The appetite for global risk remained strong in 2017, as global economic activity and trade volume revived alongside lower volatility in the financial markets, and portfolio inflows into developing economies remained stable. While global inflation continues to fluctuate depending on changes in commodity and oil prices, core inflation is following a low-level course. In this context, central banks in developed countries, particularly the Federal Reserve (Fed) and the European Central Bank (ECB) are continuing to take steps to normalize their monetary policy at a moderate pace. As these steps have been carried out, to a large extent, in parallel with expectations, increases in the long-term interest rates of developed countries remained limited.

Temporary increases in the risk premiums of emerging countries were observed, as the FOMC meeting in September highlighted the Fed's determination for the normalization process. With the impact of geopolitical changes, Turkey's risk premium between the second half of November and mid-September appeared less attractive compared to other developing countries. However, financial indicators such as foreign exchange volatility, market interest rates and risk premiums observed some recovery due to policy measures adopted by the CBRT at the end of November, a recovery in global risk appetite and reduced geopolitical risks. While portfolio inflows to Turkey in 2017 fluctuated with the effect of the aforementioned changes, the nation was able to complete the year 2017 cumulatively above the accumulated average, with the support of strong entries in the year's second and third quarters. As of mid-2017, due to the Credit Guarantee Fund (KGF) nearly reaching its limit with guarantor loans, commercial loans lost some momentum. However, banks' credit appetite continued in the last quarter of the year, producing a positive outlook regarding economic activity.

Consumer inflation reached 11.92% at the end of 2017 due to the depreciation of the Turkish Lira against the increase in import prices, particularly for oil. While aggregate demand conditions supported an upward tendency in the inflationary trend, strengthening cost-cutting effects have significantly accelerated producer prices compared to the previous two quarters and exerted pressure on consumer prices. Economic activity maintained a strong course in the third quarter of the year, with leading indicators suggesting that economic activity maintained its strength in the last quarter. Estimates indicate that private consumption weakened somewhat in the fourth quarter following the end of incentives on durable consumer goods while, on the other side, machinery and equipment investments continued to recover on a quarterly basis. During this same period, a strong trend in exports continued, while the increase in imports slackened after a period of high ratios in the second and third quarter. This Outlook in imports is attributed to the limited loss of acceleration in economic activity and changes in the exchange rate, as well as the slowdown in imports of gold. Although the cumulative depreciation of the real exchange rate in 2018 and the strengthening of global growth exportation were expected to continue to support growth, that KGF will continue to provide guarantor loan support – though in a limited fashion compared to 2017 - will also continue to support domestic demand.

Meanwhile, we worked hard to maximize our financial and operational performance in line with our 2017 budget and strategic goals.

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

The performance of the 5. Levent project, where sales started in April 2015, remains strong, in line with our expectations. By the end of 2017, preliminary sales agreements were signed for 1,547 housing units out of a total of 2,061 units in the first and second phases, resulting in preliminary sales revenue of TRY 1,390 million. In addition, 173 units in 5. Levent were delivered in the last quarter of 2017, generating sales revenue of TRY 184 million.

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. On April 28, 2017, the new Mall of Antalya shopping mall started its operations with approximately 43,000 m^2 of gross leasable area (GLA).

The Company spent capital expenditure worth TRY 718 million in 2017, of which TRY 523 million corresponds to the 5.Levent project and TRY 109 million to Mall of Antalya.

In 2017, total sales revenue amounted to TRY 780 million, most of which was from rental income. Rental income accounted for 53% and residential and office unit sales accounted for 37% of total sales revenue generated in 2016. Rental income from shopping malls and offices increased 17% year-over-year.

Our total assets which stood at TRY 10,378 million as of 31.12.2016 grew 9% reaching TRY 11,336 million as of 31.12.2017. The ratio of shareholders’ equity to total assets is 56%, while the ratio of total liabilities to total assets is around 44%.

Of the Company’s total assets, 90% is comprised of investment properties, investments in associates and inventories, while 5% is comprised of cash and cash equivalents.

In conclusion, the Company closed 2017 with TRY 455 million profit.

Furthermore, EBITDA (earnings before interest, taxes, depreciation, and amortization), which is a key indicator of the Company’s operational performance, was TRY 491 million, and the EBITDA margin stood at 62.9%.

Kind regards,

TORUNLAR REAL ESTATE INVESTMENT COMPANY