company records that are due and not collected; thus no provision made for such receivables.

e) As of 31 December 2019, there are no significant cases against the company that will cause cash outflows. The neighborhood where Hillside Beach Club Holiday Village is located in Fethiye District of Muğla is exempted from the real estate tax for 5 years due to the fact that it has left the status of the village as a neighborhood according to the law numbered 6360. However, Municipality of Fethiye accrues annual real estate tax. Therefore, an annulment action was filed for the Real Estate Tax which was accrued. The case has been concluded in favor of the company and is at the stage of appeal. In addition, the Company has 2 other ongoing lawsuits, and there is no uncertainty in their legal processes, so the Company's management does not expect any cash outflows related to these lawsuits. For this reason, no provision has been made in the accompanying financial statements.

13. Employee Benefits

Under Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years of service and reaches the retirement age.

The amount payable consists of one month's salary limited to a maximum of TL 6.379,86 for each period of service at 31 December 2019 (31 December 2018: TL 5.434,42).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 *Employee Benefits* stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2019, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with the assumption of 12.31% real discount rate calculated by using 8.5% annual inflation rate and real results show 3.51% discount rate (31 December 2018: 4,00%). Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 100% for employees with 0-15 years of service, and 0% for those 16 or more years of service. Ceiling amount of TL 6.730,15 which is in effect since 1 January 2020 is used in the calculation of Company's provision for retirement pay liability (1 January 2019: TL 6.017,60).

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

13. Employee Benefits (cont'd)

Short term provisions are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Payables Arising from Employee Benefits	83.351	408.641
Total	83.351	408.641

Long term provisions are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Retirement Pay Provision	260.376	207.104
Vacation Pay Provision	81.235	69.962
Total	341.611	277.066

Retirement Pay Provision;

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Provision for retirement pay at the beginning of the period	207.104	310.025
Service cost	23.319	20.476
Interest cost	25.494	63.990
Retirement pay paid	-	(195.283)
Actuarial loss/(gain)	4.459	7.896
Provision for retirement pay at the period-end	<u>260.376</u>	<u>207.104</u>

Unused Vacation Provision:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Provision for unused vacations at the beginning of the period	69.962	63.286
Increase/(decrease) during the period	11.273	10.425
Payments made during the period	-	(3.749)
Provision for unused vacations at the period-end	<u>81.235</u>	<u>69.962</u>

14. Other Assets and Liabilities

Other short-term current assets are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Prepaid taxes and funds	697.924	693.797
Total	697.924	693.797

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

15. Equity

a) Paid-in capital

As of 31 December 2019 and 2018, the Company's registered share capital amounts to TL 20.000.000 while the issued and paid-in capital amounts to TL 10.650.794. The issued capital consists of 1.065.079.400 shares of Kr 1 nominal value each. The Company's shareholding structure is elaborated in Note 1.

b) Capital adjustment differences

As of 31 December 2019 and 2018, the difference arising from restatement of nominal capital amounts to TL 54.712.578 (Note 1).

c) Financial assets value increase fund

Investment in Alarko Holding A.Ş. is based on the stock price which is the current best bid at the Istanbul Stock Exchange which is expected to approach its fair value as of 31 December 2019 and 2018. The Company monitors the increases and decreases which arise from fair value recognition under "Accumulated Other Comprehensive Income and Expenses Not to be Reclassified in Profit or Loss" in the Shareholder's Equity account in the financial statements. Accordingly, there is a value decrease of TL 1.976.728 as of 31 December 2018 and a value increase of TL 4.605.612 as of 31 December 2019 both of which is stated in the "Accumulated Other Comprehensive Income and Expenses to be Reclassified in Profit or Loss" account (Note 4).

Investment in Mosalarko A.O is stated as its fair value. The Company monitors the increases and decreases which arise from fair value recognition under "Accumulated Other Comprehensive Income and Expenses to be Reclassified in Profit or Loss" in the Shareholder's Equity account in the financial statements. Accordingly, there is a value increase of 1.383.245 TL as of 31 December 2019 which is stated in the "Accumulated Other Comprehensive Income and Expenses Not to be Reclassified in Profit or Loss" account (Note 4).

d) Restricted profit reserves

As of 31 December 2019, the restricted profit reserves consist of legal reserves amounting to TL 33.145.304 (31 December 2018 – TL 6.695.176).

Legal reserves, which are divided as First Legal Reserve and Second Legal Reserve as per the Turkish Commercial Code, are appropriated as below:

- a) I. Legal Reserve: Appropriated out of net profit at the rate of 5% until such reserve is equal to 20% of issued and fully paid capital.
- b) II. Legal Reserve: Appropriated out of net profit at the rate of 10% of distributions after providing for First Legal Reserve and an amount equal to 5% of capital as dividends.

