

Esteemed Shareholders,

Following the US elections in November 2016, uncertainty about the global economy continued to worsen, and there appeared stronger expectations that the expansionary fiscal policy in the USA would add momentum to growth and that the FED would accordingly tighten its monetary policy faster than expected. As a result of these developments, in the final quarter of the year, interest rates headed upwards in the developed economies and the US dollar appreciated. The said development triggered a capital outflow from emerging countries to developed economies from November onwards.

In Turkey, the financial markets pursued a volatile trajectory in the last quarter of 2016 owing to this volatility in the global markets, which was coupled with various geopolitical developments and domestic uncertainty. In terms of the foreign exchange rate and market interest rates, Turkey decoupled negatively from other emerging economies. During this period, there was portfolio flight from Turkey, as from other emerging economies, and the flight was more apparent in the bond market than in the equity market. Owing to macro prudential policies to bolster the financial system, the belated impact of CBRT's liquidity measures, and government incentives, there has been some recovery in credit volume in recent months. In the final quarter of 2016, growth in consumer credit and Turkish Lira denominated commercial loans gained momentum, maintaining the mild increase in credit volume. Furthermore, thanks to government incentives to enterprises, there was a reduction in the interest rates of credits extended by banks to small and medium sized enterprises.

Figures for the final quarter of 2016 point to mild growth in economic activity, leaving aside the technical recovery effect due to the recuperation of workdays lost in the third quarter. While outstanding loans expanded as a result of the measures taken and incentives launched, demand for durable consumer goods was brought forward, resulting in a rise in private consumption. However, the demand for products other than durable consumer goods remained weak, and the recovery of private consumption affected only a limited number of sectors. The recovery in investment is even weaker than that in consumption spending. In light of these developments, we expect mild growth in domestic demand in the final quarter.

It is considered that in the upcoming period, the current positive effect of terms of foreign trade on current deficit will decrease, yet the normalization in relations with Russia and the net depreciation of the Turkish Lira will prop up net exports, thereby bolstering periodic growth rates. In the period ahead, it is expected that the mild recovery in economic activity will continue owing to the government's supportive measures and incentives, although the tourism sector has yet to give signals of recovery. Nonetheless, the recently heightened perception of uncertainty may put a brake on domestic demand, via both consumption and investment. Doubts concerning the global growth outlook and developed economies' monetary policies, the weakness of capital flows, and geopolitical developments create downside risks on economic growth in 2017, as they did in recent years. On the current account side, however, the improvement is expected to continue. Despite the uptick in commodity prices, the mild economic growth outlook will probably limit the increase in imports. Amelioration of relations with neighboring countries, the continued rise in the demand from EU countries, and the diversification of Turkey's export markets are expected to further improve the current account balance, despite the adverse effect of various geopolitical developments.

On the other hand, as developments in tax regulation and the foreign exchange rate in the last quarter of 2016 brought forward the demand for certain goods such as automobiles and consumer durables, there was a visible recovery in consumer loans in the first quarter of 2017, which however is expected to lose some steam. Recently disclosed figures show that the economy experienced a remarkable slowdown in the third quarter of 2016. The government's incentives and measures did bring about a certain recovery in domestic demand in the final quarter; however, this recovery was limited to a number of sectors and the economy displayed only mild growth in general. Indicators for the recent period suggest that an aggravation in Turkish Lira's depreciation and the overall perception of uncertainty may bring about a slowdown in domestic demand in the first quarter of the year. However, it is expected that, in the ensuing quarters, uncertainties and financial volatility will decrease, the economy will return to its basic trend, and display mild growth in 2017. Meanwhile, the sluggish recovery in tourism revenues, global economic outlook, uncertainty about developed economy monetary policies, and geopolitical developments create downside risks on economic activity.

Strong fiscal discipline has figured among the main factors reducing Turkish economy's vulnerability to external shock in recent years. Furthermore, this advantage created by fiscal discipline has allowed the implementation of countercyclical fiscal policies during economic slowdowns such as the year 2016, without leading to a permanent deterioration in the budget. Nonetheless, any further changes in public spending and tax policy need to be evaluated according to their impact not only on the budget, but also on other macroeconomic variables such as domestic savings and inflation, so as to harmonize monetary policy with fiscal policy and bolster macroeconomic stability.

Meanwhile, we worked hard to maximize our financial and operational performance in line with our 2016 budget and strategic goals.

Important operations and financial results of our Company are presented below:

We achieved peak sales performance in the 5.Levent project, which we launched in April 2015. Of the 2,061 residential units included in the first and second phase of the Project, pre-sales contracts were signed for 1,309 units; and pre-sales revenue amounted to TL 1,097 million as of December 2016.

The Antalya plot on which Deepo Outlet Center is located was combined with neighboring plots of land so as to expand Deepo Outlet Center towards this larger area. In January 2016, the Company received the Construction Permit to start construction on the new shopping mall project as per Article 21 of Law on Zoning. The new shopping mall, which will be named Mall of Antalya and extend across almost 42,000 m², will open its doors to customers in April 2017.

In 2016, our Company's capital expenditure amounted to TL 757 million. Of this total, TL 231 million was invested in Torun Center, TL 402 million in 5.Levent, and TL 89 million in Mall of Antalya projects.

In 2016, total sales revenue amounted to TL 666 million, most of which was from rental income. Rental income accounted for 53% and sales of residential and office units accounted for 37% of total sales revenue generated in 2016. With the positive impact of Mall of İstanbul and Torun Tower, rental income from shopping malls and offices increased 13.5% year-over-year.

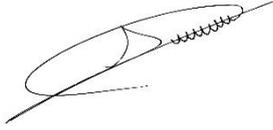
Our total assets which stood at TL 8,862,509 thousand as of 31.12.2015, grew 17% to reach TL 10,377,680 thousand as of 31.12.2016. The ratio of shareholders' equity to total assets is 58%, while the ratio of total liabilities to total assets is around 42%.

Of the Company's total assets, 89% is comprised of investment properties, investments in associates and inventories, while 5% is comprised of cash and cash equivalents.

As a result, the Company posted TL 1,172 million in profits, with the contribution of the rise in the value of investment properties by TL 1,311 million. Furthermore, EBITDA (earnings before interest, taxes, depreciation, and amortization), which is a key indicator of the Company's operational performance, was TL 361.9 million, and the EBITDA margin stood at 54.4%.

I would like to take this opportunity to thank our shareholders, customers, suppliers, business partners, managers, and employees.

Best regards,



Torunlar Real Estate Investment Company

Chairman

Aziz TORUN