Legal reserves which do not exceed one half of share capital may only be used to absorb losses or for purposes of continuity of the business in times of business difficulties and to prevent unemployment or lessen its effects.

e) Retained Earnings/(Accumulated Losses):

Breakdown of retained earnings / (accumulated losses) is as follows:

	31 December 2019	31 December 2018
Extraordinary reserves	828.425.786	693.449.927
Prior Years' Profit	216.096.327	134.975.859
	<u>1.044.522.113</u>	<u>828.425.786</u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

e) Retained Earnings/(Accumulated Losses) (cont'd):

The profit for the period stated in the 2018 financial statements amounting to TL 269.599.472 and the first legal reserve made in the prior years reached the defined ceiling; hence the Company shall not make first level legal reserves. A portion of TL 27.053.017 out of the net distributable profit for the period TL 269.599.472 shall be distributed as dividends in cash. Second level legal reserves shall be made in the amount of TL 2.652.048 calculated over the total distributed amount. The rest shall be added to the extraordinary reserves. Dividend distribution shall begin as of 27 May 2019. The dividend distribution process is realized such that the receivables dividends of shares listed at the stock exchange has been transferred to the members' bank accounts at Takasbank A.Ş. until 29 May 2019.

f) Treasury Stocks (-)

In line with the CMB's statements of 21 July 2016 and 25 July 2016, on 4 October 2018, the Company Management set maximum funds for the purpose of protecting the interests of all stakeholders, especially its small stakeholders, and contributing to healthy price formation, considering that the share price does not reflect the real performance of the Company's activities. decided to determine the amount of 10.000.000 TL to be covered from internal resources and to determine the maximum share amount that may be subject to share repurchase as nominal value of 200.000 TL. Share purchase has been completed on October 15, 2018. Within the scope of this repurchase program; 9.999.981 TL of purchase was made for 199.609 shares, and the ratio of repurchased shares in the company capital is 1.874%.

The Company Management has decided to purchase shares on October 18, 2018. It decided to determine the maximum fund amount as 15.000.000 TL to be covered from internal resources and to determine the maximum share amount that may be subject to share repurchase as nominal value of 275.000 TL. Within the scope of this repurchase program; purchases amounting to 14.999.964 TL, corresponding to 273.566 shares, have been made, and the ratio of repurchased shares in the company capital is 2.569%.

The total of the purchases from the internal resources of the company is 24.999.945 TL, which corresponds to 473.175 shares, and its ratio in the company capital is 4.443%.

The Company has classified the reserves for the repurchase price of the Treasury stocks and classified them as restricted reserves allocated from profit under equities.

The Company has shown TL 24.999.945, paid in relation to the repurchase of shares, in the "Treasury Stocks (-)" account.

Portion of dividends paid for the treasury stocks are shown in Treasury stocks.

16. Sales and Cost of Sales

Sales revenues are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Rental income	36.215.057	29.206.918
Total	36.215.057	29.206.918

Cost of sales are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Cost of services rendered	1.713.356	2.821.362
	1.713.356	2.821.362

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

17. General Administrative Expenses

General administrative expenses are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
General administrative expenses	3.826.745	4.241.830
Total	3.826.745	4.241.830

General administrative expenses consist of the following:

	1 January- 31 December 2019	1 January- 31 December 2018
Personnel expenses (Note 18)	2.109.966	2.750.436
Rent expenses	590.105	505.304
Outsourced repair work and services	317.861	268.081
Legal consultancy expenses	153.189	14.953
Bank expenses	136.796	115.850
Financial consultancy and audit expenses	46.402	39.025
Lawsuits, execution and notary expenses	45.000	45.000
Taxes, duties, and fees	30.143	4.112
Other consultancy expenses	26.100	33.410
Depreciation and amortization expenses (Note 10,11)	19.536	21.457
Publishing expenses	19.363	17.623
Communication expenses	8.415	8.280
Other	323.869	418.299
Total	3.826.745	4.241.830

18. Expenses by Nature

Depreciation and amortisation expenses consist of the following:

	1 January- 31 December 2019	1 January- 31 December 2018
Intangible Assets (Note 11)	15.652	16.457
Property, plant and equipment (Note 10)	3.884	5.000
Total	19.536	21.457

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

18. Expenses by Nature (cont'd)

Expenses related to employee benefits are as follows:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Wages and salaries	1.872.041	2.261.836
Personnel transportation expenses	22.161	48.443
Personnel catering expenses	17.118	20.100
Personnel health expenses	9.381	7.338
Personnel retirement pay	0	195.283
Other personnel expenses	189.265	217.436
Total	<u>2.109.966</u>	<u>2.750.436</u>

19. Other Operating Income / (Expenses)

Other operating income consists of the following:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Increase on fair values of investment properties (Note 9)	270.696.143	76.621.939
Foreign exchange gains from operations	82.185.238	180.008.310
Interest income	19.800.743	16.217.074
Turkish Ministry of Environment and Forestry– Rental Expense	2.978.587	2.416.985
Turkish Ministry of Environment and Forestry– Land appropriation	441.836	357.096
Income from maturity differences	206.967	28.253
Gain on sale of other marketable securities	200.526	189.113
Income from real estate other than rental income	81.862	79.623
Rediscount interest income	33.319	33.179
Other	86.158	850.695
Total	<u>376.711.379</u>	<u>276.802.267</u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

19. Other Operating Income / (Expenses) (cont'd)

Other operating expenses consist of the following:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Foreign exchange losses from operations	12.923.467	25.954.407
Turkish ministry of environment and forestry – Rental Provision	3.505.824	2.831.325
Foundation donations	475.000	-
Turkish ministry of environment and forestry – Land appropriation	441.836	357.096
Rediscount interest expenses	25.602	33.319
Other	526.441	334.639
Total	<u>17.898.170</u>	<u>29.510.786</u>

20. Income from Investing Operations

Income from investing operations consists of the following:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Dividends received	592.068	164.265
	<u>592.068</u>	<u>164.265</u>

21. Financing Expenses

Financing expenses are as follows:

	<u>1 January- 31 December 2019</u>	<u>1 January- 31 December 2018</u>
Short-term financing expenses	505.292	-
	<u>505.292</u>	<u>-</u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

22. Tax Assets and Liabilities

In Turkey, the corporation tax rate for 2019 is 22% (2018 – 22%). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation through addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation.

Calculation of current period corporation tax is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Profit for the year	389.574.941	269.599.472
Other deductions (*)	(389.574.941)	(269.599.472)
	-	-
Tax at the domestic income tax rate 22% (2018: 22%)	-	-
Current corporate tax provision	-	-

(*) Due to the Company's REIT status, the income for the current period is stated as other deductions (Note 2 (viii) (i)).

Deferred Tax Assets and Liabilities

Due to the Company's REIT status, no deferred tax calculation has been made as of 31 December 2019 and 2018.

23. Earnings per Share

Calculation of earnings/(loss) per share is calculated as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Profit / (loss) for the year	389.574.941	269.599.472
Weighted average number of ordinary shares for the reporting period (per share of TL 1 nominal value)	10.650.794	10.650.794
Treasury stock (-)	(473.175)	(473.175)
Earnings / (loss) per share (TL)	38,2776	26,4894

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

24. Related Party Disclosures

a) Balances due from / due to related parties are as follows:

	31 December 2019	
	Receivables	Payables
	Current- Trading	Current- Trading
Balances with related parties		
Ataş Alarko Turistik Tesisler A.Ş.	35.514.971	-
Less: Deferred income	(25.602)	-
Alarko Holding A.Ş.	-	32.682
Total (Note 6)	35.489.369	32.682
	31 December 2018	
	Receivables	Payables
	Current- Trading	Current- Trading
Balances with related parties		
Ataş Alarko Turistik Tesisler A.Ş.	28.036.175	-
Less: Deferred income	(33.319)	-
Alsim Alarko San. Tes. ve Tic A.Ş.	59.706	-
Alarko Holding A.Ş.	-	37.197
Alarko Carrier San. ve Tic A.Ş.	-	3.132
Total (Note 6)	28.062.562	40.329

b) Sales to / purchases from related parties are as follows:

	1 January - 31 December 2019			
	Goods Purchases	Service Purchases	Other Purchases	Other Sales
Ataş Alarko Turistik Tes. A.Ş.	3.414.230	-	-	33.174.943
Alarko Carrier San. ve Tic. A.Ş.	-	-	-	1.078.229
Alarko Holding A.Ş.	4.789	201.244	633.242	-
Total	3.419.019	201.244	633.242	34.253.172
	1 January - 31 December 2018			
	Goods Purchases	Service Purchases	Other Purchases	Other Sales
Ataş Alarko Turistik Tes. A.Ş.	2.908.432	941.115	33.319	23.318.943
Alarko Carrier San. ve Tic. A.Ş.	-	-	2.654	906.278
Alarko Holding A.Ş.	-	214.447	535.533	-
Alsim Alarko San. Tes ve Tic A.Ş.	-	-	-	59.706
Total	2.908.432	1.155.562	571.506	24.284.927

As of 31 December 2019 and 2018, there are no doubtful receivables arising from related parties.

As of 31 December 2019 and 2018, the salaries and similar remuneration provided to top management amounts to TL 1.204.950 TL and TL 2.020.727, gross, respectively.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments

Financial instruments and financial risk management

Due to the nature of its operations, the Company is exposed to various financial risks including the effects of changes in foreign exchange rates and interest rates on debt and capital market prices. The Company's total risk management program focuses on the unpredictability of financial markets, and aims to minimize its potential negative impact on the Company's financial performance.

Risk management is implemented within the frame of the following policies:

i. Credit Risk

The collection risk of the Company is basically attributed to its trade receivables. Trade receivables are valued by the Company management taking into account the past experiences and the current economic outlook; and they are recognized in the statement of financial position, net, after provisions for doubtful receivables are made when necessary.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)

i. Credit Risk (continued)

As of 31 December 2018, maturity and guarantee structure of the Company's receivables and cash and cash equivalents consist of the following:

<u>31 December 2019</u>	<u>Receivables</u>				<u>Deposits at Banks</u>	<u>Cash and Cash Equivalents</u>
	<u>Trade Receivables</u>		<u>Other Receivables</u>			
	<u>Related Parties</u>	<u>Other</u>	<u>Related Parties</u>	<u>Other</u>		
Maximum credit risk exposed as of balance sheet date (A+B+C+D) (1) (Note 3, 6 and 7)	35.489.369	162.738	-	30.434	120.868.036	733.252
- Secured portion of the maximum credit risk by guarantees	-	4.426	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired (2) (Note 3, 6 and 7)	35.489.369	162.738	-	30.434	120.868.036	733.252
B. Terms are re-negotiated,, otherwise accepted as overdue or impaired financial assets' fair value	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired (3)	-	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
- Past due (gross amount) (Note 6)	-	-	-	-	-	-
- Impairment (-) (Note 6)	-	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc	-	-	-	-	-	-
E. Off-balance sheet items include credit risk	-	-	-	-	-	-

(1) In determining the credit amounts, factors that increase credit reliability, i.e. the guarantees received, are not taken into consideration.

(2) No impairment or credit risk is anticipated in relation to the financial assets that are not overdue or impaired.

(3) As the overdue financial assets that are not impaired have short term maturities, they are not expected to create impairment loss in the future either.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)

i. Credit Risk (continued)

As of 31 December 2018, maturity and guarantee structure of the Company's receivables and cash and cash equivalents consist of the following:

31 December 2018	Receivables				Deposits at Banks	Cash and Cash Equivalents
	Trade Receivables		Other Receivables			
	Related Parties	Other	Related Parties	Other		
Maximum credit risk exposed as of balance sheet date (A+B+C+D) (1) (Note 3, 6 and 7)	28.062.562	144.757	-	24.084	78.753.544	361.446
	-	-	-	-	-	-
- Secured portion of the maximum credit risk by guarantees	-	3.066	-	-	-	-
	-	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired (2) (Note 3, 6 and 7)	28.062.562	144.757	-	24.084	78.753.544	361.446
	-	-	-	-	-	-
B. Terms are re-negotiated,, otherwise accepted as overdue or impaired financial assets' fair value	-	-	-	-	-	-
	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired (3)	-	-	-	-	-	-
	-	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
	-	-	-	-	-	-
- Past due (gross amount) (Note 5)	-	-	-	-	-	-
	-	-	-	-	-	-
- Impairment (-) (Note 5)	-	-	-	-	-	-
	-	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc	-	-	-	-	-	-
	-	-	-	-	-	-
E. Off-balance sheet items include credit risk	-	-	-	-	-	-

(1) In determining the credit amounts, factors that increase credit reliability, i.e. the guarantees received, are not taken into consideration.

(2) No impairment or credit risk is anticipated in relation to the financial assets that are not overdue or impaired.

(3) As the overdue financial assets that are not impaired have short term maturities, they are not expected to create impairment loss in the future either.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)**i. Credit Risk (continued)**

As of 31 December 2019 and 2018, there are no receivables overdue but not impaired.

ii. Liquidity Risk

Liquidity risk arises during funding of the Company operations and management of the open position. Liquidity risk comprises the risk of not funding the operations at an appropriate maturity and rate and also the risk of not liquidating an asset at a reasonable price in an appropriate time frame.

The following table shows the maturity breakdown of the Company's non-derivative short term financial liabilities as of 31 December 2019 and 2018:

31 December 2019

<u>Contract Terms</u>	<u>Carrying Value</u>	<u>Total Contracted Cash Outflows (I+II+III)</u>	<u>Less than 3 months (I)</u>	<u>3 to 12 months (II)</u>	<u>1 to 5 years (III)</u>
Non-derivative financial liabilities					
Payables due to leasing operations (Note 5)	8.037.671	9.172.938	2.293.235	-	6.879.703
Trade payables to related parties (Note 6)	32.682	32.682	32.682	-	-
Other trade payables (Note 6)	3.519.013	3.519.013	3.519.013	-	-
Other payables (Note 7)	6.206.736	6.206.736	4.914.353	-	1.292.383
Total	17.796.102	18.931.369	10.759.283	-	8.172.086

31 December 2018

<u>Contract Terms</u>	<u>Carrying Value</u>	<u>Total Contracted Cash Outflows (I+II+III)</u>	<u>Less than 3 months (I)</u>	<u>3 to 12 months (II)</u>	<u>1 to 5 years (III)</u>
Non-derivative financial liabilities					
Trade payables to related parties (Note 6)	40.329	40.329	40.329	-	-
Other trade payables (Note 6)	2.950.207	2.950.207	2.950.207	-	-
Other payables (Note 7)	5.162.719	5.162.719	3.914.050	-	1.248.669
Total	8.153.255	8.153.255	6.904.586	-	1.248.669

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)

iii. Market Risk

Market risk is the risk of encountering a fluctuation in the fair value of a financial asset or in future cash flows arising from changes in market prices which may lead to a negative impact on the entity. The standard market risk factors are foreign exchange rates, interest rates, and commodity prices.

iv. Foreign Currency Risk

Foreign currency risk stems from the change in the value of a financial instrument depending on a change in foreign exchange rate. The Company may face foreign currency risk because of its foreign currency denominated receivables and payables. The Company continuously monitors the said risk and takes the necessary precautions. The main foreign currencies constituting the said risk are USD and EURO.

As of 31 December 2019, net foreign currency position of the Company is TL 622.080.462 (31 December 2018 – TL 537.211.360). 10% increase in exchange rates will increase the Company's profit by TL 62.208.046 while 10% decrease will decrease by TL 62.208.046.

Foreign currency position

On “totals” basis;

	<u>31 December 2019</u>	<u>31 December 2018</u>
A. Foreign currency assets	623.252.814	538.424.998
B. Foreign currency liabilities	1.172.352	1.213.638
Net foreign currency position (A-B)	<u><u>622.080.462</u></u>	<u><u>537.211.360</u></u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)

iv. Foreign Currency Risk (cont'd)

Foreign Currency Position (cont'd)

Breakdown on foreign currency basis;

	31 December 2019		
	TL Amount (Functional Currency)	US Dollar	Euro
1. Trade Receivables	32.510.782	5.473.011	-
2a. Monetary Financial Assets	590.742.032	99.448.172	-
2b. Non-monetary Financial Assets	-	-	-
3. Other	-	-	-
4. CURRENT ASSETS	623.252.814	104.921.183	-
5. Trade Receivables	-	-	-
6a. Monetary Financial Assets	-	-	-
6b. Non-monetary Financial Assets	-	-	-
7. Other	-	-	-
8. NON-CURRENT ASSETS	-	-	-
9. TOTAL ASSETS	623.252.814	104.921.183	-
10. Trade Payables	-	-	-
11. Financial Liabilities	-	-	-
12a. Monetary Other Liabilities	-	-	-
12b. Non-Monetary Other Liabilities	-	-	-
13. CURRENT LIABILITIES	-	-	-
14. Trade Payables	-	-	-
15. Financial Liabilities	-	-	-
16a. Monetary Other Liabilities	1.172.352	197.359	-
16b. Non-Monetary Other Liabilities	-	-	-
17. NON-CURRENT LIABILITIES	1.172.352	197.359	-
18. TOTAL LIABILITIES	1.172.352	197.359	-
19. Net Foreign Currency Assets/Liabilities Position (9-18)	622.080.462	104.723.824	-
20. Monetary Items Net Foreign Currency Assets / Liabilities position (1+2a+5+6a-10-11-12a-14-15-16a)	622.080.462	104.723.824	-

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)**iv. Foreign Currency Risk (cont'd)****Foreign Currency Position (cont'd)**

Breakdown on foreign currency basis;

	31 December 2018		
	TL Amount (Functional Currency)	US Dollar	Euro
1. Trade Receivables	25.585.871	4.863.402	-
2a. Monetary Financial Assets	512.839.127	95.206.966	1.984.870
2b. Non-monetary Financial Assets	-	-	-
3. Other	-	-	-
4. CURRENT ASSETS	538.424.998	100.070.368	1.984.870
5. Trade Receivables	-	-	-
6a. Monetary Financial Assets	-	-	-
6b. Non-monetary Financial Assets	-	-	-
7. Other	-	-	-
8. NON-CURRENT ASSETS	-	-	-
9. TOTAL ASSETS	538.424.998	100.070.368	1.984.870
10. Trade Payables	-	-	-
11. Financial Liabilities	-	-	-
12a. Monetary Other Liabilities	-	-	-
12b. Non-Monetary Other Liabilities	-	-	-
13. CURRENT LIABILITIES	-	-	-
14. Trade Payables	-	-	-
15. Financial Liabilities	-	-	-
16a. Monetary Other Liabilities	1.213.638	230.690	-
16b. Non-Monetary Other Liabilities	-	-	-
17. NON-CURRENT LIABILITIES	1.213.638	230.690	-
18. TOTAL LIABILITIES	1.213.638	230.690	-
19. Net Foreign Currency Assets/Liabilities Position (9-18)	537.211.360	99.839.678	1.984.870
20. Monetary Items Net Foreign Currency Assets / Liabilities position (1+2a+5+6a-10-11-12a-14-15-16a)	537.211.360	99.839.678	1.984.870

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)**iv. Currency Risk (cont'd)**

Foreign currency position sensitivity analysis as of 31 December 2019 and 2018 is as follows:

	31 December 2019		31 December 2018	
	Profit / Loss		Profit / Loss	
	Appreciation of Foreign Currency	Depreciation of Foreign Currency	Appreciation of Foreign Currency	Depreciation of Foreign Currency
In case of US Dolar increases in 10% against TL				
1 - US Dolar net asset/liability	62.208.046	(62.208.046)	52.524.656	(52.524.656)
2- US Dolar hedges (-)	-	-	-	-
3- Net effect of US Dollar (1 +2)	62.208.046	(62.208.046)	52.524.656	(52.524.656)
In case of Euro increases in 10% against TL				
4 - Euro net asset/liability	-	-	1.196.480	(1.196.480)
5 - Euro hedges (-)	-	-	-	-
6- Net effect of Euro (4+5)	-	-	1.196.480	(1.196.480)
TOTAL (3 + 6)	62.208.046	(62.208.046)	53.721.136	(53.721.136)

v. Interest Risk

The Company's activities are exposed to interest rate risk due to the differences in payment date and payment amounts or restructuring of interest sensitive assets and liabilities. Corresponding interest rate risk is managed by natural measures aimed to balance assets and liabilities having interest rate sensitivity.

	31 December 2019	31 December 2018
Lease Liability (Note 5)	8.037.671	-
Total	8.037.671	-

vi. Share Price Risk

The Company is exposed to stock price risk which is the risk of encountering price changes in securities included in the Company portfolio. As of 31 December 2019, if there is a 10% increase/decrease in the best bid among current orders pending at the Istanbul Stock Exchange which are used in valuation of these securities with other variables remaining constant, the Company's equity will be higher/lower by a total of TL 704.457, net, without any effect in profit/loss (31 December 2018 – TL 243.896) (Note 4).

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

25. Nature and Level of Risks Arising from Financial Instruments (cont'd)

vii. Capital Risk Management

For proper management of capital risk, the Company aims;

- to maintain continuity of operations so as to provide earnings to partners and benefits to other shareholders, and
- to increase profitability through determining a product and service pricing policy that is commensurate with the level of risks inherent in the market.

The Company determines the amount of share capital in proportion to the risk level. The equity structure of the Company is arranged in accordance with the economic outlook and the risk attributes of assets.

The Company monitors capital management by using the debt/equity ratio. This ratio is calculated by dividing the debt, net, by the total share capital. The net debt is calculated by deducting the value of cash and cash equivalents from the total debt (the sum of short and long term liabilities stated in the statement of financial position). The total share capital is the sum of all equity items stated in the statement of financial position.

There's basically no change in the Company's general strategy with respect to the previous year. As of 31 December 2019 and 2018, the ratio of the total equity to net debts is as follows:

	31 December 2019	31 December 2018
Total borrowings	18.274.791	8.882.026
Less: Cash and cash equivalents	(121.601.288)	(79.114.990)
Net debt	(103.326.497)	(70.232.964)
Total equity	1.513.116.444	1.143.408.257
Total capital	1.409.789.947	1.073.175.293
Gearing Ratio	% 0	% 0

26. Financial Instruments (Fair Value Disclosures and Explanations on Hedge Accounting)

31 December 2019	Note	Financial Assets at amortized cost	Fair value through other comprehensive income	Financial Liabilities at amortized cost	Carrying Value
<u>Financial assets</u>					
Cash and cash equivalents	3	121.601.288	-	-	121.601.288
Trade Receivables	6	162.738	-	-	162.738
Due from related parties	6	35.489.369	-	-	35.489.369
Other receivables	7	30.434	-	-	30.434
Other financial assets	4	471.761.995	15.691.515	-	487.453.510
<u>Financial liabilities</u>					
Financial liabilities	5	-	-	(8.037.671)	(8.037.671)
Trade payables	6	-	-	(3.519.013)	(3.519.013)
Due to related parties	6	-	-	(32.682)	(32.682)
Other financial liabilities	7	-	-	(6.206.736)	(6.206.736)

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

26. Financial Instruments (Fair Value Disclosures and Explanations on Hedge Accounting) (cont'd)

31 December 2018

	Note	Loans and Receivables (including cash and cash equivalents)	Financial asset held for sale	Financial Liabilities at amortized cost	Carrying Value
<u>Financial assets</u>					
Cash and cash equivalents	3	79.114.990	-	-	79.114.990
Trade receivables	6	144.757	-	-	144.757
Due from related parties	6	28.062.562	-	-	28.062.562
Other receivables	7	24.084	-	-	24.084
Other financial assets	4	434.127.719	9.702.658	-	443.830.377
<u>Financial liabilities</u>					
Trade payables	6	-	-	(2.950.207)	(2.950.207)
Due to related parties	6	-	-	(40.329)	(40.329)
Other financial liabilities	7	-	-	(5.162.719)	(5.162.719)

Financial Instruments

Financial instruments comprise financial assets and financial liabilities. Financial instruments may create/affect/decrease liquidity risk, credit risk and stock market risk in the financial statements of the Company. All financial assets are reviewed to prevent impairment risk.

Fair value is the value of an asset or liability in an arms length transaction between knowledgeable and willing parties.

The Company has determined the fair value of its financial instruments by using current market information at present and by using appropriate valuation methods. However, assessing market information and forecasting actual values requires judgment. The forecasts presented as a conclusion may not always represent the values that are acquired by the Company in current market transactions.

Methods and assumptions used to estimate the fair value of financial instruments are as follows:

Financial Assets

Balances denominated in foreign currency are translated by using the exchange rates valid at the balance sheet date. It is foreseen that these balances are close to their carrying values. The fair values of certain financial assets, which also include cash and cash equivalents, are considered to approximate their carrying values due to their short term nature.

The carrying values of trade receivables along with the related allowances for uncollectability are estimated to represent their fair values.

The fair values of investments held to maturity are calculated by deducting impairment losses, if any, from the cost values amortized by the effective interest method.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

26. Financial Instruments (Fair Value Disclosures and Explanations on Hedge Accounting (cont'd))

The fair values of financial assets which are available for sale and traded in active markets correspond to the best bid among current orders pending at the balance sheet date. The fair values of financial assets available for sale which are not traded in active markets cannot be determined reliably; hence, they are assumed to be equivalent to their restated cost values.

Financial Liabilities

Trade payables have been presented at their fair values.

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

Level 1: Fair value of financial assets and liabilities is measured at quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value of financial assets and liabilities is measured at prices other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value of financial asset and liabilities is measured using inputs that are not based on observable inputs of the active markets.

The hierarchical levels of the assets and liabilities stated at fair value are as follows:

	31 December 2019	Fair value level as of reporting period		
		Level 1 TL	Level 2 TL	Level 3 TL
Financial Assets				
Stocks (publicly traded)	7.044.574	7.044.574	-	-
Stocks (private)	8.645.602	-	-	8.645.602

	31 December 2018	Fair value level as of reporting period		
		Level 1 TL	Level 2 TL	Level 3 TL
Financial Assets				
Stocks (publicly traded)	2.438.962	2.438.962	-	-
Stocks (private)	7.262.357	-	-	7.262.357

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

26. Financial Instruments (Fair Value Disclosures and Explanations on Hedge Accounting (cont'd))

The movement of financial assets and liabilities, which valued at level 3 at the beginning and end of the period as follows:

	Financial instruments of which fair value difference represented in other comprehensive income	
	Stocks	Total
Opening, 1 January 2019	7.262.357	7.262.357
Total loss / gain		
- represented in other comprehensive income	1.383.245	1.383.245
Additions	-	-
Closing, 31 December 2019	8.645.602	8.645.602

	Financial instruments of which fair value difference represented in other comprehensive income	
	Stocks	Total
Opening, 1 January 2018	-	-
Total loss / gain		
- represented in other comprehensive income	(2.833.773)	(2.833.773)
Additions	10.096.130	10.096.130
Closing, 31 December 2018	7.262.357	7.262.357

27. Segment Reporting

The main activity of the Company is to engage in the purposes and subjects stated in the regulations of the CMB on real estate investment trusts. In this context, the Company engages in the investment such as investment in real estate, real estate projects and capital market instruments. Due to the same legislation affecting the operations of the Company, no separate financial information regularly reviewed by the competent authority to make decisions regarding activities and since the Company operates in a single geographical area, segment reporting has not been reported in the accompanying financial statements in accordance with TFRS 8.

28. Events After the Reporting Period

a) At the Board of Directors' meeting of the Company dated January 3, 2020, the registered capital of the Company is TL 20.000.000, and its issued capital is TL 10.650.794, and the issued capital of the Company is TL 53.749.206 with a share value of 5.174.920.600 holders per nominal value of 1 Kr. it was decided to increase the amount to TL 64.400.000 and increase the capital of TL 53.749.206 from the capital adjustment differences. An application was made to the CMB on January 14, 2020. Necessary permissions have been obtained with the letter of the CMB dated 14.02.2020 and numbered 12233903-340.05.05-E.1875, regarding the issue of capital increase and the amendment articles of Articles 6 and 7 of the Company's Articles of Incorporation. 21.02.2020 It was registered on. Bonus share transactions were completed on 27.02.2020.

b) Since the registered capital ceiling permit issued by the CMB will exceed 5 years in 2020 at the Board of Directors meeting held on January 22, 2020, the registered capital ceiling of our company with a registered capital of TL 20.000.000 demanded to be increased to TL 150.000.000. Therefore, in accordance with the CMB's "Registered Capital System Communiqué" numbered II – 18.1, the approval of the CMB as per Article 6 of the Company's Articles of Association in accordance with the regulations of the CMB regarding the registered capital system, Following the approval of the necessary amendments to the contract amendment, the registered capital ceiling was submitted to the approval of the first general assembly. It has been unanimously decided to carry out all the necessary transactions within the framework of the provisions of the Turkish Commercial Code and the Capital Markets Law before the relevant and competent authorities such as the CMB, the Ministry of Commerce, the General Assembly of the Company and the Trade Registry Directorate. An application was made to the CMB on 28 January 2020. Necessary permissions have been obtained with the CMB's letter dated 28.02.2020 and numbered 12233903-340.08-E.2457 regarding the amended text of the Company's Articles of Association regarding the registered capital ceiling increase and will be submitted to the approval of the shareholders at the Ordinary General Assembly meeting for 2019.

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

29. Disclosure of Other Matters That May Affect Financial Statements Significantly or is Necessary for Financial Statements to Be Clear, Interpretable and Comprehensible

Total value of insurance on assets for the respective periods are as follows;

	<u>31 December 2019</u>	<u>31 December 2018</u>
Investment Properties (Note 9)	214.122.790	187.784.060
Property, Plant and Equipment (Note 10)	66.524	58.917
Total	<u>214.189.314</u>	<u>187.842.977</u>

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**AUDITED NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in Turkish Lira (TL))

30. Supplementary Notes: Monitoring Compliance with Portfolio Restrictions

As of 31 December 2019 and 2018, compliance with portfolio restrictions is monitored as follows:

	Main Account Items of Unconsolidated / Separate Financial Statements	Related Regulation	Current Year (TL) 31 December 2019	Prior Year (TL) 31 December 2018
A	Money Market and Capital Market Instruments	Art. 24/(b)	600.407.857	515.681.671
B	Real estates, real estate projects and rights supported by real estates	Art. 24/(a)	885.611.735	600.341.735
C	Affiliates	Art. 24/(b)	8.646.941	7.263.696
	Due from Related Parties (Non-Trade)	Art. 23/(f)	-	-
	Other Assets		36.724.702	29.003.181
D	Total Assets	Art. 3/(p)	1.531.391.235	1.152.290.283
E	Financial Liabilities	Art. 31	8.037.671	-
F	Other Financial Liabilities	Art. 31	-	-
G	Lease Obligations	Art. 31	-	-
H	Due to Related Parties (Non-Trade)	Art. 23/(f)	-	-
İ	Equity	Art. 31	1.513.116.444	1.143.408.257
	Other Liabilities		10.237.120	8.882.026
D	Total Liabilities and Equity	Art. 3/(p)	1.531.391.235	1.152.290.283
	Other Financial Informations Related with Unconsolidated Financial Statements	Related Regulation	Current Year (TL) 31 December 2019	Prior Year (TL) 31 December 2018
A1	Part of Money Market Instruments and Capital Market Instruments Held for Real Estates (3 Years)	Art. 24/(b)	-	-
A2	Time and Demand Deposits in TL/ Foreign Currency	Art. 24/(b)	120.868.036	78.753.544
A3	Foreign Capital Market Instruments	Art. 24/(d)	-	-
B1	Real estates, real estate projects and rights supported by real estates	Art. 24/(d)	-	-
B2	Lands Held Idle	Art. 24/(c)	104.271.735	94.271.735
C1	Foreign Investments	Art. 24/(d)	8.645.602	7.262.357
C2	Participation in the Operating Company	Art. 28/1(a)	1.339	1.339
J	Non-cash Loans	Art. 31	2.508.603	1.814.803
K	Mortgage lien on lands to be administrated for projects and the property of which does not belong to the company	Art. 22/(e)	-	-
L	All of the money and capital markets in a single investment company Tools	Art. 22/(l)	7.044.574	2.438.962

	Portfolio Limitations	Related Regulation	Current Year 31 December 2019	Current Year 31 December 2018	Ratio of Minimum/ Maximum
1	Mortgage lien on lands to be administrated for projects and the property of which does not belong to the company	Art. 22/(e)	0,00%	0,00%	≤ % 10
2	Real estates, real estate projects and rights supported by real estates	Art. 24/(a),(b)	57,83%	52,10%	≥ % 51
3	Money Market and Capital Market Instruments and Subsidiaries	Art. 24/(b)	39,77%	45,38%	≤ % 49
4	Real estates, real estate projects and rights supported by real estates, Subsidiaries, Capital Market Instruments	Art. 24/(d)	0,56%	0,63%	≤ % 49
5	Lands Held Idle	Art. 24/(c)	6,81%	8,18%	≤ % 20
6	Participation in the Operating Company	Art. 28/1 (a)	0,00%	0,00%	≤ % 10
7	Borrowing Limit	Art. 31	0,70%	0,16%	≤ % 500
8	Time and Demand Deposits in TL / Foreign Currency	Art. 24/(b)	7,89%	6,83%	≤ % 10
9	All of the money and capital markets in a single investment company Tools	Art. 22/(l)	0,46%	0,21%	≤ % 10

ALARKO GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts expressed in Turkish Lira (TL))

30. Supplementary Notes: Monitoring Compliance with Portfolio Restrictions (cont'd)

As promulgated by the Communiqué Serial: III, No: 48.1 issued in the Official Newspaper dated 28.05.2013, the Article 24(c) of the “Communiqué on Principles Regarding Real Estate Investment Trusts” states that “The rate of lands and registered lands which are in the portfolio but which, in spite of a period of five years having elapsed from their acquisition, have not been administrated for any project development cannot exceed 20% of the total assets.” As per the financial statements as of 31 December 2019, the ratio of the Company’s plots of land to the total assets is 6,81% which is a rate that falls within the limit stated in the Communiqué.

Further to the above, the Article 24(a) of the Communiqué Serial: III No: 48.1 on the “Principles Regarding Real Estate Investment Trusts” is stated as follows: “REICs are required to invest in real estate, rights supported by real estate, and real estate projects at a minimum rate of 51% of their portfolio values”. As per the financial statements of 31 December 2019, this rate is 57.83% and stays within the limits introduced by the Communiqué.

Further, the Article 24(b) of the Communiqué Serial: III No: 48.1 on the “Principles Regarding Real Estate Investment Trusts” is stated as follows: “REICs can invest in the assets stated in Article 22.1(k) and the investments stated in Article 28 of the Communiqué up to a maximum of 49% of the portfolio value.” As per the financial statements of 31 December 2019, this rate is 39.77% and stays within the limits introduced by the Communiqué.

The article 24 (b) of the said communiqué promulgates that “The companies can invest in time deposit and demand deposits in Turkish Liras or any foreign currency for investment purposes at a maximum rate of 10% of their total assets”. In the 31 December 2019 financial statements, this rate is 7.89% and stays within the limitation introduced by the Communiqué.

The borrowing limit and the rates of participation in the operating company are also contained within the said limits. There are no other portfolio limitations.

31. Explanations On Changes In Shareholders Equity

On 4 October 2018, the company’s management have decided to adjust their internal resources and the amount of buybacks after the announcement that CMB made in 21 July 2016 and 25 July 2016. The management thought that the share prices does not reflect the actual performance of the company’s activities and decided to buy back shares in order to protect the interest of all shareholders, especially small shareholders and contribute to realistic share prices. The maximum amount of funds, which are covered by internal sources, is determined as 10.000.000 TL and the maximum share amount that may be subject to buyback is determined as 200.000. On 15 October 2018, the buyback transaction was completed. Within the scope of this buyback; 199.609 shares bought at TL 9.999.981, the ratio of repurchased shares in the company capital is 1,874%.

On 18 October 2018, company decided another buyback. The maximum amount of funds, which are covered by internal sources, is determined at 15.000.000 TL and the maximum share amount that may be subject to buyback is determined as 275.000. Within the scope of this buyback, 273.566 shares have been bought which makes about 14.999.964 TL, the ratio of repurchased shares in the company capital is %2,569 in terms of percentage.

The total amount of acquisitions that are obtained from the Company’s internal resources is 24.999.945, which corresponds To 473.175 shares which is equivalent to 4,443% share in Company’s capital.